

Date: 19 June 2013

Item 14: TfL Statement of Accounts for the Year Ended 31 March 2013

---

## This paper will be considered in public

### 1 Summary

- 1.1 To present the draft TfL Group Statement of Accounts for the year ended 31 March 2013 to the Audit and Assurance Committee for consideration. The current draft of the Statement of Accounts is attached to this paper and will be referred to the TfL Board for approval on 3 July 2013.

### 2 Recommendation

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

### 3 Background

- 3.1 The Statement of Accounts has been prepared in accordance with the provisions of the Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011 (“the Regulations”). The form, content and accounting policies followed in preparing the Statement of Accounts are as prescribed in the Regulations and by the Code of Practice on Local Authority Accounting which is developed and published by the CIPFA/LASAAC joint committee (“the Code”). The Code is based on International Financial Reporting Standards (“IFRS”).
- 3.2 The Regulations require that the responsible financial officer, namely the Chief Finance Officer, sign and date the Statement of Accounts by 30 June at the latest, and certify that it presents a true and fair view of the financial position of TfL at the end of the year to which it relates and of TfL’s income and expenditure for that year.
- 3.3 The Regulations further require that the Statement of Accounts are approved by a resolution of a Committee of the Board, or otherwise by a resolution of the members of TfL, meeting as a whole. Approval is planned to be sought at the Board meeting on 3 July 2013.

3.4 As has been the case in earlier years, the Statement of Accounts must be made available for public inspection for a period of four weeks following advertisement of the inspection period. The inspection period commences on 26 June and finishes on 23 July. Following the inspection period, the auditors may receive questions or objections to the accounts from local government electors in London. Should any such questions or objections be raised, these will be reported to the Committee at its next meeting.

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

4.1 The 2012/13 Code contains very few changes from that for 2011/12, none of which has a material impact on the financial statements.

4.2 The Group Comprehensive Income Statement shows a surplus on the provision of services of £3.1bn. This surplus arises as a result of the requirement of the Code to include all grants, whether capital or revenue in nature, as grant income. Capital grant income of £3.1bn is included in this surplus.

4.3 As at 31 March 2013, the Group has usable reserves of £3,892m. Of this, £1,982m is held within the “unapplied capital grants account”. This represents funding received for the Crossrail project but not yet expended, and arises because funding has been received ahead of need. Accordingly, only £1,910m is available to TfL generally.

4.4 The majority of this is “earmarked reserves”, reserves set aside for specific policy purposes namely funding of the Investment Programme. As is the case for unapplied capital grants, earmarked reserves are effectively funding received in advance of need.

4.5 Earmarked reserves at 31 March 2013 amount to £1,752m. This is based on the required level of earmarked reserves included in TfL’s Business Plan published in December 2012, with an additional amount of £160m earmarked in respect of expected pressures which were not included in the Business Plan.

4.6 These reserves are set aside in respect of projects across the Group, excluding Crossrail. Earmarked reserves form part of the overall funding pot for the Investment Programme, and will be expended on major projects over the next few years such as the sub-surface lines upgrade, the Northern line upgrade and congestion relief projects at Paddington and Victoria.

4.7 Based on TfL’s Business Plan, the earmarked reserves are expected to be exhausted by 2015/16 and are not available for other purposes.

4.8 The residual General Fund balance at 31 March 2013 was £158m (2011/12 £162m). A balance of around £150m is maintained to cover risks that may arise, and is determined to be appropriate given the scale of the Group’s operations.

## **5 Remuneration disclosure**

- 5.1 The remuneration pages in the financial statements remain under preparation. The pages will be sent to Committee members as soon as possible, and in advance of the publication of the complete financial statements as part of the papers for the 3 July Board meeting. The requirements for producing the various elements of the disclosure are, however, unchanged from earlier years.

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

- 6.1 The Group balance sheet includes the deficit on the Public Sector and Tube Lines sections of the TfL Pension Fund, TfL's share of the deficit on the Local Government Pension Scheme, and the liability in respect of unfunded pension obligations, all calculated in accordance with IAS 19 Employment Benefits. The total deficit on TfL's defined benefit pension schemes calculated in accordance with IAS 19 has increased to £2.8 bn from £2.3 bn in the prior year. The IAS 19 basis of valuation is different to that used by the Fund Actuary in the triennial valuations which determine the level of contributions that TfL is required to make to the Fund. The last such valuation was at 31 March 2012 and revealed a deficit of £699 m for the Public Sector section and £41 m for the Tube Lines section. The rules of the TfL Pension Fund require that any deficit should be made good by additional employer contributions over a period not exceeding ten years and this obligation is recognised in TfL's Business Plan.
- 6.2 Under IAS 19, the assets of a pension fund are valued at fair value at the balance sheet date, and the liabilities are discounted at the AA corporate bond rate at that date. The deficit arising is shown in the balance sheet under "Pension and other post retirement liabilities", and is highly volatile due to the variation in the market value of the fund's assets from year to year and the sensitivity of the liabilities to the market yield on AA corporate bonds at the balance sheet date.
- 6.3 The difference between the funding valuation and the IAS 19 valuation is due to the different rules applying to the two valuation bases, particularly the different discount rate. The discount rate for the IAS 19 valuation is required to be based on AA corporate bond yields, but the discount rate for the funding valuation is based on expected returns on the Scheme's assets. There are also differences in the other assumptions, where the pension fund Trustees are required to adopt "prudent" assumptions whereas IAS 19 requires "best estimate".

<b>Public Sector Section</b>	£bn
Deficit on funding basis (estimated at 31 March 2013)	(0.6)
Lower discount rate used for IAS 19 valuation	(2.6)
Impact of “best estimate” assumptions rather than “prudent”	0.6
Deficit at 31 March 2013 under IAS 19	<u>(2.6)</u>

- 6.4 The Code requires that IAS 19 does not impact on Council Tax rates. The income and expenditure account therefore includes an appropriation from or to the Pensions Reserve. The result of these entries is that the pensions deficit is not charged to the general fund, and is instead charged to a separate reserve, and only the actual contributions paid to the pension funds impact on the general fund.

## **7 Borrowings**

- 7.1 Incremental borrowing for the year, in accordance with the 2010 Spending Review, was £445m. Of this, £200m relates to the fourth instalment of the European Investment Bank loan in respect of the Crossrail project.
- 7.2 During the year, TfL was able to take advantage of favourable market conditions and issued £1.3bn of bonds of between five and thirty year maturity. The bonds were largely applied to reduce the proportion of short term borrowing, and a significant portion of rolling short-term commercial paper debt was refinanced during the year.

## **8 Derivatives and hedging**

- 8.1 TfL, through its wholly owned subsidiary, commenced a programme of entering into derivatives to hedge the interest rates on future borrowings in 2010/11. As at 31 March 2013, the Group has in place interest rate swaps to fix the interest rate on £725m of floating rate borrowings, of which £350m relates to forward start interest swaps in respect of future borrowings. It also has an interest rate swap to hedge the interest rate risk in a lease of rolling stock.

TfL has adopted hedge accounting for all these derivatives. The effect of this is that movements in the fair value of the derivatives are initially deferred in reserves rather than flowing through the income and expenditure statement. The amounts deferred are subsequently recognised in the income statement as the hedged items are recognised. In 2012/13 this has resulted in the recognition as a financing expense of £4.8m previously deferred in respect gilt locks, as the hedged borrowings have now been drawn down.

## **9 Notice of termination of Powerlink PFI**

- 9.1 In August 2012, London Underground issued a termination notice in respect of the Power PFI contract. This followed a thorough review of the contract which found that substantial savings could be made by ending the contract early.
- 9.2 As a consequence of issuing the termination notice, LUL were contractually required to make payments to Powerlink. These total £158m, of which £98m was paid in October 2012. The balance is due when the contract terminates in August 2013.
- 9.3 The Power PFI was treated as a service concession under IFRIC 12 Service Concession arrangements, with the assets provided being recognised as property, plant and equipment together with a corresponding finance lease creditor.
- 9.4 The difference between the payment made in October 2012 and the balance on the finance lease creditor at that time has been treated as a financing cost, and is included in “Premiums on early repayment of borrowings and finance lease liabilities” in note 8 to the financial statements. The balance of the payment due in 2013 has been included in creditors and reflected in operating costs.

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

Appendix 1 – draft Statement of Accounts

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

None

Contact: David Goldstone, Chief Finance Officer  
Number: 020 7126 4871  
Email: [Davidgoldstone@tfl.gov.uk](mailto:Davidgoldstone@tfl.gov.uk)

Transport for London

Annual Report and Financial Statements

Year ended 31 March 2013

Audit and Assurance Committee

Draft

# Contents

	Page
Explanatory Foreword and Financial Review	I
Statement of Responsibilities for the Accounts	12
Independent Auditor's Report	13
Group Comprehensive Income and Expenditure Statement	16
Group Balance Sheet	17
Group Movement in Reserves Statement	18
Group Statement of Cash Flows	20
Corporation Comprehensive Income and Expenditure Statement	21
Corporation Balance Sheet	22
Corporation Movement in Reserves Statement	23
Corporation Statement of Cash Flows	25
Accounting Policies	26
Notes to the Financial Statements	49

# Explanatory Foreword and Financial Review

## Highlights

2012/13 was another strong year for the Transport for London ('TfL') Group. Demand remained high across the network, especially on the Docklands Light Railway ('DLR') and London Overground ('LO'). This was buoyed by the 2012 Olympic and Paralympic Games, with London Underground experiencing its highest ever demand of 4.52m journeys in one day during the Olympics.

Work continued on major projects to improve and extend services across London. Projects included Crossrail, tube infrastructure and signalling upgrades and congestion relief projects. During the year, improvements delivered included:

- The first of the 7-car S-stock trains which entered passenger service on the Hammersmith & City line in July 2012.
- The delivery of the new 58-train 'S8' stock fleet on the Metropolitan line which completed in August 2012, since when reliability of the trains has been steadily improving.
- On 9 December 2012 London Overground's orbital network was completed with the opening of the final link between Clapham Junction and Surrey Quays.
- The Victoria line upgrade completed on 26 September 2012. In January 2013 the first post-upgrade completion timetable was introduced, providing an increase in weekly service volume on the line, with 33 trains per hour in the morning peak period – the most intensive service on the network.
- The Emirates Air Line which opened as London's newest form of passenger transport on 28 June 2012. It provides a cable car link across the River Thames between Royal Victoria Docks and North Greenwich.
- Since the launch of Barclays Cycle Hire in July 2010, users have made over 22 million hires with the busiest day on record so far made during the Games with 47,102 hires. Initial work has started on extending the scheme into South West London, adding over 2,000 additional bikes and hundreds of extra docking stations.

## Financial Performance

In 2012/13, overall passenger demand again increased from the previous year with London Underground ('LU') passenger journeys up 5.0 per cent on 2011/12 and demand on the DLR increasing by 16.1 per cent to 100m journeys. Service demand on the bus network remained consistent at around 2.3bn passenger journeys. Fares increased by an average 4.2 per cent in January 2013, resulting in an increase in gross fares income to £3,834m.

Reliability, as measured by the amount of delays to customers, reached a new peak of performance with the number of Lost Customer Hours reduced by 20 per cent on last year's level, which itself was the lowest since the measure began in 1999. LU's delivery of record reliability while carrying ever-increasing numbers is mirrored in independent customer satisfaction surveys, which this year have reached a new high of 84 out of 100.

Gross expenditure increased by 5.8 per cent from £6,124m (before the write off of goodwill) to £6,481m, reflecting the increased level of activity.

The level of capital works being undertaken during 2012/13 remained high reflecting the critical ongoing investment in Crossrail and tube infrastructure required to increase capacity on the network. Capital expenditure during the year totalled £3,016m.



# Explanatory Foreword and Financial Review (continued)

## Funding sources

TfL's activities are funded from six main sources:

- Central government funding, which has been agreed to 2014/15 following the 2010 Spending Review
- A proportion of the growth in London's business rates
- Income from fares and the Congestion Charging scheme
- Prudential borrowing (the amount and profile of which also forms part of TfL's settlement with central government)
- Commercial development in TfL's estate, including advertising and property rental and development
- Third-party funding for specific projects

In addition, TfL received funding from the Olympic Delivery Authority ('ODA') and the London Organising Committee of the Olympic and Paralympic Games ('LOCOG') to meet the incremental costs associated with providing transport for the 2012 Games.

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

## Revenue

Total revenue increased 7.5 per cent from £4,181m to £4,496m in 2012/13.

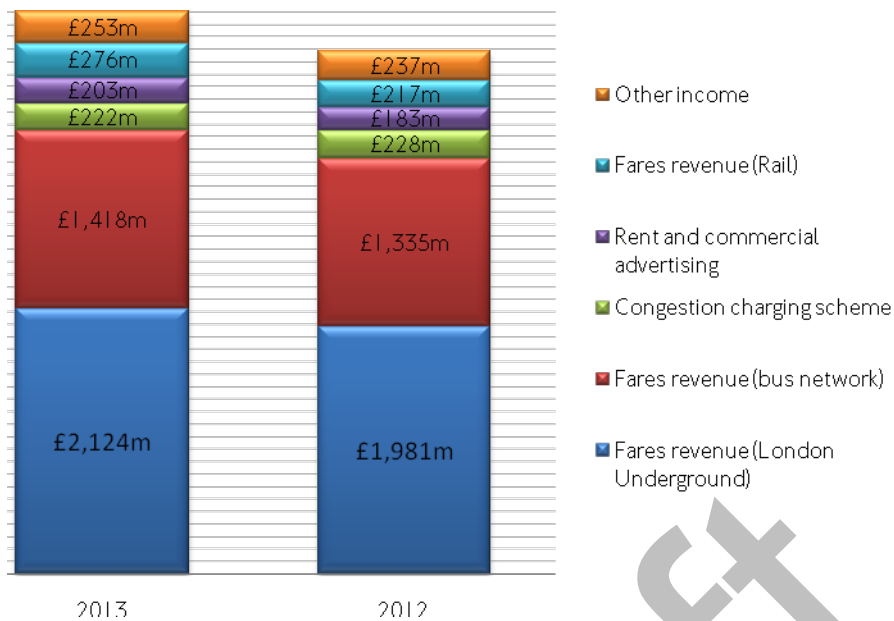
TfL's primary source of revenue comes from fares on the London Underground, Rail and Bus networks. This represents 85.3 per cent of all revenue generated. The January 2013 fares rise was kept to an average of RPI plus 1.0 per cent (4.2 per cent) in line with the December 2012 Business Plan. The Business Plan continues to assume that fares will rise at one per cent above RPI in each year of the Plan period. Fares decisions are taken annually by the Mayor.

Fares revenue on London Underground was £2,124m, 7.2 per cent up on 2011/12. This reflected a year-on-year increase in passenger journeys of 5.0 per cent combined with fare increases.

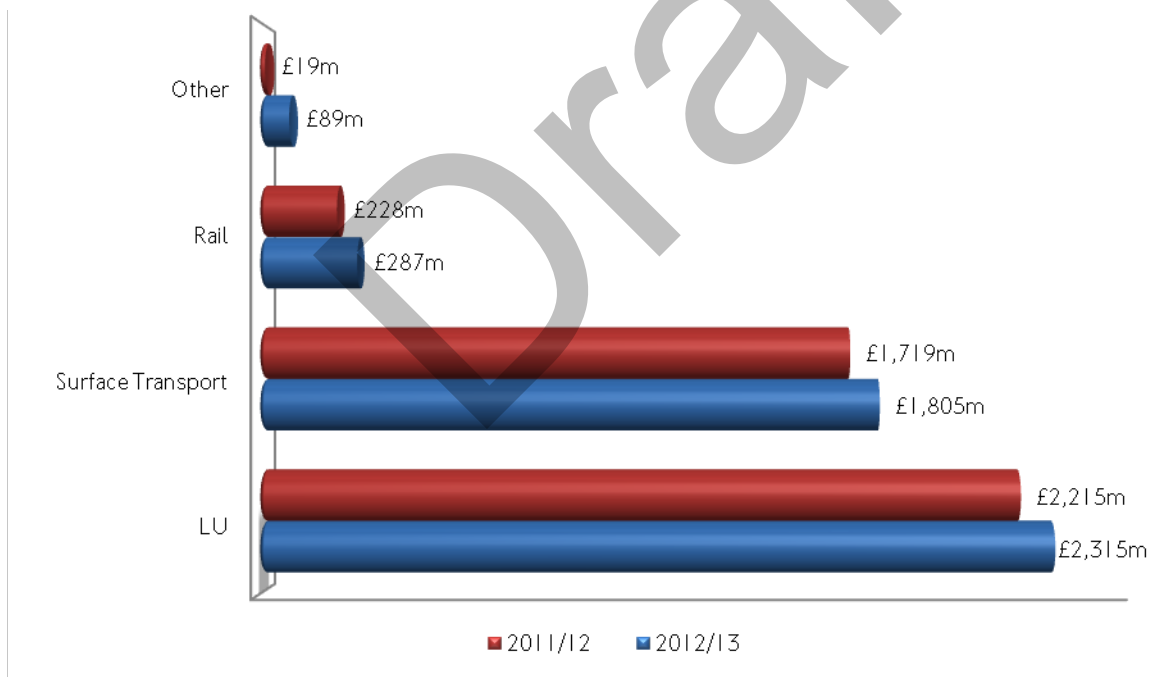
On the bus network, passenger journeys have been sustained at the highest levels since the late 1950s. In 2012/13 they were marginally down compared to the previous financial year, but marginally up after adjusting for the effects of extra Bank Holidays in 2012/13 and the leap year in 2011/12. The slight reduction in journeys was offset by fare rises to result in an overall increase in fares revenue of 6.2 per cent to £1,418m.

# Explanatory Foreword and Financial Review (continued)

## Revenue breakdown by type



## Total revenue by business unit (£m)



Within Rail's revenue figures, London Overground's fares revenue of £125m for the year was up 34.8 per cent compared to 2011/12 reflecting the completion of the orbital network in December 2012. Passenger journeys continued to exhibit strong growth and totalled 124.6m for the year, the highest ever recorded, and a 22 per cent increase over 2011/12. Total fares revenue on the DLR increased by 24.7 per cent to £128m reflecting record demand across the whole network. Annual ridership of 100m passengers was 16 per cent higher than in the previous year and the highest level of annual passenger journeys in DLR's history. The Olympics accounted for 7.2m of the passengers carried during the year. The Emirates Air Line, meanwhile, carried just under two million passengers in the nine months it was open, with availability averaging 94 per cent. Fares revenue since opening on 28 June 2012 totalled £6m.

## Explanatory Foreword and Financial Review (continued)

Congestion Charging revenue fell slightly from £227m in 2011/12 to £222m in 2012/13 reflecting reduced volumes as a result of the 2012 Games and road closures due to the Queen's Diamond Jubilee and an air collision in Battersea.

Other income increased reflecting monies received from LOCOG in respect of services provided in connection with the 2012 Games.

### Government grants and other funding

The main source of grant income is the Transport Grant from the Department of Transport ('DfT') which comprises two elements: an investment grant, which supports delivery of the investment programme; and a general grant, to support TfL's operating activities. Other key funding streams include specific capital grants from the DfT and the Greater London Authority for the Crossrail project. Total general and capital grants receivable, excluding specific Crossrail funding, amounted to £3,440m (2011/12 £3,438m).

### Prudential Borrowing

Movement in borrowing £m		
Opening borrowing at 1 April 2012	7,123	
European Investment Bank loan - Crossrail	200	The fourth instalment of a total facility of £1bn drawn down over six years. The loan has an average fixed interest rate of 4.9 per cent. Repayment of the loan is between 2026 and 2046.
£500m 30 year bond	500	TfL took advantage of positive market conditions during the year to refinance a portion of its short-term debt with longer term financing. To achieve these aims it successfully issued a £500m 30-year bond at an annual coupon of 3.875 per cent; a £500m 10-year bond at an annual coupon of 2.25 per cent; and a £300m 5-year bond at an annual coupon of 1.25 per cent.
£500m 10 year bond	500	
£300m 5 year bond	300	
Ex-Tube Lines and WARE debt repayments	(21)	Scheduled repayments were made during the year on debt acquired on the acquisition of WARE and Tube Lines.
Repayment of 1 year 'FRN'	(300)	The one year floating rate note taken out in 2011/12 was refinanced during the year with longer term bond debt.
Commercial paper	(757)	Rolling short-term commercial paper debt was refinanced during the year with longer term Bond debt.
Fair value movements, issue premia/discounts and fee adjustments	(13)	
Closing borrowing at 31 March 2013 per the accounts	7,532	

The borrowing limit for the Corporation set by the Mayor for 2012/13 was £8,832m

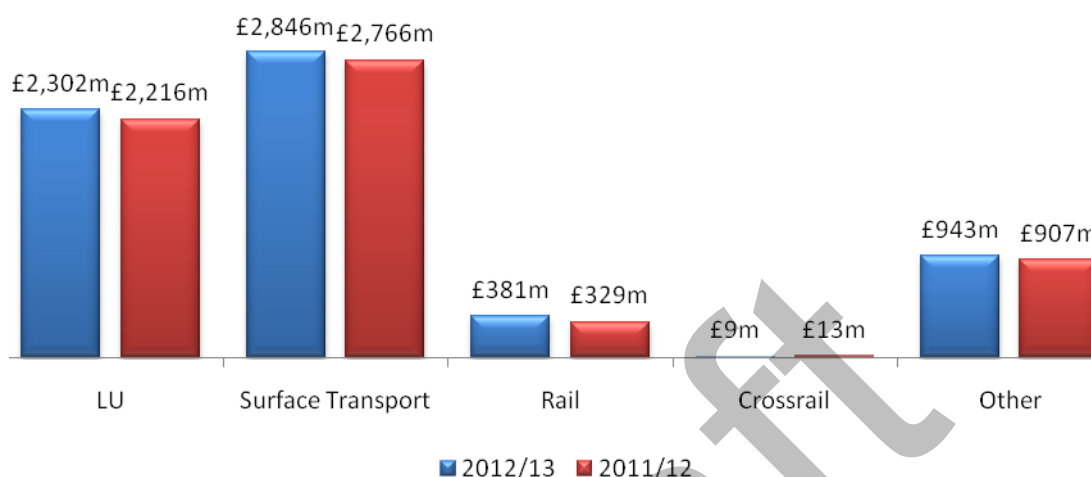
## Explanatory Foreword and Financial Review (continued)

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

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

### Uses of funding

#### Operational expenditure £m



Total operating expenditure increased by 4 per cent to £6,481m reflecting the increased activity across the Group.

Operating expenditure on the Underground increased by 3.9 per cent to £2,302m, reflecting the one-off costs of bringing the PFI Powerlink contract in house (which is expected to result in significant savings in future years).

Within Surface Transport, the Bus network subsidy has now fallen by more than a third over the last five years from £563m in 2008/09 to £377m in 2012/13, including a one-off cost of £17.3m in respect of Games costs for service changes and the Bus Workers Pay Settlement. London Bus Services Limited continues to ensure good value and cost control through its tendering and contract management processes.

Expenditure on London Rail increased by 15.8 per cent as a result of the capacity enhancements on London Overground and DLR and the extension of London Overground's orbital network between Clapham Junction and Surrey Quays.

TfL continued to support borough schemes that improve the quality, safety, accessibility and sustainability of the local travelling environment. The overall funding package for 2012/13 included £126m provided directly to the boroughs through the Local Implementation Plan programme. Other financial assistance included payments related to Taxicard and the Cycle Network.

### Net interest and finance charges

Total financing and investment expenditure for the year was £781m, a reduction of £163m from the previous year. This fall primarily reflects the fact that the prior year included one-off premiums totalling £169m, incurred on the refinancing of £1,220m of Tube Lines debts.

## Explanatory Foreword and Financial Review (continued)

Interest payable on direct borrowings increased 10.2 per cent to £288m, primarily as a consequence of the net increase in borrowings during the year of £409m. The average cost of borrowings also rose slightly due to the refinancing of low interest rate, short-term Commercial Paper debt with longer term Bond financing.

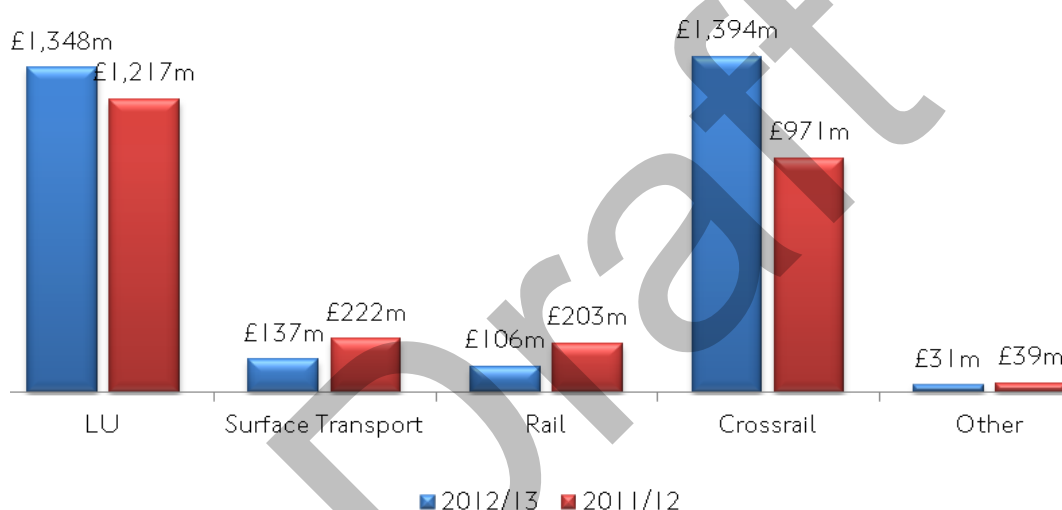
Interest payable on finance lease liabilities fell nearly 30 per cent to £64m reflecting the repayment of the Powerlink lease creditor. This however was offset to a degree by the £23m premium required as a result of the early settlement.

Financing and investment income totalled £529m, an increase of £87m on the previous year. This was primarily due to an increase in the fair value of the investment property portfolio, reflecting the revaluation of the Group's development site at Earl's Court, and realised gains on the disposal of investment properties. Offsetting these gains was a reduction in the expected return on pension assets which fell from £407m in 2011/12 to £343m as a result of lower expected rates of return for assets in the 2012 IAS 19 actuarial valuations.

### Capital expenditure

Capital expenditure for the year was £3,016m.

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



In London Underground, a number of significant projects were successfully completed during the year.

The first of the 7-car S-stock trains entered passenger service on the Hammersmith & City line in July 2012. Preparatory work undertaken in readiness for the introduction of these trains included lengthening of several station platforms and signalling improvement works at the key location of Hammersmith. The year has also seen extensive track replacement works taking place on the network, including a 14-day closure of the Hainault loop during which over three hundred metres of new drainage were laid, approximately 0.5 kilometres of track were replaced and eleven sets of points were renewed.

Planning for the Victoria line upgrade began in 2005 with the project completed on 26 September 2012. A new and improved signalling system now controls the 47 new trains, allowing for higher frequencies of service and providing customers with reduced journey times.

The last of the old A stock trains on the Metropolitan line was withdrawn at the end of September 2012, since then the service has been provided entirely by the new 'S8' stock fleet. Deliveries of this 58-train fleet were completed in August, and reliability of the trains has been steadily improving.

## Explanatory Foreword and Financial Review (continued)

In November 2012 six trains operated successfully on the Northern line between High Barnet and West Finchley using the new signalling system Transmission Based Trains Control (TBTC). All trains have now completed testing to operate under TBTC signalling. Good progress continues to be made in further TBTC installation on the line. The Northern line upgrade programme made significant progress, during a five-day blockade in December, on the Edgware and Bank branches of the line. This has enabled switching between the existing signalling and the new TBTC system for testing in these areas. The first tranche of the new TBTC signalling system is now operational in passenger service.

Within the Station Capacity Programme, the civil works on the Tottenham Court Road new ticket hall has been completed and fit-out has now started. At Victoria, a massive programme to stabilise the ground using a Jet Grouting technique is over halfway completed. Once completed, tunnelling works will start. At Bond Street, a high tech innovation in underpinning a Grade II structure has allowed the project to proceed without any major disturbance to the listed structure and its neighbour, the Tanzanian High Commission.

In Surface Transport, £137m was spent on capital works. The main activity has been the annual programme of asset replacement and renewal, ensuring London's highways infrastructure is maintained in a good state of repair, and during the year, the phase one project to strengthen the Hammersmith Flyover was completed. In addition, Surface Transport invests to enhance and develop London's transport infrastructure: the upgrade and expansion of the Countdown real time passenger information system at bus stops, the introduction of New Bus for London, works on the Tottenham Hale gyratory, the roll-out of pedestrian countdown technology at traffic signals and other enhancements to signals technology and associated communications infrastructure.

Capital expenditure of £106m was incurred by London Rail. This expenditure includes expenditure on the DLR and spend on the East London Line ('ELL') Phase 2 extension; the completion of which has provided an additional four trains per hour on the core East London line. These trains run to Clapham Junction via a new branch that leaves the ELL Phase 1 route to the south of Surrey Quays and joins the South London line to the north of Queens Road (Peckham). This new track has enabled a new route, between Highbury and Islington and Clapham Junction, and provided the final link to make London Overground a fully orbital railway.

During the year, £1,394m was spent on the Crossrail project, including £3.4m capitalised in respect of the acquisition of land and property interests in the Corporation. This takes the total spend on the project to date to £4.2bn including the acquisition of land and property.

Tunnelling commenced from Royal Oak Portal in May 2012. There are now five Tunnel Boring Machines ('TBMs') in operation. By the end of the financial year they had completed 11 km of tunnelling, or nearly one quarter of all tunnelling on Crossrail. In addition to the TBMs there has been a steady increase in Sprayed Concrete Lining ('SCL') activities, creating station platform tunnels, passenger walkways and ventilation tunnels at Whitechapel, Liverpool Street, Bond Street and Tottenham Court Road.

In the course of the year, Crossrail awarded contracts for the new stations at Bond Street, Tottenham Court Road and Custom House; for shafts at Eleanor Street and Mile End; for the new central section signalling system and for the communications and control systems. The procurement of Rolling Stock and Depot was changed to be wholly publicly financed.

### Cash and investments

Total cash, cash equivalents and deposits greater than three months held by the Group at 31 March 2013 amounted to £3,893m. The average yield from TfL's cash investments for 2012/13 was 0.52 per cent. This reflects the conservative nature of TfL's investment strategy and historically low interest rates. Most of the cash reflects usable reserves earmarked to fund TfL's future Investment Programme, including the Crossrail project. Earmarked reserves at 31 March 2013 amount to £1,752m, and an additional £1,982m is set aside for Crossrail.

# Explanatory Foreword and Financial Review (continued)

## Treasury risk management

The Board approves prudent treasury policies that have regard to both the principles of the CIPFA Prudential Code and the revised investment guidance (effective 1 April 2010) issued by the Department for Communities and Local Government.

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

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

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

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

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

### Counterparty credit

The Group's exposure to credit-related losses, i.e. non-performance by counterparties on financial instruments, is mitigated by setting a minimum required credit rating and applying financial limits based on credit ratings. For 2012/13, TfL followed a conservative investment strategy, investing only with the UK Government and its executive agency, the Debt Management Office ('DMO'), UK Government guaranteed investments, selected financial institutions with high (investment grade) credit ratings from a credit rating agency, selected supranational or sub-sovereign agencies with high credit ratings, and selected Money Market Funds with high credit ratings. The amounts that can be invested with the DMO were not limited, while amounts invested with other institutions were based on credit rating. The minimum rating was A-/A3. Credit ratings are obtained from the three main ratings agencies and are kept under constant review.

### Funding and liquidity

To ensure continuity of affordable funding, debt maturities are spread over a range of dates that broadly equate to the lives of assets purchased with the proceeds of debt. The maturity profile of debt outstanding at 31 March 2013 is set out in Note 28 to the accounts. TfL has diverse sources of funding including: Capital Markets, bank loans and direct access to the UK Debt Management Office via the Public Works Loan Board. These diverse sources significantly mitigate funding and liquidity risk.

### Interest rates

TfL has approved parameters of a minimum of 50 per cent fixed-rate on existing and forecast debt. The proportion of fixed-rate debt borrowings at the year end was 90 per cent; the remaining 10 per cent constituted Commercial Paper debt which, although it has fixed rates of interest, in practice behaves more like floating rate debt if used on a revolving basis.

# Explanatory Foreword and Financial Review (continued)

## Pensions

As at 31 March 2013, the majority of TfL's employees were members of the Public Sector Section of the TfL Pension Fund. Over the past year, the fair value of the assets of this Section increased by £779m. There was an increase in the actuarial value of future liabilities of £1,274m, due to the change in actuarial assumptions used at the respective dates, as well as an experience loss due to allowing for the results of the actuarial valuation as at 31 March 2012, and the accrual of benefits and interest. As a consequence the deficit of pension scheme assets over future liabilities for the Section increased by £495m.

The total deficit recognised in respect of funded and unfunded pension arrangements at 31 March amounted to £2,813m (2012 £2,293m).

The latest full actuarial valuation of the TfL Pension Fund was carried out as at 31 March 2012. The 2012 valuation showed a deficit on the Public Sector Section for funding purposes of £699m, and as a result of this the employers agreed a revised Schedule of Contributions with the Pension Fund.

## Prospects and outlook

In December 2012, TfL published its updated Business Plan for the years to 2014/15. The investment in the Business Plan is designed to support London's projected population growth of over one million more people by 2021 and the accompanying growth in employment.

Many schemes are underway to address this challenge, including:

- Crossrail, which is expected to deliver a 10 per cent increase in rail-based network capacity in London.
- A rolling programme of Tube upgrades to provide the capacity London needs and reduce delays by 30 per cent by 2015.
- Capacity increases on the London Overground providing a 25 per cent increase to all lines.
- An unprecedented 10-year, multi-billion pound plan to transform London's road network including safety improvements at over 100 key junctions.
- Maintaining London's bus services and introducing the New Bus for London to make boarding and alighting faster.
- In June 2012, the Government committed to providing a UK Guarantee of up to £1bn to allow the Mayor to borrow at a preferential rate to fund the extension of the Northern line. The proposal includes plans to create two new stations at Nine Elms and Battersea Power Station.



# Explanatory Foreword and Financial Review (continued)

## Key risks

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

- Exposure to various economic risks including revenue reductions, grant reduction and disruption to financial markets impacting TfL's ability to borrow. These could impact TfL's ability to deliver its Business Plan.
- The Business Plan assumes the achievement of significant secondary revenue, efficiencies and other cost savings. Underachievement would impact TfL's ability to deliver the Plan.
- TfL is subject to ongoing negotiations with trade unions, the outcomes of which could impact levels of service provision.
- Disruption to quality of service due to implementing complex major asset renewal and replacement programmes, frequent closures of lines or major stations and changes to operational procedures and resource requirements after completion of asset upgrades.
- Domestic or international terrorism and other threats to security which may cause casualties, disrupt operational service, damage assets and create fear in the travelling public.

These and other risks are managed through regular review of the assumptions underpinning the Business Plan and, where appropriate, adopting risk-specific mitigation strategies to limit TfL's exposure. TfL maintains a general fund to ensure liquidity and protect from short-term effects which may arise from the crystallisation of specific risks.

## Accounting statements

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

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

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

Under the GLA Act 1999, the Corporation is treated as a Local Authority for accounting purposes and the Statement of Accounts, which includes the individual financial statements of the Corporation, has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code), which is based on International Financial Reporting Standards.

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

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

# Explanatory Foreword and Financial Review (continued)

The Statement of Accounts comprises:

- The Group and Corporation Comprehensive Income and Expenditure Statements, Balance Sheets, Cash Flow Statements and Movement in Reserves Statements.
- The Statement of Accounting Policies
- Statement of Responsibilities for the Accounts
- Notes to the Group and Corporation financial statements

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

## Purposes of major schedules within the financial statements

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

### Comprehensive Income and Expenditure Statement

This statement shows both the revenue received and the costs incurred in the year of providing services, in accordance with generally accepted accounting practices. Other comprehensive income and expenditure comprises unrealised gains and losses including revaluation gains on property, plant and equipment, fair value movements on derivative financial instruments and the actuarial loss on defined benefit pensions schemes.

### The Balance Sheet

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

### The Cash Flow Statement

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

### Movement in Reserves Statement

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

# Statement of Responsibilities for the Accounts

The Corporation is required to:

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

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

In preparing this Statement of Accounts, the Chief Finance Officer has:

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

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

**David Goldstone**

Chief Finance Officer

26 June 2013

# Independent Auditor's Report to Transport for London

We have audited the financial statements of Transport for London ('the Corporation') and the Transport for London Group ('the Group') for the year ended 31 March 2013 which comprise the Corporation and Group Comprehensive Income and Expenditure Statements, the Corporation and Group Balance Sheets, the Corporation and Group Movement in Reserves Statements, the Corporation and Group Cash Flow Statements and the related notes, as set out on pages 16 to 156. These financial statements have been prepared under applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting 2012/13.

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

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

As explained more fully in the Statement of Responsibilities set out on page 12, the Chief Finance Officer is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

## **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Group and the Corporation as at 31 March 2013 and of the Group's and Corporation's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

# Independent Auditor's Report to Transport for London (continued)

## Matters on which we report by exception

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

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

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

## Corporation's responsibilities

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

## Auditor's responsibilities

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

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

# Independent Auditor's Report to Transport for London (continued)

## Basis of conclusion

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

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice 2010 for Local Government Bodies in satisfying ourselves whether the Corporation has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

## Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, the Corporation put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

## Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Group's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Wayne Southwood

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

[ ] July 2013

# Group Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	2013 £m	2012 £m
<b>Highways and Transport Services</b>			
Gross income	1	4,495.5	4,180.9
Gross expenditure	3	(6,480.5)	(6,230.4)
<b>Net cost of services</b>	2	<b>(1,985.0)</b>	(2,049.5)
Other net operating (expenditure)/income	6	(121.8)	2.5
Financing and investment income	7	528.9	441.7
Financing and investment expenditure	8	(780.5)	(943.3)
Grant income	9	5,463.6	4,823.1
<b>Surplus on the provision of services before tax</b>	2	<b>3,105.2</b>	2,274.5
Taxation income	10	0.2	1.5
<b>Surplus on the provision of services after tax</b>		<b>3,105.4</b>	2,276.0
<b>Other comprehensive income and expenditure</b>			
Surplus on the revaluation of property, plant and equipment *	12	21.4	4.9
Movement in the fair value of derivative financial instruments *		(117.0)	(121.4)
Derivative fair value loss recycled to income and expenditure *		4.8	-
Movement in the fair value of available for sale financial investments *		0.3	-
Actuarial loss on defined benefit pension schemes *	29	(517.7)	(755.2)
		<b>(608.2)</b>	(871.7)
<b>Total comprehensive income and expenditure</b>		<b>2,497.2</b>	1,404.3

\* There is no tax effect of these items on other comprehensive income and expenditure in the years ended 31 March 2012 or 2013 (note 10).

# Group Balance Sheet

	Note	31 March 2013 £m	31 March 2012 £m
<b>Long-term assets</b>			
Intangible assets	11	103.6	114.0
Property, plant and equipment	12	27,027.0	25,106.0
Investment property	13	427.8	307.7
Long-term investments	17	209.2	-
Long-term debtors	16	277.4	164.4
		<b>28,045.0</b>	<b>25,692.1</b>
<b>Current assets</b>			
Inventories	15	42.0	37.6
Short-term debtors	16	484.8	523.3
Short-term derivative financial instruments	23	-	0.8
Short-term investments	17	3,583.8	2,582.9
Cash and cash equivalents	18	100.4	78.8
		<b>4,211.0</b>	<b>3,223.4</b>
<b>Current liabilities</b>			
Short-term creditors	19	(1,991.8)	(1,950.1)
Short-term borrowings and overdrafts	20	(1,138.4)	(2,179.0)
Short-term finance lease liabilities	21	(68.9)	(68.2)
Short-term derivative financial instruments	23	-	(8.0)
Short-term provisions	24	(162.3)	(140.8)
		<b>(3,361.4)</b>	<b>(4,346.1)</b>
<b>Long-term liabilities</b>			
Long-term creditors	19	(60.0)	(51.3)
Long-term borrowings	20	(6,393.2)	(4,943.9)
Long-term finance lease liabilities	21	(821.8)	(959.3)
Long-term derivative financial instruments	23	(116.3)	(74.0)
Long-term provisions	24	(79.4)	(134.7)
Retirement benefit obligation	29	(2,813.2)	(2,292.7)
		<b>(10,283.9)</b>	<b>(8,455.9)</b>
<b>Net assets</b>		<b>18,610.7</b>	<b>16,113.5</b>
<b>Reserves</b>			
Usable reserves		3,892.0	2,413.3
Unusable reserves	31	14,718.7	13,700.2
<b>Total reserves</b>		<b>18,610.7</b>	<b>16,113.5</b>

The notes on pages 26 to 156 form part of these financial statements.

These financial statements were approved by the Board on 3 July 2013 and signed on its behalf by:

Boris Johnson

Chair of TfL



# Group Movement in Reserves Statement

	Note	General fund £m	Earmarked reserves £m	Street works reserve £m	Capital grants unapplied account £m	Usable reserves £m	Unusable reserves £m	Total reserves £m
<b>At 1 April 2011</b>		154.4	518.4	-	1,197.2	<b>1,870.0</b>	12,839.2	<b>14,709.2</b>
<b>Movement in reserves during 2011/12</b>								
Surplus on the provision of services after tax		1,509.8	-	-	-	<b>1,509.8</b>	766.2	<b>2,276.0</b>
Other comprehensive income and expenditure		-	-	-	-	-	(871.7)	<b>(871.7)</b>
<b>Total comprehensive income and expenditure</b>		1,509.8	-	-	-	<b>1,509.8</b>	(105.5)	<b>1,404.3</b>
Adjustments between accounting basis and funding basis under regulations	33	(1,165.2)	-	-	198.7	<b>(966.5)</b>	966.5	-
<b>Net increase before transfer to/from earmarked reserves</b>		344.6	-	-	198.7	<b>543.3</b>	861.0	<b>1,404.3</b>
Transfer to/(from) earmarked reserves		(336.6)	336.6	-	-	-	-	-
<b>Increase in 2011/12</b>		8.0	336.6	-	198.7	<b>543.3</b>	861.0	<b>1,404.3</b>
<b>Balance at 31 March 2012</b>		162.4	855.0	-	1,395.9	<b>2,413.3</b>	13,700.2	<b>16,113.5</b>
<b>Movement in reserves during 2012/13</b>								
Surplus on the provision of services after tax		2,814.0	-	-	-	<b>2,814.0</b>	291.4	<b>3,105.4</b>
Other comprehensive income and expenditure		-	-	-	-	-	(608.2)	<b>(608.2)</b>
<b>Total comprehensive income and expenditure</b>		2,814.0	-	-	-	<b>2,814.0</b>	(316.8)	<b>2,497.2</b>
Adjustments between accounting basis and funding basis under regulations	33	(1,921.9)	-	0.8	585.8	<b>(1,335.3)</b>	1,335.3	-
<b>Net increase before transfer to/from earmarked reserves</b>		892.1	-	0.8	585.8	<b>1,478.7</b>	1,018.5	<b>2,497.2</b>
Transfer to/(from) earmarked reserves		(896.9)	896.9	-	-	-	-	-
<b>Increase in 2012/13</b>		(4.8)	896.9	0.8	585.8	<b>1,478.7</b>	1,018.5	<b>2,497.2</b>
<b>Balance at 31 March 2013</b>		157.6	1,751.9	0.8	1,981.7	<b>3,892.0</b>	14,718.7	<b>18,610.7</b>

# Group Movement in Reserves Statement (continued)

Earmarked reserves have been established to finance future capital projects, consistent with TfL's approved Business Plan, and form part of the overall funding available for the Investment Programme. In addition, reserves have been set aside to finance certain capital projects not included in the approved Business Plan but committed to by the Board. Earmarked reserves will be expended over the period to 31 March 2016 on a number of major capital programmes.

Draft

# Group Statement of Cash Flows

Year ended 31 March	Note	2013 £m	2012 £m
Surplus on the provision of services after tax		3,105.4	2,276.0
Adjustments to surplus after tax for non-cash movements	30 a	(1,778.4)	(1,847.9)
<b>Net cash flows from operating activities</b>		<b>1,327.0</b>	428.1
Investing activities	30 b	(1,142.6)	(181.0)
Financing activities	30 c	(162.8)	(222.4)
<b>Increase in net cash and cash equivalents in the year</b>		<b>21.6</b>	24.7
Net cash and cash equivalents at the start of the year		78.8	54.1
<b>Net cash and cash equivalents at the end of the year</b>		<b>100.4</b>	78.8

Draft

# Corporation Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	2013 £m	2012 £m
<b>Highways and Transport Services</b>			
Gross income		365.1	336.0
Gross expenditure	3	(1,104.7)	(1,162.8)
<b>Net cost of services</b>		<b>(739.6)</b>	<b>(826.8)</b>
Other net operating expenditure	6	(0.2)	(2.4)
Financing and investment income	7	230.3	260.1
Financing and investment expenditure	8	(293.0)	(493.0)
Grant income	9	5,451.6	4,727.5
Grant funding of subsidiaries		(1,835.1)	(2,155.6)
<b>Surplus on the provision of services</b>		<b>2,814.0</b>	<b>1,509.8</b>
<b>Other comprehensive income and expenditure</b>			
Fair value movement in available for sale financial investments		0.3	-
Actuarial loss on defined benefit pension schemes	29	(0.1)	(12.7)
<b>Total comprehensive income and expenditure</b>		<b>2,814.2</b>	<b>1,497.1</b>

# Corporation Balance Sheet

	Note	31 March 2013 £m	31 March 2012 £m
<b>Long-term assets</b>			
Intangible assets	11	28.4	51.8
Property, plant and equipment	12	3,410.7	3,433.2
Investment property	13	13.7	21.6
Investments in subsidiaries	14	2,332.5	1,122.5
Long-term investments	17	209.2	-
Long-term debtors	16	7,142.0	6,498.9
		<b>13,136.5</b>	<b>11,128.0</b>
<b>Current assets</b>			
Inventories	15	3.8	2.9
Short-term debtors	16	390.0	140.3
Short-term investments	17	3,583.8	2,574.3
Cash and cash equivalents	18	6.5	7.5
		<b>3,984.1</b>	<b>2,725.0</b>
<b>Current liabilities</b>			
Short-term creditors	19	(654.1)	(620.7)
Short-term borrowings and overdrafts	20	(1,138.4)	(2,179.0)
Short-term finance lease liabilities	21	(8.6)	(7.8)
Short-term provisions	24	(151.6)	(132.4)
		<b>(1,952.7)</b>	<b>(2,939.9)</b>
<b>Long-term liabilities</b>			
Long-term creditors	19	(10.2)	(14.5)
Long-term borrowings	20	(6,409.8)	(4,951.6)
Long-term finance lease liabilities	21	(183.3)	(187.1)
Long-term provisions	24	(69.1)	(112.6)
Retirement benefit obligation	29	(103.4)	(69.4)
		<b>(6,775.8)</b>	<b>(5,335.2)</b>
<b>Net assets</b>		<b>8,392.1</b>	<b>5,577.9</b>
<b>Reserves</b>			
Usable reserves		3,892.0	2,413.3
Unusable reserves	31	4,500.1	3,164.6
<b>Total reserves</b>		<b>8,392.1</b>	<b>5,577.9</b>

The notes on pages 26 to 156 form part of these financial statements.

These financial statements were approved by the Board on 3 July 2013 and signed on its behalf by:

**Boris Johnson**

**Chair of TfL**

# Corporation Movement in Reserves Statement

	Note	General fund £m	Earmarked reserves £m	Street works reserve £m	Capital grants unapplied account £m	Usable reserves £m	Unusable reserves £m	Total reserves £m
<b>At 1 April 2011</b>		154.4	518.4	-	1,197.2	<b>1,870.0</b>	2,210.8	<b>4,080.8</b>
<b>Movement in reserves during 2011/12</b>								
Surplus on the provision of services		1,509.8	-	-	-	<b>1,509.8</b>	-	<b>1,509.8</b>
Other comprehensive income and expenditure		-	-	-	-	-	(12.7)	<b>(12.7)</b>
<b>Total comprehensive income and expenditure</b>		1,509.8	-	-	-	<b>1,509.8</b>	(12.7)	<b>1,497.1</b>
Adjustments between accounting basis and funding basis under regulations	33	(1,165.2)	-	-	198.7	<b>(966.5)</b>	966.5	-
<b>Net increase before transfer to/from earmarked reserves</b>		344.6	-	-	198.7	<b>543.3</b>	953.8	<b>1,497.1</b>
Transfer to/(from) earmarked reserves		(336.6)	336.6	-	-	-	-	-
<b>Increase in 2011/12</b>		8.0	336.6	-	198.7	<b>543.3</b>	953.8	<b>1,497.1</b>
<b>Balance at 31 March 2012</b>		<b>162.4</b>	<b>855.0</b>	-	<b>1,395.9</b>	<b>2,413.3</b>	<b>3,164.6</b>	<b>5,577.9</b>
<b>Movement in reserves during 2012/13</b>								
Surplus on the provision of services		2,814.0	-	-	-	<b>2,814.0</b>	-	<b>2,814.0</b>
Other comprehensive income and expenditure		-	-	-	-	-	0.2	<b>0.2</b>
<b>Total comprehensive income and expenditure</b>		2,814.0	-	-	-	<b>2,814.0</b>	0.2	<b>2,814.2</b>
Adjustments between accounting basis and funding basis under regulations	33	(1,921.9)	-	0.8	585.8	<b>(1,335.3)</b>	1,335.3	-
<b>Net increase before transfers to/from earmarked reserves</b>		892.1	-	0.8	585.8	<b>1,478.7</b>	1,335.5	<b>2,814.2</b>
Transfer to/(from) earmarked reserves		(896.9)	896.9	-	-	-	-	-
<b>Increase in 2012/13</b>		(4.8)	896.9	0.8	585.8	<b>1,478.7</b>	1,335.5	<b>2,814.2</b>
<b>Balance at 31 March 2013</b>		<b>157.6</b>	<b>1,751.9</b>	<b>0.8</b>	<b>1,981.7</b>	<b>3,892.0</b>	<b>4,500.1</b>	<b>8,392.1</b>

# Corporation Movement in Reserves Statement (continued)

Earmarked reserves have been established to finance future capital projects, consistent with TfL's approved Business Plan, and form part of the overall funding available for the Investment Programme. In addition, reserves have been set aside to finance certain capital projects not included in the approved Business Plan but committed to by the Board. Earmarked reserves will be expended over the period to 31 March 2016 on a number of major capital programmes.

Draft

# Corporation Statement of Cash Flows

Year ended 31 March	Note	2013 £m	2012 £m
<b>Surplus on the provision of services after tax</b>		<b>2,814.0</b>	1,509.8
Adjustments to surplus after tax for non-cash movements	30 a	<b>(2,100.1)</b>	(1,208.8)
<b>Net cash flows from operating activities</b>		<b>713.9</b>	301.0
Investing activities	30 b	<b>(871.4)</b>	(670.4)
Financing activities	30 c	<b>156.5</b>	378.4
<b>Increase in net cash and cash equivalents in the year</b>		<b>(1.0)</b>	9.0
Net cash and cash equivalents at the start of the year		<b>7.5</b>	(1.5)
<b>Net cash and cash equivalents at the end of the year</b>		<b>6.5</b>	7.5

Draft



# Accounting Policies

## a) Code of practice

TfL is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 (the 2011 Regulations), which those Regulations require to be prepared in accordance with proper accounting practices. The Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code), as amended by the 2012/13 Code Update, developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board under the oversight of the Financial Reporting Advisory Board. The Code constitutes proper accounting practice for the purpose of the 2011 Regulations.

The Code for 2012/13 is based on International Financial Reporting Standards adopted by the EU ('Adopted IFRS') and requires that local authorities prepare their financial statements in accordance with the International Accounting Standards Board 'Framework for the Preparation and Presentation of Financial Statements' as interpreted by the Code.

The Code is compliant with Adopted IFRS except for:

### **Capital grants and contributions**

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

### **FRS 30 Heritage Assets**

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

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

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

### **Defined benefit plans**

For certain Group defined benefit plans the Corporation is unable to identify its share of the underlying assets and defined benefit obligations of the scheme on a consistent and reasonable basis. As permitted by the multi-employer exemption under para 6.4.1.8 of the Code, these schemes are accounted for in the Corporation as defined contribution schemes. The Corporation's contributions are charged to the Comprehensive Income and Expenditure Statement as incurred.

# Accounting Policies (continued)

## b) Basis of preparation

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

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

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

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

## c) Basis of consolidation

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

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

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

## d) Going concern

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

# Accounting Policies (continued)

## e) The application of new and revised standards

The provisions of Amendments to IFRS 7 Disclosures - Transfers of Financial Assets have, for the first time, been incorporated into the Code. These amendments increase the disclosure requirements for transactions involving transfers of financial assets and include a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

The application of the above Amendments does not impact the amounts reported for the current and prior years, but purely acts to increase disclosure for relevant transactions.

## f) Accounting standards that have been issued but have not yet been adopted

The following revisions to IFRS are expected applicable in future periods, subject to endorsement where applicable. These have been issued and, with the exception of IFRS 9, adopted by the EU, but have not been applied in these financial statements:

- IFRS 9 Financial Instruments (mandatory for year commencing on or after 1 January 2015)
- IFRS 10 Consolidated Financial Statements (mandatory for year commencing on or after 1 January 2013)
- IFRS 11 Joint Arrangements (mandatory for year commencing on or after 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (mandatory for year commencing on or after 1 January 2013)
- IFRS 13 Fair Value Measurement (mandatory for year commencing on or after 1 January 2013)
- IAS 27 (as revised in 2011) Separate Financial Statements (mandatory for year commencing on or after 1 January 2013)
- IAS 28 (as revised in 2011) Investments in Associates and other Joint Ventures (mandatory for year commencing on or after 1 January 2013)
- Amendments to IAS 32 – Offsetting Financial Assets and Liabilities (mandatory for year commencing on or after 1 January 2014)
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (mandatory for year commencing on or after 1 July 2012)
- Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (mandatory for year commencing on or after 1 January 2013)
- Amendments to IAS 12 Deferred Tax - Recovery of Underlying assets.

# Accounting Policies (continued)

## f) Accounting standards that have been issued but have not yet been adopted (continued)

- Annual Improvements to IFRSs 2009-2011 Cycle (mandatory for year commencing on or after 1 January 2013). These improvements change the guidance surrounding the capitalisation of borrowing costs on assets already under construction as at the date of transition to IFRS, stipulating that interest should be capitalised on these projects from 1 April 2009. Under its existing accounting policies the Group has only capitalised interest on qualifying assets for which construction commenced post 1 April 2009. If the standard had been effective in 2012/13, it would have reduced financing and investment expenditure and increased the surplus on provision of services for the year by approximately £33.1m, and increased the accumulated net book value of property, plant and equipment by £64.1m.
- IAS 19 (as revised in 2011) Employee Benefits (mandatory for year commencing on or after 1 January 2013). The amended version of IAS 19 replaces the interest cost and expected return on plan assets with a finance cost component comprising net interest on the net defined benefit pension deficit calculated using the discount rate currently used to measure defined benefit pension liabilities. If this amendment had been applied in 2012/13, pre-tax profit would have been approximately £69.0m lower, primarily because the discount rate is lower than the expected return on plan assets. The net pension deficit would have been unchanged.

The Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

## g) Discontinued operations

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

## h) Uses of estimates and judgements

The preparation of financial statements in conformity with the Code requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed below. It is not considered likely that any reasonably possible changes in key assumptions in the next 12 months would have a material impact on the carrying amounts of balance sheet items not already held on the balance sheet at fair value.

## Impairment of goodwill

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

# Accounting Policies (continued)

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

### Valuation of acquired businesses

Judgement and estimation is required in the identification and assessment of the fair value of separable assets and liabilities on business acquisitions. Judgement and estimation is also required in determining any potential contingent consideration payable in respect of acquisitions.

### Post-retirement benefits

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

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

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

### Derivative financial instruments

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

### Determining whether an arrangement contains a lease

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

### Classification of investment properties

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

# Accounting Policies (continued)

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

### Leases

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

### Provisions

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

### Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value (open market value on an existing use basis), as estimated by internal and external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Gains and losses from changes in the fair value of investment property are included in the Comprehensive Income and Expenditure Statement for the period in which they arise.

### Office buildings

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

## i) Revenue recognition

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

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

### Fares revenue

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

# Accounting Policies (continued)

## i) Revenue recognition (continued)

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

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

### Congestion charging

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

Income from penalty charge notices is recognised, net of a provision for cancellation, as payment becomes due. Each increase in charge results in income being recognised in full at the date the increase is applied.

### Road network compliance

Income from penalty charge notices is recognised as they become due. Each increase in charge results in income being recognised in full at the date the increase is applied.

### Taxi licensing

Income from taxi and private hire licences is recognised on a straight line basis over the term of the licence.

### Commercial advertising

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

### Rental income

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

# Accounting Policies (continued)

## j) Segmental reporting

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

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

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

## k) Grants and other funding

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

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

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

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



# Accounting Policies (continued)

## l) Financing and investment income and expenses

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

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

## m) Taxation

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

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

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

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

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

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

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

# Accounting Policies (continued)

## n) Business combinations

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

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

## o) Intangible assets

### Goodwill

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

### Other intangible assets

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

Where components of an asset are significant in value in relation to the total value of the asset as a whole, and they have substantially different economic lives, they are recognised separately.

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

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

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

## p) Property, plant and equipment

### Recognition and measurement

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

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

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

# Accounting Policies (continued)

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

The cost of certain items of property, plant and equipment was determined by reference to a revalued amount determined under a previous accounting regimen. The Group elected to apply the optional exemption to use this previous valuation as deemed cost at 1 April 2009, the date of transition to IFRS.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009, and any other costs directly attributable to bringing the assets to a working condition for their intended use. Where there is a legal obligation to remove the asset and/or restore the site on which it is located at the end of its useful economic life, the costs of dismantling and removing the items and restoring the site on which they are located are also included in the cost of the asset.

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

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

### Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less the expected residual value at the end of its useful economic life.

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

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

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

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

# Accounting Policies (continued)

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

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

## q) Heritage assets

Property, plant and equipment includes a number of assets classified as heritage assets in accordance with the Code. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. These provisions apply to the collection of transport-related artefacts held at the London Transport Museum. Due to the diverse nature of the assets held and the lack of comparable market values, the cost of obtaining a valuation of TfL's heritage assets is such that it would not be commensurate with the benefits provided to users of the financial statements. TfL has therefore taken the exemption available under the Code to hold its heritage assets at historical cost less any accumulated depreciation or impairment losses.

## r) Investment property

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

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

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

## s) Inventories

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

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

# Accounting Policies (continued)

## t) Assets held for sale

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

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

## u) Borrowing costs

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

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

## v) Provisions

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

## w) Foreign currencies

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

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

# Accounting Policies (continued)

## x) Leases (the Group as lessee)

### Leased assets

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

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

### Lease payments

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

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

### Determining whether an arrangement contains a lease

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

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

## y) Leases (the Group as lessor)

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

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

# Accounting Policies (continued)

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

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

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

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

### Services received

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

### Assets

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

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

### Liabilities

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

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

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

# Accounting Policies (continued)

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

### Life cycle replacement

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

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

### aa) Impairment of non-financial assets

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

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

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

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

### ab) Employee benefits

#### Defined benefit plans

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

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

Every three years the Group's schemes are subject to a full actuarial funding valuation using the projected unit method. Separate valuations are prepared for accounting purposes on an IAS 19 basis as at the balance sheet date. Pension scheme assets are measured using current market bid values. Pension scheme defined benefit obligations are measured using a projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the defined benefit obligation.



# Accounting Policies (continued)

## ab) Employee benefits (continued)

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

### Defined benefit plans – multi-employer exemption

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

### Unfunded pension schemes

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

### Defined contribution plans

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

# Accounting Policies (continued)

## ab) Employee benefits (continued)

### Other employee benefits

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

## ac) Reserves

Reserves consist of two elements, usable and unusable.

Usable reserves are those that can be applied to fund expenditure. They are made up of the general fund, earmarked reserves, the capital grants unapplied account and the street works reserve. Amounts in the street works reserve represent the net income/(expenditure) generated from lane rental revenues. These net revenues may only be employed in funding the reduction of disruption and other adverse effects caused by street works.

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

## ad) Financial instruments

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

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

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

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

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

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

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

# Accounting Policies (continued)

## ad) Financial instruments (continued)

### Loans and receivables

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

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

### Other investments

Other investments include short and long-term deposits with Government or financial institutions, including Money Market Fund investments and Repurchase Agreements. Short-term investments are classified as loans and receivables. Long-term investments quoted in an active market are classified as available for sale financial assets (see below).

### Trade and other receivables

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

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

### Available for sale financial assets

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

# Accounting Policies (continued)

## ad) Financial instruments (continued)

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an outstanding maturity, at the balance sheet date, of less than or equal to three months. Cash equivalents are classified as loans and receivables financial instruments.

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

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

### Financial liabilities measured at amortised cost

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

### Trade and other creditors

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

### Interest bearing loans and borrowings

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

### Obligations under finance leases and PFI arrangements

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

### Derivative financial instruments

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

# Accounting Policies (continued)

## ad) Financial instruments (continued)

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

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

### Hedge accounting

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

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

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

# Accounting Policies (continued)

## ad) Financial instruments (continued)

### Cash flow hedges

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

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

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

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

### Fair value measurement of financial instruments

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

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

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

### Impairment of financial assets

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

# Accounting Policies (continued)

## ad) Financial instruments (continued)

### **Embedded derivatives**

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

Draft

# Notes to the Financial Statements

## I. Gross income

### a) Gross income

Year ended 31 March	2013 £m	% of total	2012 £m	% of total
Fares	3,539.0	78.7	3,271.1	78.2
Revenue in respect of free travel for the elderly and disabled	294.6	6.6	275.5	6.6
Congestion Charging	222.0	4.9	226.7	5.4
Charges to London boroughs	14.1	0.3	14.3	0.3
Charges to transport operators	8.9	0.2	8.9	0.2
Road Network compliance income	47.8	1.1	43.6	1.0
Commercial advertising receipts	144.7	3.2	129.7	3.1
Rents receivable	58.3	1.3	53.4	1.3
Contributions from third parties to operating costs	37.5	0.8	45.1	1.1
Taxi licensing	19.8	0.4	20.6	0.5
Ticket and photocard commission income	15.6	0.3	11.1	0.3
ATM and car parking income	10.4	0.2	9.5	0.2
Museum income	7.6	0.2	5.5	0.1
Other	75.2	1.8	65.9	1.7
	<b>4,495.5</b>	<b>100.0</b>	<b>4,180.9</b>	<b>100.0</b>

### b) Congestion charging

	Group and Corporation 2013 £m	Group and Corporation 2012 £m
Income	222.0	226.7
Toll facilities and traffic management	(82.8)	(81.2)
	139.2	145.5
Administration, support services and depreciation	(7.1)	(8.7)
<b>Net income from Congestion Charging</b>	<b>132.1</b>	<b>136.8</b>

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



## Notes to the Financial Statements

### 1. Gross income (continued)

#### c) Street works

	<b>Group and Corporation 2013 £m</b>	Group and Corporation 2012 £m
Income	1.9	-
Costs of reducing adverse impacts of street works	(1.1)	-
	<b>0.8</b>	-
Administration, support services and depreciation	-	-
<b>Net income from street works</b>	<b>0.8</b>	-

Under the London lane rental scheme, introduced in 2012, TfL receives payments where utilities carry out certain street works in circumstances significantly affecting traffic. The legislation (SI 2012/425) requires TfL to apply the net proceeds of these payments to reducing the adverse effects caused by street works. The net proceeds shown above have been transferred to the Street works reserve.

## Notes to the Financial Statements (continued)

### 2. Segmental analysis

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

#### Year ended 31 March 2013

	London Underground £m	Tube Lines £m	London Rail £m	Surface Transport £m	Corporate items £m	Total £m
Income	2,301.8	14.2	285.9	1,781.9	81.2	4,465.0
Expenditure	(1,844.8)	(374.3)	(345.1)	(2,660.7)	(357.3)	(5,582.2)
<b>Net operating income/(expenditure)</b>	<b>457.0</b>	<b>(360.1)</b>	<b>(59.2)</b>	<b>(878.8)</b>	<b>(276.1)</b>	<b>(1,117.2)</b>

#### Year ended 31 March 2012

	London Underground £m	Tube Lines £m	London Rail £m	Surface Transport £m	Corporate items £m	Total £m
Income	2,166.6	12.4	224.7	1,687.8	51.0	4,142.5
Expenditure	(1,736.0)	(397.9)	(315.4)	(2,575.0)	(341.6)	(5,365.9)
<b>Net operating income/(expenditure)</b>	<b>430.6</b>	<b>(385.5)</b>	<b>(90.7)</b>	<b>(887.2)</b>	<b>(290.6)</b>	<b>(1,223.4)</b>

## Notes to the Financial Statements (continued)

### 2. Segmental analysis (continued)

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

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

## Notes to the Financial Statements (continued)

### 2. Segmental analysis (continued)

Reconciliation of net operating expenditure per the segmental analysis to net cost of services for the year ended 31 March 2013

	£m	£m
<b>Net operating expenditure per the segmental analysis</b>		(1,117.2)
<b>Net expenditure of services not included in the segmental analysis</b>		
Group items	(0.2)	
Museum net revenue cost	(3.6)	
		(3.8)
<b>Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis</b>		
Depreciation	(951.6)	
Amortisation	(50.5)	
Goodwill write off	-	
Pension service costs (note 29)	(229.5)	
		(1,231.6)
<b>Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement</b>		
Capital and interest payments under the PPP and PFI schemes	101.7	
Pension payments charged to operating costs	260.1	
Grant funding of museum	5.8	
		367.6
<b>Net cost of services</b>		(1,985.0)

## Notes to the Financial Statements (continued)

### 2. Segmental analysis (continued)

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

	£m	£m
<b>Net operating expenditure per the segmental analysis</b>		(1,223.4)
<b>Net expenditure of services not included in the segmental analysis</b>		
Group items	1.4	
Museum net revenue cost	(5.7)	
		(4.3)
<b>Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis</b>		
Depreciation	(895.3)	
Amortisation	(52.7)	
Goodwill write off	(106.3)	
Pension service costs (note 29)	(181.2)	
		(1,235.5)
<b>Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement</b>		
Capital and interest payments under the PPP and PFI schemes	145.2	
Pension payments charged to operating costs	262.7	
Grant funding of museum	5.8	
		413.7
<b>Net cost of services</b>		(2,049.5)

## Notes to the Financial Statements (continued)

### 2. Segmental analysis (continued)

Reconciliation of segmental analysis to subjective analysis for the year ended 31 March 2013

	Net revenue cost per the segmental analysis £m	Net expenditure on services not included in the segmental analysis £m	Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis £m	Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement £m	Total £m
Income	4,465.0	30.5	-	-	4,495.5
Staff costs	(1,652.6)	(4.3)	(229.5)	260.1	(1,626.3)
Other service expenses	(3,929.6)	(30.0)	-	107.5	(3,852.1)
Depreciation, amortisation and impairment	-	-	(1,002.1)	-	(1,002.1)
<b>Total cost</b>	<b>(5,582.2)</b>	<b>(34.3)</b>	<b>(1,231.6)</b>	<b>367.6</b>	<b>(6,480.5)</b>
<b>Net cost of services</b>	<b>(1,117.2)</b>	<b>(3.8)</b>	<b>(1,231.6)</b>	<b>367.6</b>	<b>(1,985.0)</b>
Loss on disposal of assets					(121.8)
Interest income					528.9
Interest payable					(780.5)
Non specific grant income					5,463.6
<b>Surplus on the provision of services before taxation</b>					<b>3,105.2</b>

## Notes to the Financial Statements (continued)

### 2. Segmental analysis (continued)

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

	Net revenue cost per the segmental analysis £m	Net expenditure on services not included in the segmental analysis £m	Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis £m	Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement £m	Total £m
Income	4,142.5	38.4	-	-	4,180.9
Staff costs	(1,591.8)	(4.3)	(181.2)	262.7	(1,514.6)
Other service expenses	(3,774.1)	(38.4)	-	151.0	(3,661.5)
Depreciation, amortisation and impairment	-	-	(1,054.3)	-	(1,054.3)
<b>Total cost</b>	<b>(5,365.9)</b>	<b>(42.7)</b>	<b>(1,235.5)</b>	<b>413.7</b>	<b>(6,230.4)</b>
<b>Net cost of services</b>	<b>(1,223.4)</b>	<b>(4.3)</b>	<b>(1,235.5)</b>	<b>413.7</b>	<b>(2,049.5)</b>
Gain on disposal of assets					2.5
Interest income					441.7
Interest payable					(943.3)
Non-specific grant income					4,823.1
<b>Surplus on the provision of services before taxation</b>					<b>2,274.5</b>

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

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

## Notes to the Financial Statements (continued)

### 3. Gross expenditure

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

	Note	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
<b>Staff costs:</b>					
Wages and salaries		1,263.0	1,207.3	222.3	183.7
Social security costs		122.5	109.5	21.9	15.6
Pension costs	29	240.8	197.8	54.9	42.6
		<b>1,626.3</b>	<b>1,514.6</b>	<b>299.1</b>	<b>241.9</b>
Other service expenditure		3,852.1	3,661.5	613.6	723.4
Depreciation	12	951.6	895.3	158.5	158.2
Amortisation of software intangibles	11	50.5	52.7	33.5	39.3
Impairment of goodwill	11	-	106.3	-	-
		<b>6,480.5</b>	<b>6,230.4</b>	<b>1,104.7</b>	<b>1,162.8</b>

Included in the Corporation's other service expenditure is £147.2m (2011/12 £165.7m) relating to financial assistance to London Boroughs and other third parties (see note 36 for detailed analysis).

The average number of persons employed in the year was:

	Group 2013 Number	Group 2012 Number	Corporation 2013 Number	Corporation 2012 Number
Permanent staff (including fixed term contracts)	25,845	25,668	4,426	3,490
Agency staff	2,175	1,826	602	277
	<b>28,020</b>	<b>27,494</b>	<b>5,028</b>	<b>3,767</b>



## Notes to the Financial Statements (continued)

### 4. External audit fees

External audit fees are made up as follows:

	<b>Group 2013 £m</b>	Group 2012 £m	<b>Corporation 2013 £m</b>	Corporation 2012 £m
<b>Auditor's remuneration:</b>				
for statutory audit services	<b>1.5</b>	1.6	<b>0.2</b>	0.4
for non-statutory audit services	<b>0.3</b>	0.2	<b>0.2</b>	0.1
for non-audit services *	<b>0.1</b>	-	<b>0.1</b>	-
	<b>1.9</b>	1.8	<b>0.5</b>	0.5

\* The Audit and Assurance Committee reviews and notes the nature and extent of non-audit services provided by TfL's external auditor to ensure that independence is maintained.

## Notes to the Financial Statements (continued)

### 6. Other operating income/expenditure

	<b>Group 2013 £m</b>	Group 2012 £m	<b>Corporation 2013 £m</b>	Corporation 2012 £m
Net (loss)/profit on disposal of property, plant and equipment	<b>(121.8)</b>	2.5	<b>(0.2)</b>	(2.4)
<b>Total other operating income/(expenditure)</b>	<b>(121.8)</b>	2.5	<b>(0.2)</b>	(2.4)

### 7. Financing and investment income

	Note	<b>Group 2013 £m</b>	Group 2012 £m	<b>Corporation 2013 £m</b>	Corporation 2012 £m
Interest income on bank deposits		<b>18.3</b>	13.4	<b>17.8</b>	12.8
Interest income on loans to subsidiaries		-	-	<b>204.6</b>	235.9
Change in fair value of investment properties	13	<b>131.5</b>	21.4	<b>3.5</b>	9.4
Net gain on disposal of investment properties		<b>35.9</b>	0.3	<b>2.8</b>	0.3
Expected return on pension assets	29	<b>342.9</b>	406.5	<b>1.5</b>	1.7
Other investment income		<b>0.3</b>	0.1	<b>0.1</b>	-
		<b>528.9</b>	441.7	<b>230.3</b>	260.1

## Notes to the Financial Statements (continued)

### 8. Financing and investment expenditure

		<b>Group 2013 £m</b>	Group 2012 £m	<b>Corporation 2013 £m</b>	Corporation 2012 £m
	Note				
Interest payable on loans and derivatives		<b>288.4</b>	261.8	<b>271.0</b>	204.5
Interest payable on loans to subsidiaries		-	-	<b>5.4</b>	55.5
Interest payable on finance lease liabilities		<b>63.5</b>	90.6	<b>8.5</b>	8.8
Contingent rentals on PFI contracts		<b>13.3</b>	12.2	<b>3.7</b>	3.2
Premiums on early repayment of borrowings and finance lease liabilities		<b>23.0</b>	168.6	-	216.5
Swap breakage costs		-	0.8	-	-
Expected cost of pension scheme liabilities	29	<b>390.9</b>	409.2	<b>4.3</b>	4.4
Other financing and investment expenditure		<b>1.4</b>	0.1	<b>0.1</b>	0.1
		<b>780.5</b>	943.3	<b>293.0</b>	493.0

## Notes to the Financial Statements (continued)

### 9. Grant income

	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
Non ring-fenced grant from the DfT used to fund operations	2,192.3	1,634.1	2,192.3	1,634.1
Other revenue grant received	145.8	67.7	145.8	67.7
Council tax precept	6.0	6.0	6.0	6.0
<b>Total grants allocated to revenue</b>	<b>2,344.1</b>	<b>1,707.8</b>	<b>2,344.1</b>	<b>1,707.8</b>
Non ring-fenced grant from the DfT used to fund capital	1,045.5	1,620.0	1,045.5	1,620.0
Ring-fenced grant used to fund capital expenditure relating to Crossrail	1,904.0	1,217.0	1,904.0	1,217.0
Business Rate Supplement levied to fund capital expenditure relating to Crossrail	120.0	168.0	120.0	168.0
Other capital grants and contributions received	50.0	110.3	38.0	14.7
<b>Total grants allocated to capital</b>	<b>3,119.5</b>	<b>3,115.3</b>	<b>3,107.5</b>	<b>3,019.7</b>
<b>Total grants</b>	<b>5,463.6</b>	<b>4,823.1</b>	<b>5,451.6</b>	<b>4,727.5</b>
<b>Allocation of capital grants</b>				
	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
Capital grant funding of subsidiaries	-	-	976.6	1,445.0
Applied capital grants (note 31)	2,533.7	2,916.6	1,545.1	1,376.0
Unapplied capital grants (note 33)	585.8	198.7	585.8	198.7
<b>Total capital grants</b>	<b>3,119.5</b>	<b>3,115.3</b>	<b>3,107.5</b>	<b>3,019.7</b>

# Notes to the Financial Statements (continued)

## 10. Taxation

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

### a) Corporation tax

The Group tax credit for the year, based on the rate of corporation tax of 24% (2012 26%) comprised:

	Group 2013 £m	Group 2012 £m
<b>Current tax</b>		
UK corporation tax	-	-
Adjustments in respect of prior years	(0.2)	(1.5)
<b>Total current tax credit</b>	<b>(0.2)</b>	<b>(1.5)</b>
Deferred tax	-	-
<b>Total tax credit for the year</b>	<b>(0.2)</b>	<b>(1.5)</b>
<b>Reconciliation of tax credit</b>		
	Group 2013 £m	Group 2012 £m
Surplus on the provision of services before tax	3,105.2	2,274.5
Surplus on the provision of services before tax multiplied by standard rate of corporation tax in the UK of 24% (2012 26%)	745.2	591.4
Effects of:		
Non-deductible expenses / (non-taxable income)	(7.0)	(287.7)
Permanent difference in TfL Corporation	(675.4)	(392.6)
Amount charged to current tax for which no deferred tax was recognised	(77.5)	67.6
Tax losses carried forward for which no deferred tax was recognised	15.2	22.4
Overseas earnings	(0.5)	(1.1)
Adjustments in respect of prior years	(0.2)	(1.5)
<b>Total tax credit for the year</b>	<b>(0.2)</b>	<b>(1.5)</b>

## Notes to the Financial Statements (continued)

### 10. Taxation (continued)

#### b) Unrecognised deferred tax assets

The Group has a potential net deferred tax asset of £2,195.3m (2012 £2,187.8m) in respect of the following items:

	<b>Group 2013 £m</b>	Group 2012 £m
Deductible temporary differences	1,032.1	977.7
Tax losses	1,163.2	1,210.1
<b>Unrecognised deferred tax asset</b>	<b>2,195.3</b>	<b>2,187.8</b>

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

The net deferred tax asset excludes any amounts connected to the pension deficit.

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

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

For the year ended 31 March 2013	Balance at 1 April 2012 £m	Movement in period £m	<b>Balance at 31 March 2013 £m</b>
<b>Deferred tax assets</b>			
Property, plant and equipment	45.7	(3.0)	<b>42.7</b>
Derivative financial instruments	28.1	24.6	<b>52.7</b>
<b>Total</b>	<b>73.8</b>	<b>21.6</b>	<b>95.4</b>
<b>Deferred tax liabilities</b>			
Investment properties	(66.4)	(26.7)	<b>(93.1)</b>
Other	(7.4)	5.1	<b>(2.3)</b>
<b>Total</b>	<b>(73.8)</b>	<b>(21.6)</b>	<b>(95.4)</b>
<b>Net deferred tax asset/(liability)</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements (continued)

### 10. Taxation (continued)

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

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

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

- The deferred tax liability arising on investment properties has increased due to changes in the market value of the properties.
- The property, plant and equipment deferred tax asset has changed in the period due to assets acquired in the year, movements in the market value of assets held and capital allowances disclaimed.
- Included in the deferred tax balances for property, plant and equipment and investment properties is the deferred tax on revaluations of £21.4m recognised in Other Comprehensive Income.
- The deferred tax asset arising in respect of derivative financial instruments has increased due to movement in the fair value of derivatives.

The corporation tax rate was reduced from 26 per cent to 24 per cent on 1 April 2012 and from 24 per cent to 23 per cent on 1 April 2013. The Chancellor announced in his Autumn 2012 Statement that the UK corporation tax rate will reduce further to 21 per cent by 2014. In his March 2013 Budget Statement he announced that it will fall to 20 per cent on 1 April 2015.

The reduction in the rate to 23 per cent (effective from 1 April 2013) was substantively enacted on 3 July 2012. Deferred tax balances at 31 March 2013 therefore were calculated using this corporation tax rate.

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

No deferred tax asset has been recognised on the pension deficit of £2,813.2m as the principal employer is not a taxpaying entity. Future tax deductions for some contributions will be made in the taxable entities, however no deferred tax assets are being recognised in these entities.

# Notes to the Financial Statements (continued)

## 11. Intangible assets

### a) Group intangible assets

	Note	Software costs £m	Intangible assets under construction £m	Goodwill £m	Total £m
<b>Cost</b>					
At 1 April 2011		207.0	21.0	242.9	470.9
Additions		9.9	23.9	-	33.8
Acquisitions		-	-	106.3	106.3
Transfers to property, plant and equipment	12	-	(6.7)	-	(6.7)
Transfers between asset classes		7.6	(7.6)	-	-
<b>At 31 March 2012</b>		<b>224.5</b>	<b>30.6</b>	<b>349.2</b>	<b>604.3</b>
Additions		<b>18.8</b>	<b>21.0</b>	-	<b>39.8</b>
Transfers from property, plant and equipment	12	<b>0.3</b>	-	-	<b>0.3</b>
Transfers between asset classes		<b>15.7</b>	<b>(15.7)</b>	-	-
Disposals		<b>(30.0)</b>	-	-	<b>(30.0)</b>
<b>At 31 March 2013</b>		<b>229.3</b>	<b>35.9</b>	<b>349.2</b>	<b>614.4</b>
<b>Amortisation and impairment</b>					
At 1 April 2011		88.4	-	242.9	331.3
Amortisation charge for the year	3	52.7	-	-	52.7
Impairment	3	-	-	106.3	106.3
<b>At 31 March 2012</b>		<b>141.1</b>	-	<b>349.2</b>	<b>490.3</b>
Amortisation charge for the year	3	<b>50.5</b>	-	-	<b>50.5</b>
Disposals		<b>(30.0)</b>	-	-	<b>(30.0)</b>
<b>At 31 March 2013</b>		<b>161.6</b>	-	<b>349.2</b>	<b>510.8</b>
<b>Net book value at 31 March 2013</b>		<b>67.7</b>	<b>35.9</b>	-	<b>103.6</b>
Net book value at 31 March 2012		83.4	30.6	-	114.0

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



## Notes to the Financial Statements (continued)

### 11. Intangible assets (continued)

#### b) Corporation intangible assets

	Note	Software costs £m	Intangible assets under construction £m	Total £m
<b>Cost</b>				
At 1 April 2011		151.8	7.7	159.5
Additions		0.7	1.1	1.8
Transfers between asset classes		2.4	(2.4)	-
<b>At 31 March 2012</b>		<b>154.9</b>	<b>6.4</b>	<b>161.3</b>
Additions		<b>8.0</b>	<b>1.8</b>	<b>9.8</b>
Transfers between asset classes		<b>3.5</b>	<b>(3.5)</b>	<b>-</b>
Transfer from property, plant and equipment	12	<b>0.3</b>	<b>-</b>	<b>0.3</b>
Disposals		<b>(27.3)</b>	<b>-</b>	<b>(27.3)</b>
<b>At 31 March 2013</b>		<b>139.4</b>	<b>4.7</b>	<b>144.1</b>
<b>Amortisation and impairment</b>				
At 1 April 2011		70.2	-	70.2
Amortisation charge for the year	3	39.3	-	39.3
<b>At 31 March 2012</b>		<b>109.5</b>	<b>-</b>	<b>109.5</b>
Amortisation charge for the year	3	<b>33.5</b>	<b>-</b>	<b>33.5</b>
Disposals		<b>(27.3)</b>	<b>-</b>	<b>(27.3)</b>
<b>At 31 March 2013</b>		<b>115.7</b>	<b>-</b>	<b>115.7</b>
<b>Net book value at 31 March 2013</b>		<b>23.7</b>	<b>4.7</b>	<b>28.4</b>
Net book value at 31 March 2012		45.4	6.4	51.8

Assets under construction comprise software assets under development by TfL.

## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment

a) Group property, plant and equipment at 31 March 2013 comprised the following elements:

	Note	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
<b>Cost or valuation</b>						
At 1 April 2012		26,843.0	4,069.0	1,374.5	5,859.5	38,146.0
Additions		121.9	2.4	22.7	2,829.1	2,976.1
Transfers to intangible assets	11	-	-	(0.3)	-	(0.3)
Disposals		(322.9)	(188.9)	(153.0)	-	(664.8)
Transfers between asset classes		780.3	436.9	92.2	(1,309.4)	-
Revaluation		21.4	-	-	-	21.4
<b>At 31 March 2013</b>		<b>27,443.7</b>	<b>4,319.4</b>	<b>1,336.1</b>	<b>7,379.2</b>	<b>40,478.4</b>
<b>Depreciation</b>						
At 1 April 2012		10,054.6	2,056.8	928.6	-	13,040.0
Depreciation charge for the year	3	710.8	120.1	120.7	-	951.6
Disposals		(230.0)	(165.7)	(144.5)	-	(540.2)
<b>At 31 March 2013</b>		<b>10,535.4</b>	<b>2,011.2</b>	<b>904.8</b>	<b>-</b>	<b>13,451.4</b>
<b>Net book value at 31 March 2013</b>		<b>16,908.3</b>	<b>2,308.2</b>	<b>431.3</b>	<b>7,379.2</b>	<b>27,027.0</b>
Net book value at 31 March 2012		16,788.4	2,012.2	445.9	5,859.5	25,106.0

## Notes to the Financial Statements (continued)

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

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

	Note	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
<b>Cost or valuation</b>						
At 1 April 2011		25,658.9	3,857.2	1,331.6	5,121.0	35,968.7
Additions		175.6	3.8	24.7	2,413.0	2,617.1
Transfers from intangible assets	11	-	-	-	6.7	6.7
Disposals		(188.8)	(221.9)	(38.6)	-	(449.3)
Transfers between asset classes		1,194.5	429.9	56.8	(1,681.2)	-
Revaluation		2.8	-	-	-	2.8
<b>At 31 March 2012</b>		<b>26,843.0</b>	<b>4,069.0</b>	<b>1,374.5</b>	<b>5,859.5</b>	<b>38,146.0</b>
<b>Depreciation</b>						
At 1 April 2011		9,551.2	2,168.9	843.9	-	12,564.0
Depreciation charge for the year	3	662.3	109.8	123.2	-	895.3
Disposals		(156.8)	(221.9)	(38.5)	-	(417.2)
Revaluation		(2.1)	-	-	-	(2.1)
<b>At 31 March 2012</b>		<b>10,054.6</b>	<b>2,056.8</b>	<b>928.6</b>	<b>-</b>	<b>13,040.0</b>

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

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is funded by borrowings. However, the Group has opted to use the date of transition to IFRS (1 April 2009) as the effective date for applying IAS 23 Borrowing costs ('IAS 23'). At the transition date, the majority of the projects funded by borrowing, including Crossrail, had already commenced and are therefore not impacted by IAS 23. As a result, the total borrowing costs capitalised during the year were £nil (2012 £nil). The cumulative borrowing costs capitalised are also £nil (2012 £nil).

At 31 March 2013, the Group had capital commitments which are contracted for but not provided for in the financial statements amounting to £3,776.1m (2012 £4,218.7m).

## Notes to the Financial Statements (continued)

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

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

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

	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Total £m
<b>Gross cost</b>				
PFI assets	965.3	45.3	16.7	1,027.3
Other leased assets	-	407.7	-	407.7
	965.3	453.0	16.7	1,435.0
<b>Depreciation</b>				
PFI assets	261.9	30.1	14.3	306.3
Other leased assets	-	109.5	-	109.5
	261.9	139.6	14.3	415.8
<b>Net book value at 31 March 2013</b>	<b>703.4</b>	<b>313.4</b>	<b>2.4</b>	<b>1,019.2</b>
Net book value at 31 March 2012	822.1	327.6	4.1	1,153.8

#### d) Depreciation charge

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

	2013 £m	2012 £m
Depreciation of owned assets	891.3	831.1
Depreciation of assets held under PFI	50.5	54.4
Depreciation of asset held under other leases	9.8	9.8
<b>Total depreciation</b>	<b>951.6</b>	<b>895.3</b>

## Notes to the Financial Statements (continued)

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

#### e) Group office buildings

Office buildings are valued at fair value (open market value on an existing use basis), by DTZ, a property valuation company not connected with the Group, and by chartered surveyors working for Transport for London, in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Valuations are performed on a rolling basis, with approximately 75 per cent of the portfolio by value being valued each year. The value of these buildings at 31 March 2013 was £144.8m (2012 £129.9m) and the historic cost was £74.1m (2012 £78.8m).

#### f) Group and Corporation heritage assets

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

These assets are primarily former operational assets of the TfL group whose legal title is retained by the Corporation. Due to the diverse nature of the assets held and the lack of comparable market values, the cost of obtaining a valuation of TfL's heritage assets is such that it would not be commensurate with the benefits provided to users of the financial statements. The assets therefore remain recorded in the accounts at historical cost less accumulated depreciation. The collections have been externally valued for insurance purposes only. Management do not consider these insurance valuations to be necessarily indicative of open market fair value and hence have not incorporated the insurance values into the financial statements. As at 31 March 2013 the latest available insurance value for the collection was £23.5m (2012 £23.5m). The net book value of these assets at 31 March 2013 was £nil (2012 £nil).

## Notes to the Financial Statements (continued)

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

g) Corporation property, plant and equipment at 31 March 2013 comprised the following elements:

	Note	Infrastructure and office buildings £m	Plant and equipment £m	Assets under construction £m	Total £m
<b>Cost or valuation</b>					
At 1 April 2012		4,863.8	197.8	883.7	5,945.3
Additions		<b>48.1</b>	<b>0.5</b>	<b>88.5</b>	<b>137.1</b>
Transfers to intangible assets	11	-	<b>(0.3)</b>	-	<b>(0.3)</b>
Disposals		<b>(156.9)</b>	<b>(28.1)</b>	-	<b>(185.0)</b>
Transfers between asset classes		<b>81.9</b>	<b>18.9</b>	<b>(100.8)</b>	-
<b>At 31 March 2013</b>		<b>4,836.9</b>	<b>188.8</b>	<b>871.4</b>	<b>5,897.1</b>
<b>Depreciation</b>					
At 1 April 2012		2,365.3	146.8	-	2,512.1
Depreciation charge for the year	3	<b>136.2</b>	<b>22.3</b>	-	<b>158.5</b>
Disposals		<b>(156.2)</b>	<b>(28.0)</b>	-	<b>(184.2)</b>
<b>At 31 March 2013</b>		<b>2,345.3</b>	<b>141.1</b>	-	<b>2,486.4</b>
<b>Net book value at 31 March 2013</b>		<b>2,491.6</b>	<b>47.7</b>	<b>871.4</b>	<b>3,410.7</b>
Net book value at 31 March 2012		2,498.5	51.0	883.7	3,433.2

## Notes to the Financial Statements (continued)

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

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

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

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

Direct borrowing costs are included in the cost of qualifying assets to the extent that the asset is funded by borrowings. However, the Corporation has opted to use the date of transition to IFRS (1 April 2009) as the effective date for applying IAS 23 Borrowing costs ('IAS 23'). At the transition date, the majority of the projects funded by borrowing, including Crossrail, had already commenced and are therefore not impacted by IAS 23. As a result, the total borrowing costs capitalised during the year were £nil (2012 £nil). The cumulative borrowing costs capitalised are also £nil (2012 £nil).

At 31 March 2013, the Corporation had capital commitments which are contracted for but not provided for in the financial statements amounting to £25.4m (2012 £35.2m).

## Notes to the Financial Statements (continued)

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

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

The net book value above includes the following amounts in respect of PFI assets. There are no other leased assets in the Corporation.

	Infrastructure and office buildings £m	Plant and equipment £m	Total £m
<b>Gross cost</b>			
PFI assets	209.1	16.7	225.8
<b>Depreciation</b>			
PFI assets	65.3	14.2	79.5
<b>Net book value at 31 March 2013</b>	<b>143.8</b>	<b>2.5</b>	<b>146.3</b>
Net book value at 31 March 2012	151.4	4.1	155.5

#### j) Depreciation charge

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

	2013 £m	2012 £m
Depreciation of owned assets	149.3	148.9
Depreciation of assets held under PFI	9.2	9.3
<b>Total depreciation</b>	<b>158.5</b>	158.2

#### k) Corporation office buildings

The Corporation did not have any office buildings.



## Notes to the Financial Statements (continued)

### 13. Investment properties

	Note	Group £m	Corporation £m
<b>Valuation</b>			
At 1 April 2011		294.3	13.8
Additions		0.8	0.8
Disposals		(8.8)	(2.4)
Fair value adjustments	7	21.4	9.4
<b>At 31 March 2012</b>		<b>307.7</b>	<b>21.6</b>
Disposals		(11.4)	(11.4)
Fair value adjustments	7	131.5	3.5
<b>At 31 March 2013</b>		<b>427.8</b>	<b>13.7</b>

The fair value of the Group's investment properties at 31 March 2013 has been arrived at on the basis of valuations carried out at that date by DTZ, a property valuation company not connected with the Group, and by chartered surveyors working for Transport for London.

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

Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry or break option taking into consideration lease incentives. Uplifts and the discount rate are derived from rates implied by recent market transactions on similar properties.

## Notes to the Financial Statements (continued)

### 14. Investments in subsidiaries

	<b>Corporation 2013 £m</b>	Corporation 2012 £m
At 1 April	<b>1,122.5</b>	472.5
Investments in year	<b>1,210.0</b>	650.0
<b>At 31 March</b>	<b>2,332.5</b>	1,122.5

During the year, the Corporation increased its investment in ordinary share capital of Transport Trading Limited (TTL) by £1,210.0m (2012 £650.0m). TTL subsequently increased its investment in ordinary share capital in Crossrail Limited by the same amount.

Draft

## Notes to the Financial Statements (continued)

### 14. Investments in subsidiaries (continued)

The Group's principal subsidiaries are:

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

The Group holds 100 per cent of the share capital of all subsidiaries. The financial statements of these companies are lodged at Companies House and also at the Charity Commission for the London Transport Museum Limited. The financial statements for the subsidiary companies for the year ended 31 March 2013 all received unqualified audit opinions.

## Notes to the Financial Statements (continued)

### 15. Inventories

	Group 2013 £m	Group 2012 £m
Raw materials and consumables	41.1	36.9
Goods held for resale	0.9	0.7
	<b>42.0</b>	<b>37.6</b>

	Corporation 2013 £m	Corporation 2012 £m
Raw materials and consumables	3.8	2.9

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

The movement on inventories was as follows:

	Group £m	Corporation £m
<b>Balance at 1 April 2011</b>	35.6	3.2
Purchases in the year	60.3	2.8
Recognised as an expense in the year:		
Consumed in the year	(55.0)	(3.0)
Goods sold in the year	(1.8)	-
Write-offs in the year	(1.5)	(0.1)
<b>Balance at 31 March 2012</b>	37.6	2.9
Purchases in the year	<b>60.2</b>	<b>4.8</b>
Recognised as an expense in the year:		
Consumed in the year	<b>(54.8)</b>	<b>(3.9)</b>
Goods sold in the year	<b>(0.9)</b>	-
Write-offs in the year	<b>(0.1)</b>	-
<b>Balance at 31 March 2013</b>	<b>42.0</b>	<b>3.8</b>

## Notes to the Financial Statements (continued)

### 16. Debtors

	Group 2013 £m	Group 2012 £m
<b>Short-term</b>		
Trade debtors	137.7	155.0
Capital debtors	8.5	7.4
Other debtors	40.7	33.0
Other tax and social security	98.5	125.6
Grant debtors	11.1	55.1
Amounts due relating to sale of non-current assets	27.9	7.9
Interest debtors	2.6	2.0
Prepayments and accrued income	157.8	137.3
	<b>484.8</b>	<b>523.3</b>
<b>Long-term</b>		
Amounts due from third parties	243.7	152.6
Amounts due relating to sale of non-current assets	8.0	-
Prepayments for goods and services	25.7	11.8
	<b>277.4</b>	<b>164.4</b>

Long-term amounts due from third parties include funds totalling £250.2m (2012 £160.4m) advanced to Network Rail Infrastructure Limited to provide interim financing for the construction of assets related to the Crossrail project. £89.8m was advanced at periodic intervals during 2012/13. The receivable is non interest bearing and has been discounted to its fair value of £243.7m (2012 £152.6m) using a discount rate of 2.453 per cent (2012 2.417 per cent). It is repayable in full on 15 May 2014.

## Notes to the Financial Statements (continued)

### 16. Debtors (continued)

	<b>Corporation 2013 £m</b>	Corporation 2012 £m
<b>Short-term</b>		
Trade debtors	26.2	23.1
Amounts due from subsidiary companies	311.9	41.1
Capital debtors	8.4	3.4
Other debtors	1.2	1.4
Other tax and social security	6.6	13.4
Grant debtors	-	33.8
Amounts due relating to sale of non-current assets	14.1	1.7
Interest debtors	2.4	1.7
Prepayments and accrued income	19.2	20.7
	<b>390.0</b>	<b>140.3</b>
<b>Long-term</b>		
Loans made to subsidiary companies	<b>7,142.0</b>	<b>6,498.9</b>

## Notes to the Financial Statements (continued)

### 17. Other investments

	Group 2013 £m	Group 2012 £m
<b>Short-term</b>		
Investments held at amortised cost	3,583.8	2,582.9
<b>Long-term</b>		
Available for sale financial assets	209.2	-

	Corporation 2013 £m	Corporation 2012 £m
<b>Short-term</b>		
Investments held at amortised cost	3,583.8	2,574.3
<b>Long-term</b>		
Available for sale financial assets	209.2	-

Short-term investments relate to investments in UK Treasury bills, deposits with UK clearing banks, and also to Money Market Fund and repurchase agreement investments with a maturity of greater than three but less than twelve months. Long-term investments comprise long-term deposits and similar investments tradeable on an active market with a maturity of greater than twelve months.

### 18. Cash and cash equivalents

	Group 2013 £m	Group 2012 £m
Cash at bank	84.5	62.8
Cash in hand and in transit	15.9	16.0
	100.4	78.8

	Corporation 2013 £m	Corporation 2012 £m
Cash at bank	6.5	7.5

## Notes to the Financial Statements (continued)

### 19. Creditors

	Group 2013 £m	Group 2012 £m
<b>Short-term</b>		
Trade creditors	150.6	187.5
Accrued interest	129.1	97.0
Capital works	578.8	581.8
Retentions on capital contracts	4.4	9.7
Capital grants received in advance	29.3	38.4
Wages and salaries	94.4	84.2
Other taxation and social security creditors	53.4	34.1
Receipts in advance for travelcards, bus passes and Oyster cards	307.6	272.2
Other deferred income	49.4	49.2
Deferred consideration payable in relation to acquisitions	-	1.5
Accruals and other payables	594.8	594.5
	<b>1,991.8</b>	<b>1,950.1</b>
<b>Long-term</b>		
Trade creditors	9.6	13.2
Capital grants received in advance	2.2	1.6
Retentions on capital contracts	22.5	11.4
Other deferred income	16.4	16.5
Accruals and other payables	9.3	8.6
	<b>60.0</b>	<b>51.3</b>



## Notes to the Financial Statements (continued)

### 19. Creditors (continued)

	Corporation 2013 £m	Corporation 2012 £m
<b>Short-term</b>		
Trade creditors	36.1	26.5
Accrued interest	124.1	93.5
Capital works	37.2	42.3
Retentions on capital contracts	1.6	1.9
Capital grants received in advance	29.3	38.4
Amounts due to subsidiary companies	221.9	226.6
Wages and salaries	20.8	17.3
Other taxation and social security creditors	19.5	1.3
Other deferred income	14.4	15.5
Accruals and other payables	149.2	157.4
	<b>654.1</b>	<b>620.7</b>
<b>Long-term</b>		
Capital grants received in advance	2.2	1.6
Retentions on capital contracts	0.1	0.6
Other deferred income	7.9	12.3
	<b>10.2</b>	<b>14.5</b>

## Notes to the Financial Statements (continued)

### 20. Borrowings and overdrafts

	<b>Group 2013 £m</b>	Group 2012 £m
<b>Short-term</b>		
Borrowings	<b>1,138.4</b>	2,179.0
<b>Long-term</b>		
Borrowings	<b>6,393.2</b>	4,943.9

	<b>Corporation 2013 £m</b>	Corporation 2012 £m
<b>Short-term</b>		
Borrowings	<b>1,138.4</b>	2,179.0
<b>Long-term</b>		
Borrowings	<b>6,409.8</b>	4,951.6

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

## Notes to the Financial Statements (continued)

### 21. Finance lease liabilities

#### a) Group finance lease liabilities

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

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

	Minimum lease payments £m	Interest £m	Principal (present value of minimum lease payments) £m
<b>At 31 March 2013</b>			
Not later than one year	124.9	(56.0)	68.9
Later than one year but not later than two years	127.5	(51.7)	75.8
Later than two years but not later than five years	381.5	(123.8)	257.7
Later than five years	664.5	(176.2)	488.3
	<b>1,298.4</b>	<b>(407.7)</b>	<b>890.7</b>
<b>At 31 March 2012</b>			
Not later than one year	135.9	(67.7)	68.2
Later than one year but not later than two years	134.0	(63.5)	70.5
Later than two years but not later than five years	419.8	(158.6)	261.2
Later than five years	902.2	(274.6)	627.6
	<b>1,591.9</b>	<b>(564.4)</b>	<b>1,027.5</b>
		<b>2013 £m</b>	2012 £m
<b>Principal outstanding</b>			
Short-term		<b>68.9</b>	68.2
Long-term		<b>821.8</b>	959.3
		<b>890.7</b>	1,027.5

## Notes to the Financial Statements (continued)

### 21. Finance lease liabilities (continued)

#### b) Corporation finance lease liabilities

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

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

	Minimum lease payments £m	Interest £m	Principal (present value of minimum lease payments) £m
<b>At 31 March 2013</b>			
Not later than one year	17.0	(8.4)	8.6
Later than one year but not later than two years	16.0	(8.1)	7.9
Later than two years but not later than five years	55.2	(21.9)	33.3
Later than five years	182.3	(40.2)	142.1
	<b>270.5</b>	<b>(78.6)</b>	<b>191.9</b>
<b>At 31 March 2012</b>			
Not later than one year	16.3	(8.5)	7.8
Later than one year but not later than two years	15.7	(8.1)	7.6
Later than two years but not later than five years	49.3	(22.4)	26.9
Later than five years	199.5	(46.9)	152.6
	<b>280.8</b>	<b>(85.9)</b>	<b>194.9</b>
		<b>2013 £m</b>	2012 £m
<b>Principal outstanding</b>			
Short-term		<b>8.6</b>	7.8
Long-term		<b>183.3</b>	187.1
		<b>191.9</b>	194.9

## Notes to the Financial Statements (continued)

### 22. Private finance initiative contracts

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

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

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

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

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

## Notes to the Financial Statements (continued)

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

Contract	Contract dates	Description
<b>London Underground Limited ('LU')</b>		
Connect	1999 to 2019 with a voluntary break option on provision of 12 months' written notice	<p>Design, installation, management and maintenance of integrated digital radio system.</p> <p>The contract requires LU to make an annual unitary payment which is adjusted for indexation and performance as specified in the contract.</p>
Power	1998 to 2028 with a voluntary break option from 2013 and every five years thereafter, subject to at least 12 months' written notice	<p>Procurement, maintenance and management of the electricity supply services for the Emergency Supply Plan for London Underground and the Northern Line Power Upgrade.</p> <p>The contract required LU to make an annual unitary payment which is charged monthly and adjusted for any penalties relating to adverse performance against output measures describing all relevant aspects of the contract.</p> <p>On 12 August 2012 LU exercised its break option under the contract and, during the year, repaid the finance lease liability outstanding in respect of the assets. The contract is due to fully terminate in August 2013.</p>
British Transport Police (London Underground)	1999 to 2021 with a voluntary break option on provision of 12 months' written notice	<p>Provision and ongoing management and maintenance of operational infrastructure to support efficient policing of the Jubilee Line Extension and the delivery of the long-term policing strategy for LU.</p> <p>The contract requires LU to make a base annual unitary payment which is adjusted for indexation and performance as specified in the contract.</p>

## Notes to the Financial Statements (continued)

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

Contract	Contract dates	Description
<b>Docklands Light Railway Limited ('DLR')</b>		
Greenwich	1996 to 2021	<p>Design, construction and ongoing maintenance of the Greenwich extension to the Docklands Light Railway.</p> <p>The contract requires DLR to make payments, which are charged monthly and adjusted for any penalties relating to adverse performance against output measures describing all relevant aspects of the contract.</p>

#### PFI finance lease liabilities

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

	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
At 1 April	674.2	1,049.9	195.0	202.4
Disposal on acquisition of CARE and WARE	-	(324.0)	-	-
Payments	(164.1)	(114.1)	(16.4)	(16.2)
Interest	36.7	62.4	8.5	8.8
<b>At 31 March</b>	<b>546.8</b>	<b>674.2</b>	<b>187.1</b>	<b>195.0</b>

## Notes to the Financial Statements (continued)

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

#### Group

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

	Payments of interest £m	Repayment of capital £m	Payments for service charges £m	Total amount payable under non-cancellable PFI arrangements £m
<b>As at 31 March 2013</b>				
Less than 1 year	29.8	56.1	70.9	156.8
Between 1 to 5 years	68.7	156.4	149.4	374.5
Between 5 to 10 years	48.6	213.1	298.8	560.5
Between 10 to 15 years	15.5	108.6	226.3	350.4
Between 15 to 20 years	0.8	12.6	47.3	60.7
	<b>163.4</b>	<b>546.8</b>	<b>792.7</b>	<b>1,502.9</b>
<b>As at 31 March 2012</b>				
Less than 1 year	40.7	54.1	112.2	207.0
Between 1 to 5 years	127.8	264.4	458.7	850.9
Between 5 to 10 years	79.2	193.2	536.1	808.5
Between 10 to 15 years	41.4	117.4	399.5	558.3
Between 15 to 20 years	4.5	45.1	141.9	191.5
	<b>293.6</b>	<b>674.2</b>	<b>1,648.4</b>	<b>2,616.2</b>



## Notes to the Financial Statements (continued)

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

#### Corporation

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

	Payments of interest £m	Repayment of capital £m	Payments for service charges £m	Total amount payable under non-cancellable PFI arrangements £m
<b>As at 31 March 2013</b>				
Less than 1 year	8.1	7.6	12.6	28.3
Between 1 to 5 years	29.0	37.3	66.6	132.9
Between 5 to 10 years	26.4	51.1	124.4	201.9
Between 10 to 15 years	13.1	78.5	156.2	247.8
Between 15 to 20 years	0.8	12.6	47.3	60.7
	<b>77.4</b>	<b>187.1</b>	<b>407.1</b>	<b>671.6</b>
<b>As at 31 March 2012</b>				
Less than 1 year	8.5	7.8	10.7	27.0
Between 1 to 5 years	30.5	34.5	60.3	125.3
Between 5 to 10 years	28.6	51.0	109.0	188.6
Between 10 to 15 years	16.4	75.3	161.8	253.5
Between 15 to 20 years	1.9	26.4	76.0	104.3
	<b>85.9</b>	<b>195.0</b>	<b>417.8</b>	<b>698.7</b>

## Notes to the Financial Statements (continued)

### 23. Derivative financial instruments

#### Group: cash flow hedges

	Fair value 2013 £m	Notional amount 2013 £m	Fair value 2012 £m	Notional amount 2012 £m
<b>Short-term assets</b>				
Gilt locks	-	-	0.8	350.0
<b>Short-term liabilities</b>				
Interest rate swaps	-	-	1.0	300.0
Gilt locks	-	-	6.5	472.8
Foreign currency forward contracts	-	-	0.5	9.7
	-	-	8.0	782.5
<b>Long-term liabilities</b>				
Interest rate swaps	116.3	834.4	74.0	836.9

The Corporation has not entered into any derivative financial instruments.

## Notes to the Financial Statements (continued)

### 24. Provisions

#### a) Group provisions

	At 1 April 2012 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2013 £m
Compensation	25.5	(10.3)	27.2	(10.1)	<b>32.3</b>
Capital investment activities	225.6	(25.9)	72.4	(68.6)	<b>203.5</b>
Environmental harm	0.9	(0.9)	1.4	-	<b>1.4</b>
Other	23.5	(9.4)	2.9	(12.5)	<b>4.5</b>
	275.5	(46.5)	103.9	(91.2)	<b>241.7</b>

	2013 £m	2012 £m
Due		
Short-term	<b>162.3</b>	140.8
Long-term	<b>79.4</b>	134.7
At 31 March	<b>241.7</b>	275.5

## Notes to the Financial Statements (continued)

### 24. Provisions (continued)

#### b) Corporation provisions

	At 1 April 2012 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2013 £m
Compensation	15.7	(8.0)	15.8	(9.5)	14.0
Capital investment activities	225.6	(25.9)	72.4	(68.6)	203.5
Other	3.7	(1.5)	2.4	(1.4)	3.2
	245.0	(35.4)	90.6	(79.5)	220.7

	2013 £m	2012 £m
<b>Due</b>		
Short-term	151.6	132.4
Long-term	69.1	112.6
<b>At 31 March</b>	<b>220.7</b>	245.0

## Notes to the Financial Statements (continued)

### 24. Provisions (continued)

#### c) Nature of provisions

##### Compensation

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

##### Environmental harm

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

##### Capital investment activities

Capital investment activities include compulsory purchases, claims in respect of structural damage or diminution in value of properties affected by transport schemes, and other related third party claims. Estimates are made with reference to relevant market trends. Management expects these provisions to be settled within the next six years.

##### Other

Other provisions include voluntary severance costs arising from reorganisations and other smaller claims.

### 25. Contingencies

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

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

## Notes to the Financial Statements (continued)

### 26. Guarantees

Section 160 of the Greater London Authority Act 1999 (the 'Act') sets out the conditions under which TfL may give certain guarantees, indemnities or similar arrangements. Under Section 161 of the Act TfL is obliged to disclose in its annual report details of all guarantees etc. so given.

TfL and its subsidiaries have entered into joint and several guarantees in favour of HSBC Bank plc as security for any bank indebtedness outstanding from time to time. TfL has also separately guaranteed any liabilities owing to HSBC Bank plc by its subsidiary, Crossrail Limited.

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.

	<b>Estimated maximum debt drawn by counterparty at start of contract £m</b>
Agreement with City Link	502
Agreement with QW Rail Leasing Ltd	290
Agreement with PADCo and EDF Energy Powerlink Ltd	168
Agreement with Pittville Leasing Limited	51
Agreement with APSLL	4

In addition TfL also guarantees the payments of certain of its subsidiaries under a number of other service and construction contracts. It guarantees Crossrail Limited's payments to Canary Wharf Properties (Crossrail) Limited under a Development Agreement. It guarantees London Underground Limited's termination obligations under the Northern line train service contracts and the Jubilee Line Agreement. It guarantees Docklands Light Railway Limited's intercompany obligations to City Airport Railway Enterprises PLC and Woolwich Arsenal Railway Enterprises Limited under the CARE and WARE service contracts. TfL also guarantees pension liabilities due to the London Pension Fund Authority from Serco Limited in respect of employees working on the Woolwich Ferry.

Unlike the agreements listed above, these contracts are not based on an initial amount of debt and so cannot be quantified in a similar manner.

TfL acts as a guarantor in respect of Tube Lines (Finance) Plc's external borrowings which have a nominal value of £72.1m (2012 £75.0m).

## Notes to the Financial Statements (continued)

### 26. Guarantees (continued)

TfL also acts as a guarantor in respect of all liabilities under third party derivative contracts entered into by its subsidiary, Transport for London Finance Limited. The fair value of net liabilities outstanding under derivative contracts at 31 March is £116.3m (2012 £81.2m).

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.

All guarantees granted by TfL are over obligations of its subsidiaries which are, in any case, recorded as liabilities on the Group Balance Sheet. The probability of any amounts becoming payable by the Corporation under the above guarantees and indemnities is considered remote. As at 31 March 2013 the fair value of all financial guarantees granted has been recorded as £nil (2012 £nil).

### 27. Financial commitments

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

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

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

	Land and buildings £m	Rail access £m	Motor vehicles £m	Rolling stock £m	Total £m
<b>At 31 March 2013</b>					
Within one year	50.8	9.0	4.7	16.4	80.9
Between one and two years	48.6	4.6	3.1	16.4	72.7
Between two and five years	128.8	6.7	1.2	49.1	185.8
Later than five years	454.7	3.7	-	151.4	609.8
	<b>682.9</b>	<b>24.0</b>	<b>9.0</b>	<b>233.3</b>	<b>949.2</b>
<b>At 31 March 2012</b>					
Within one year	56.4	7.5	3.7	16.5	84.1
Between one and two years	62.3	4.0	2.8	16.4	85.5
Between two and five years	118.7	6.0	0.8	49.3	174.8
Later than five years	465.0	33.9	-	168.2	667.1
	<b>702.4</b>	<b>51.4</b>	<b>7.3</b>	<b>250.4</b>	<b>1,011.5</b>

## Notes to the Financial Statements (continued)

### 27. Financial commitments (continued)

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

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

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

	Land and buildings £m	Rail access £m	Motor vehicles £m	Total £m
<b>At 31 March 2013</b>				
Within one year	42.4	7.6	0.3	50.3
Between one and two years	36.8	3.8	0.1	40.7
Between two and five years	81.1	4.8	-	85.9
Later than five years	424.0	3.9	-	427.9
	<b>584.3</b>	<b>20.1</b>	<b>0.4</b>	<b>604.8</b>
<b>At 31 March 2012</b>				
Within one year	38.2	6.0	0.2	44.4
Between one and two years	33.4	3.2	0.2	36.8
Between two and five years	72.7	8.6	-	81.3
Later than five years	413.0	-	-	413.0
	<b>557.3</b>	<b>17.8</b>	<b>0.4</b>	<b>575.5</b>



## Notes to the Financial Statements (continued)

### 27. Financial commitments (continued)

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

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

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

	Land and buildings £m	Total £m
<b>At 31 March 2013</b>		
Within one year	22.0	22.0
Between one and two years	20.0	20.0
Between two and five years	55.7	55.7
Later than five years	166.6	166.6
	<b>264.3</b>	<b>264.3</b>
<b>At 31 March 2012</b>		
Within one year	25.9	25.9
Between one and two years	23.8	23.8
Between two and five years	65.2	65.2
Later than five years	211.0	211.0
	<b>325.9</b>	<b>325.9</b>

## Notes to the Financial Statements (continued)

### 27. Financial commitments (continued)

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

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

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

	Land and buildings £m	Total £m
<b>At 31 March 2013</b>		
Within one year	1.3	1.3
Between one and two years	1.1	1.1
Between two and five years	2.2	2.2
Later than five years	6.6	6.6
	11.2	11.2
<b>At 31 March 2012</b>		
Within one year	1.5	1.5
Between one and two years	1.4	1.4
Between two and five years	3.1	3.1
Later than five years	8.0	8.0
	14.0	14.0

# 28. Funding and financial risk management

### Introduction

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

### Treasury Management

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

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

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

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

## Notes to the Financial Statements (continued)

# 28. Funding and financial risk management (continued)

### The Prudential Borrowing Regime

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

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

### Financial Risks and Risk Management

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

- Credit risk
- Liquidity risk
- Market risk

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

#### Credit risk

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

## Notes to the Financial Statements (continued)

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

#### (i) Trade and other receivables

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

#### Age of trade debtors that are past due but not impaired

	Overdue by less than 3 months £m	Overdue by between 3 and 6 months £m	Overdue by between 6 months and 1 year £m	Overdue by more than 1 year £m	Total £m
<b>Group – 2013</b>					
Trade debtors	<b>36.3</b>	<b>2.6</b>	<b>1.5</b>	<b>4.6</b>	<b>45.0</b>
<b>Group – 2012</b>					
Trade debtors	10.7	3.2	0.9	2.1	16.9
	Overdue by less than 3 months £m	Overdue by between 3 and 6 months £m	Overdue by between 6 months and 1 year £m	Overdue by more than 1 year £m	Total £m
<b>Corporation – 2013</b>					
Trade debtors	<b>3.9</b>	<b>0.9</b>	-	-	<b>4.8</b>
<b>Corporation – 2012</b>					
Trade debtors	3.3	1.2	0.1	0.1	4.7

# 28. Funding and financial risk management (continued)

### (ii) Investments

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

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

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

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

The centrally managed cash reserves at 31 March 2013 totalled £3,793.0m (2012 £2,574.3m). TfL's operational cash reserves at 31 March 2013 were £2,335.0m (2012 £1,444.0m).

## Notes to the Financial Statements (continued)

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

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

	Amount £m	Credit Rating (S&P/ Moody's/ Fitch)	Weighted average days to maturity
<b>At 31 March 2013</b>			
UK Debt Management Office	788.3	AAA/Aa1/AAA	46
Government guaranteed supranationals	470.4	AAA/Aa1/AAA	302
Other Government Agencies	1,732.2	Minimum Aa1	108
Money Market Funds	424.5	AAA	44
UK Banks	377.6	A/A2/A to AA- /Aa3/AA-	75
<b>Total</b>	<b>3,793.0</b>		<b>110</b>

#### At 31 March 2012

UK Treasury Bills, UK Government Guaranteed Supranationals, UK Debt Management Office	1,418.3	AAA	64
Money Market Funds	846.0	AAA	34
UK Banks	310.0	A-/A3/A to A+/Aa2/AA	134
<b>Total</b>	<b>2,574.3</b>		<b>63</b>

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

## Notes to the Financial Statements (continued)

# 28. Funding and financial risk management (continued)

### (iii) Derivative financial instruments

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

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

### (iv) Guarantees

The Corporation provides guarantees to third parties under Section 160 of the GLA Act, as disclosed in note 26, which are deemed necessary for the fulfilment of its policies. The Group's policy is to recognise financial guarantees at fair value initially and amortise this over the life of the guarantee. Where indications are that a payment is likely to occur under a guarantee, this is accounted for as a provision, in accordance with the Code. As at 31 March 2013, the fair value of the Corporation's financial guarantees has been assessed as £nil (2012 £nil).

### Liquidity risk

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

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

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



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

### Market risk

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

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

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

For the years ended 31 March 2013 and 2012, no ineffectiveness was recognised and all derivatives were assessed as highly effective. Accordingly, the movement in the fair value of the derivatives was taken to reserves.

### Foreign exchange risk

The Group has no material financial assets or liabilities denominated in foreign currencies, and thus has no translation exposure to gains or losses arising from movements in exchange rates. For 2012/13, the broad policy on managing transactional foreign exchange risk arising from contractual obligations with overseas providers was to pass the exchange risk to the vendor. For specific transactions where the risk was retained by the Group, exchange rate exposures were managed through the use of forward foreign exchange contracts. As at 31 March 2012, the Group held forward foreign exchange contracts to hedge planned future euro payments related to the construction of cable car infrastructure and the purchase of tram rolling stock. These contracts were settled during 2012/13. No forward foreign exchange contract remained outstanding at 31 March 2013.

## Notes to the Financial Statements (continued)

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

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

#### Sensitivity analysis on foreign exchange risk

As at 31 March 2012 the Group held Euro forward foreign exchange contracts with a combined nominal value of £9.7m which were designated as cash flow hedges. These contracts were settled during 2012/13 and as at 31 March 2013 no forward foreign exchange contracts are outstanding.

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

#### Interest rate risk

As at 31 March 2013, 90 per cent (2012 74 per cent) of the Group's borrowings were at fixed rates of interest after hedging. The remaining 10 per cent was unhedged Commercial Paper which, although having fixed rates of interest for the duration of the note, in practice behaves more like variable rate debt if used on a revolving basis.

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

In order to achieve certainty over the cost of a portion of its planned borrowing TfL holds a number of interest rate swaps and gilt locks, allowing additional funds to be allocated for investment in transport infrastructure in the Business Plan. As at 31 March 2013, the Group, through its wholly owned subsidiary Transport for London Finance Limited, held 18 interest rate swaps at a notional value of £834m (2012 23 interest rate swaps and gilt locks at a total notional value of £1,960m). The net fair value of these contracts at 31 March 2013 was a liability of £116.3m (2012 £80.7m). As the hedging was assessed as fully effective these unrealised losses have been recognised in the hedging reserve. In addition a cost of £117.7m representing the cash settled net cost of gilt locks taken out to hedge the interest rate on the £1,300m bonds issued during the year has been deferred in the hedging reserve and is being released profit or loss over the term of the bonds to which it relates. Amounts held in the hedging reserve are expected to impact the Comprehensive Income and Expenditure Statement over the period to December 2042.

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

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

## Notes to the Financial Statements (continued)

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

#### Sensitivity analysis on interest rate risk

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

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

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

As at 31 March 2013, the Group holds interest rate derivative contracts with a combined notional value of £834m (2012 £1,960m) which are designated as cash flow hedges.

An increase/(decrease) of 100 basis points in interest rates would increase/(decrease) the fair value of the derivative instruments by £55.5m / (£55.4m) (2012 £60.1m / (£59.5m)).

#### Inflation risk

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

Draft

## Notes to the Financial Statements (continued)

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

#### Maturity profile of derivatives

The Group's derivatives have the following maturities:

	2013 Average exchange rate	2013 Fair value £m	2013 Notional amount £m	2012 Average exchange rate	2012 Fair value £m	2012 Notional amount £m
<b>Foreign currency forward contracts</b>						
<b>Buy euro</b>						
Less than 3 months	-	-	-	0.878	(0.4)	8.7
3 to 6 months	-	-	-	0.871	(0.1)	1.0
<b>Total</b>	-	-	-	0.877	(0.5)	9.7

	2013 Average contracted fixed interest rate (%)	2013 Fair value £m	2013 Notional amount £m	2012 Average contracted fixed interest rate (%)	2012 Fair value £m	2012 Notional amount £m
<b>Interest rate hedges</b>						
Less than one year	-	-	-	2.332	(6.7)	1,122.8
Between two and five years	3.273	(27.6)	250.0	-	-	-
After five years	3.775	(88.7)	584.4	3.623	(74.0)	836.9
<b>Total</b>	3.624	(116.3)	834.4	2.861	(80.7)	1,959.7

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

## Notes to the Financial Statements (continued)

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

#### Maturity profile of derivatives (continued)

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

	Less than one year £m	Between one and two years £m	Between two and five years £m	More than five years £m	Total £m
<b>Group – 2013</b>					
<b>Derivatives settled gross</b>					
<b>Foreign exchange forward contracts:</b>					
Amounts receivable	-	-	-	-	-
Amounts payable	-	-	-	-	-
<b>Derivatives settled net</b>					
Interest rate swaps and gilt locks	(18.0)	(23.9)	(61.3)	(18.0)	(121.2)
	(18.0)	(23.9)	(61.3)	(18.0)	(121.2)
<b>Group – 2012</b>					
<b>Derivatives settled gross</b>					
<b>Foreign exchange forward contracts:</b>					
Amounts receivable	9.2	-	-	-	9.2
Amounts payable	(9.7)	-	-	-	(9.7)
<b>Derivatives settled net</b>					
Interest rate swaps and gilt locks	(14.9)	(13.4)	(54.0)	(2.5)	(84.8)
	(15.4)	(13.4)	(54.0)	(2.5)	(85.3)

The total asset or liability due to the Group as recognised on the balance sheet is the fair value of the derivatives, as this represents the cost to terminate. As such it differs from the total net contractual payments shown in the table above. At 31 March 2013, the fair value of the interest rate derivatives was a net liability of £116.3m (2012 £80.7m). The fair value of forward foreign exchange derivatives was a liability of £nil (2012 a liability of £0.5m).

## Notes to the Financial Statements (continued)

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

#### Contractual maturity of financial liabilities

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

	Less than one year £m	Between one and two years £m	Between two and five years £m	More than five years £m	Total £m
<b>Group - 2013</b>					
Trade and other creditors	1,605.5	41.4	-	-	1,646.9
Borrowings - principal	1,139.6	26.3	432.7	5,966.0	7,564.6
Borrowings - interest	285.4	269.8	790.8	4,673.8	6,019.8
Finance lease liabilities	124.9	127.5	381.5	664.5	1,298.4
	<b>3,155.4</b>	<b>465.0</b>	<b>1,605.0</b>	<b>11,304.3</b>	<b>16,529.7</b>
<b>Group - 2012</b>					
Trade and other creditors	1,950.1	51.3	-	-	2,001.4
Borrowings - principal	2,177.5	29.3	113.8	4,811.2	7,131.8
Borrowings - interest	232.8	226.4	669.7	4,144.9	5,273.8
Finance lease liabilities	135.9	134.0	419.8	902.2	1,591.9
	<b>4,496.3</b>	<b>441.0</b>	<b>1,203.3</b>	<b>9,858.3</b>	<b>15,998.9</b>
<b>Corporation - 2013</b>					
Trade and other payables	610.4	0.1	-	-	610.5
Borrowings - principal	1,139.6	26.3	432.7	5,966.0	7,564.6
Borrowings - interest	285.4	269.8	790.8	4,673.8	6,019.8
Finance lease liabilities	17.0	16.0	55.2	182.3	270.5
	<b>2,052.4</b>	<b>312.2</b>	<b>1,278.7</b>	<b>10,822.1</b>	<b>14,465.4</b>
<b>Corporation - 2012</b>					
Trade and other payables	620.7	14.5	-	-	635.2
Borrowings - principal	2,177.5	29.3	113.8	4,811.2	7,131.8
Borrowings - interest	232.8	226.4	669.7	4,144.9	5,273.8
Finance lease liabilities	16.3	15.7	49.3	199.5	280.8
	<b>3,047.3</b>	<b>285.9</b>	<b>832.8</b>	<b>9,155.6</b>	<b>13,321.6</b>

## Notes to the Financial Statements (continued)

# 28. Funding and financial risk management (continued)

### Fair values

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

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

- Cash and cash equivalents – approximates to the carrying amount
- Short term investments – approximates to the carrying amount because of the short maturity of these instruments
- Long-term investments – by reference to bid prices at the close of business on the balance sheet date, within Level 1 of the fair value hierarchy as defined within IFRS 7.
- Trade and other debtors - approximates to the carrying amount
- Derivative financial instruments – In the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence, derivatives are within Level 2 of the fair value hierarchy as defined within IFRS 7.
  - Forward exchange contracts – based on market data and exchange rates at the balance sheet date
  - Interest rate swaps and forward starting interest rate swaps – based on the net present value of discounted cash flows
- Trade and other creditors - approximates to the carrying amount
- Long-term borrowings – determined by calculating the discounted value of the future cash flows (redemption and interest) using appropriate discount rates, based on observable market data, in effect at the balance sheet date at Level 2 of the fair value hierarchy. Fair value approximates to the carrying amount in the case of short-term commercial paper.
- Finance lease liabilities – approximates to the carrying amount.

## Notes to the Financial Statements (continued)

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

#### Fair values (continued)

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

	2013 Carrying value £m	2013 Fair value £m	2012 Carrying value £m	2012 Fair value £m
Cash and cash equivalents	100.4	100.4	78.8	78.8
Long-term investments	209.2	209.2	-	-
Short-term investments	3,583.8	3,583.8	2,582.9	2,582.9
Trade and other debtors	762.2	762.2	687.7	687.7
Derivative financial instruments	-	-	0.8	0.8
<b>Total financial assets</b>	<b>4,655.6</b>	<b>4,655.6</b>	<b>3,350.2</b>	<b>3,350.2</b>
Trade and other creditors	1,646.9	1,646.9	2,001.4	2,001.4
Borrowings	7,531.6	8,527.4	7,122.9	7,490.4
Finance lease liabilities	890.7	890.7	1,027.5	1,027.5
Derivative financial instruments	116.3	116.3	82.0	82.0
<b>Total financial liabilities</b>	<b>10,185.5</b>	<b>11,181.3</b>	<b>10,233.8</b>	<b>10,601.3</b>
<b>Net financial liabilities</b>	<b>(5,529.9)</b>	<b>(6,525.7)</b>	<b>(6,883.6)</b>	<b>(7,251.1)</b>



## Notes to the Financial Statements (continued)

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

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

	2013 Carrying value £m	2013 Fair value £m	2012 Carrying value £m	2012 Fair value £m
Cash and cash equivalents	6.5	6.5	7.5	7.5
Long-term investments	209.2	209.2	-	-
Short-term investments	3,583.8	3,583.8	2,574.3	2,574.3
Trade and other debtors	7,532.0	7,532.0	6,639.2	6,639.2
<b>Total financial assets</b>	<b>11,331.5</b>	<b>11,331.5</b>	<b>9,221.0</b>	<b>9,221.0</b>
Trade and other creditors	610.6	610.6	635.2	635.2
Borrowings	7,548.2	8,527.4	7,130.6	7,490.4
Finance lease liabilities	191.9	191.9	194.9	194.9
<b>Total financial liabilities</b>	<b>8,350.7</b>	<b>9,329.9</b>	<b>7,960.7</b>	<b>8,320.5</b>
<b>Net financial assets</b>	<b>2,980.8</b>	<b>2,001.6</b>	<b>1,260.3</b>	<b>900.5</b>

## Notes to the Financial Statements (continued)

### 29. Pensions

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

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

		<b>Group 2013 £m</b>	Group 2012 £m	<b>Corporation 2013 £m</b>	Corporation 2012 £m
	Note				
TfL Pension Fund		<b>226.3</b>	174.0	-	-
Local Government Pension Scheme		<b>0.1</b>	1.3	<b>0.1</b>	1.3
Unfunded schemes provision		<b>3.1</b>	5.9	<b>2.4</b>	2.6
<b>Schemes accounted for as defined benefit</b>		<b>229.5</b>	181.2	<b>2.5</b>	3.9
TfL Pension Fund		-	-	<b>51.5</b>	36.8
Principal Civil Service Pension Scheme		<b>0.7</b>	0.8	<b>0.6</b>	0.7
Other schemes		<b>10.6</b>	15.8	<b>0.3</b>	1.2
<b>Amount included in net cost of services</b>	<b>3</b>	<b>240.8</b>	197.8	<b>54.9</b>	42.6

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

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### b) Defined benefit schemes

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

##### TfL Pension Fund

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

Every three years, the TfL Pension Fund's actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure the long-term solvency of the Fund. The latest valuation of the Fund was carried out as at 31 March 2012 by the Actuary, a partner of consulting actuaries Towers Watson, using the projected unit method. A revised Schedule of Contributions was agreed between the Trustee and the employers following the formal funding valuation of the TfL Pension Fund.

For the Public Sector Section, employer's contributions for the period from 1 April 2012 until 31 May 2021 will continue to be 31.0 per cent, with additional lump sum payments due in 2018 and 2019. The recovery plan states that the expectation is that the funding shortfall will be eliminated by 31 March 2019.

For the Tube Lines Section, employers' contributions from 1 April 2013 will increase from 20.95 per cent to 23.15 per cent, with additional lump sum contributions of £1.02m per month from 1 April 2012 until 31 October 2015 (adjusted annually for inflation each 1 April). The recovery plan states that the expectation is that the funding shortfall will be eliminated by 31 October 2015.

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

A separate valuation of the Public Sector and Tube Lines sections of the TfL Pension Fund has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2013. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, whilst the present value of the schemes' defined benefit obligation is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The defined benefit obligation for the TfL Pension Fund has been calculated using the mortality assumptions adopted for the latest funding valuation as at 31 March 2012. 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 based on the CMI 2011 projections with a long term improvement rate of 1.0 per cent per annum.

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

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

##### Local Government Pension Scheme

The Local Government Pension Scheme is a funded multi-employer defined benefit scheme. The Corporation is able to identify its share of the assets and defined benefit obligation of the scheme and this scheme has therefore been accounted for as a defined benefit scheme under IAS 19. Employer's contributions were payable at the rate of 15.8 per cent (2011/12 15.8 per cent) of pensionable pay. The Corporation's share of the underlying assets and defined benefit obligation resulted in a deficit of £35.6m (2011/12 £36.7m). The last full actuarial valuation was carried out at 31 March 2010. The annual report and financial statements for the whole scheme can be found on the London Pensions Fund Authority website ([www.lpfa.org.uk](http://www.lpfa.org.uk)).

##### Unfunded pension costs

Until 31 March 2012 the Group bore the cost of the augmentation of the pensions of certain employees, who retire early under voluntary severance arrangements.

In addition, the Group also bore the cost of:

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

On 1 April 2012, the obligations of subsidiary companies in respect of these costs were transferred to the Corporation. Punter Southall, consulting actuaries, were instructed to report on the financial position of the unfunded pension defined benefit obligation as at 31 March 2013 for the purpose of IAS 19 only. The report does not constitute a formal actuarial valuation of the unfunded pension defined benefit obligation. The valuation as at 31 March 2013 was £67.8m (2012 £63.4m), and is fully provided for in these financial statements.

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

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

##### Assumptions for defined benefit sections

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

	<b>IAS 19 valuation at 31 March 2013 %</b>	IAS 19 valuation at 31 March 2012 %
RPI Inflation	<b>3.35-3.40</b>	2.95-3.30
CPI Inflation	<b>2.60</b>	2.50
Rate of increase in salaries	<b>3.85-4.30</b>	3.70-4.20
Rate of increase in pensions in payment and deferred pensions	<b>2.60-3.35</b>	2.50-3.10
Discount rate	<b>3.75-4.60</b>	4.45-4.75
Investment return	<b>n/a*</b>	5.9

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### c) Accounting

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

	Expected return % pa	2013 Value at 31 March £m	Expected return % pa	2012 Value at 31 March £m
Equities and alternatives	n/a*	4,751.6	6.3	4,058.4
Bonds	n/a*	2,026.2	3.8	1,869.1
Cash and other	n/a*	7.4	2.8	29.7
<b>Total fair value of assets</b>		<b>6,785.2</b>		<b>5,957.2</b>

\* From 1 January 2013 changes to IAS 19 mean that the expected return on assets will be set equal to the discount rate. These assumptions are therefore not required at 31 March 2013.

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

	31 March 2013 %	31 March 2012 %
Equities	70	68
Bonds	30	32
	<b>100</b>	<b>100</b>

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

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

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

Group	2013 £m	2012 £m
Fair value of scheme assets	6,785.2	5,957.2
Actuarial valuation of defined benefit obligation	(9,598.4)	(8,249.9)
<b>Deficit recognised as a liability in the balance sheet</b>	<b>(2,813.2)</b>	<b>(2,292.7)</b>

Group	2013 £m	2012 £m
TfL Pension Fund – Public Sector section	(2,629.6)	(2,134.3)
TfL Pension Fund – Tube Lines section	(80.2)	(58.3)
Local Government Pension Scheme	(35.6)	(36.7)
Unfunded schemes provision	(67.8)	(63.4)
<b>Deficit recognised as a liability in the balance sheet</b>	<b>(2,813.2)</b>	<b>(2,292.7)</b>

Corporation	2013 £m	2012 £m
Fair value of scheme assets	35.0	25.5
Actuarial valuation of defined benefit obligation	(138.4)	(94.9)
<b>Deficit recognised as a liability in the balance sheet</b>	<b>(103.4)</b>	<b>(69.4)</b>

Corporation	2013 £m	2012 £m
Local Government Pension Scheme	(35.6)	(36.7)
Unfunded schemes provision	(67.8)	(32.7)
<b>Deficit recognised as a liability in the balance sheet</b>	<b>(103.4)</b>	<b>(69.4)</b>

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

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

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

	<b>Group 2013 £m</b>	Group 2012 £m	<b>Corporation 2013 £m</b>	Corporation 2012 £m
Current service cost	<b>227.9</b>	187.3	<b>1.6</b>	1.3
Past service cost	<b>1.6</b>	5.9	<b>0.9</b>	2.6
Curtailement and settlements	<b>-</b>	(12.0)	<b>-</b>	-
	<b>229.5</b>	181.2	<b>2.5</b>	3.9

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

	<b>Group 2013 £m</b>	Group 2012 £m	<b>Corporation 2013 £m</b>	Corporation 2012 £m
Interest on schemes' defined benefit obligations	<b>390.9</b>	409.2	<b>4.3</b>	4.4
Expected return on Schemes' assets	<b>(342.9)</b>	(406.5)	<b>(1.5)</b>	(1.7)
	<b>48.0</b>	2.7	<b>2.8</b>	2.7

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

	<b>Group 2013 £m</b>	Group 2012 £m	<b>Corporation 2013 £m</b>	Corporation 2012 £m
Actuarial loss recognised in the year	<b>517.7</b>	755.2	<b>0.1</b>	12.7
Cumulative loss recognised at the end of the year	<b>2,429.4</b>	1,911.7	<b>44.3</b>	44.2

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

	<b>Group 2013 £m</b>	Group 2012 £m	<b>Corporation 2013 £m</b>	Corporation 2012 £m
Wholly unfunded schemes	<b>67.8</b>	63.4	<b>67.8</b>	32.7
Wholly or partly funded schemes	<b>9,530.6</b>	8,186.5	<b>70.6</b>	62.2
<b>Total scheme defined benefit obligation</b>	<b>9,598.4</b>	8,249.9	<b>138.4</b>	94.9



## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### Reconciliation of defined benefit obligation

	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
Actuarial value of defined benefit obligation at start of year	8,249.9	7,230.4	94.9	78.2
Defined benefit obligation acquired in the year	4.9	-	37.9	-
Current service cost	227.9	187.3	1.6	1.3
Interest cost	390.9	409.2	4.3	4.4
Employee contributions	42.5	41.3	0.5	0.5
Actuarial loss on liabilities	975.4	663.3	2.3	11.3
Actual benefit payments	(294.7)	(275.5)	(4.0)	(3.4)
Past service cost	1.6	5.9	0.9	2.6
Settlements and curtailments	-	(12.0)	-	-
<b>Actuarial value of defined benefit obligation at end of year</b>	<b>9,598.4</b>	<b>8,249.9</b>	<b>138.4</b>	<b>94.9</b>

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

	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
Fair value of assets at start of year	5,957.2	5,610.3	25.5	23.8
Assets acquired in the year	5.0	-	5.0	-
Expected return on assets net of expenses	342.9	406.5	1.5	1.7
Actuarial gain/(loss)	457.7	(91.9)	2.2	(1.4)
Actual employer contributions	270.5	262.7	2.1	2.1
Employee contributions	42.5	41.3	0.5	0.5
Actual benefits paid	(290.6)	(271.7)	(1.8)	(1.2)
	<b>6,785.2</b>	<b>5,957.2</b>	<b>35.0</b>	<b>25.5</b>

The expected return on scheme assets for the year ending 31 March 2013 was determined by considering the expected returns available on the assets underlying the current investment policy. Expected returns on equity investments reflected long term real rates of return experienced in the respective markets. From 1 January 2013 changes to IAS 19 mean that expected return on assets for future years will be set equal to the discount rate.

The actual return on scheme assets in the year was £800.7m (2011/12 £314.7m).

Total contributions of £277.6m are expected to be made to the schemes in the year ending 31 March 2014.

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### History of experience gains and losses

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

The Schemes	Group only				
	2013	2012	2011	2010	2009
<b>Difference between the expected and actual return on assets gain/(loss)</b>					
Amount (£m)	<b>457.7</b>	(91.9)	106.8	852.3	(1,162.0)
Percentage of scheme assets	<b>6.7%</b>	1.5%	1.9%	17.3%	30.9%
<b>Differences between actuarial assumptions about defined benefit obligation and actual experience (loss)/gain</b>					
Amount (£m)	<b>(205.7)</b>	42.0	83.4	380.0	(71.7)
Percentage of the present value of the scheme defined benefit obligation	<b>2.1%</b>	0.5%	1.2%	5.3%	1.4%
<b>Changes in the demographic and financial assumptions used to estimate defined benefit obligation (loss)/gain</b>					
Amount (£m)	<b>(769.7)</b>	(705.3)	457.7	(2,234.2)	703.2
Percentage of the present value of the scheme defined benefit obligation	<b>8.0%</b>	8.5%	6.3%	31.4%	14.2%
<b>Deficit at year end</b>					
Fair value of assets at year end	<b>6,785.2</b>	5,957.2	5,610.3	4,914.4	3,757.2
Actuarial value of defined benefit obligation at year end	<b>(9,598.4)</b>	(8,249.9)	(7,230.4)	(7,108.1)	(4,944.7)
<b>Deficit at year end</b>	<b>(2,813.2)</b>	(2,292.7)	(1,620.1)	(2,193.7)	(1,187.5)

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### d) Other pension arrangements

##### Principal Civil Service Pension Scheme

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

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

##### Railways Pension Scheme

Crossrail Limited (CRL) contributes to the Omnibus Section of the Railways Pension Scheme (RPS). The RPS is a defined benefit arrangement for rail industry employees. The Omnibus Section is made up of 52 participating employers, each (apart from CRL) having fewer than 51 active members in the scheme.

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

The last actuarial valuation of the Omnibus Section of the scheme was carried out at 31 December 2010. The actuarial report showed that there was a deficit of £3.9m for the total Omnibus Section.

The findings of the 2010 valuation report were translated into the current contribution level of 30%, effective from 1 July 2012. The pension charge for the year was £4.5 million (2011/12 £3.2 million).

##### Defined contribution schemes

The Group contributes to a number of defined contribution schemes, with contributions amounting to £10.6m (2011/12 £15.8m). The Tube Lines defined contribution scheme is one such scheme with contributions amounting to £4.3m (2011/12 £3.4m).

## Notes to the Financial Statements (continued)

### 30. Cash flow notes

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

	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
Depreciation of property, plant and equipment and amortisation of intangibles	1,002.1	948.0	192.0	197.5
Impairment of goodwill and intangibles	-	106.3	-	-
(Gain)/loss on sale of property, plant and equipment	121.8	(2.5)	0.2	2.4
(Gain)/loss on sale of investment property	(35.9)	(0.3)	(2.8)	(0.3)
Movements in the value of investment properties	(131.5)	(21.4)	(3.5)	(9.4)
Financing income	(361.5)	(420.0)	(224.0)	(250.4)
Financing expense	780.5	943.3	293.0	493.0
Capital grants received	(3,119.5)	(3,115.3)	(3,107.5)	(3,019.7)
Capital grants paid to subsidiaries	-	-	976.6	1,445.0
Reversal of defined benefit pension service costs	229.5	181.2	2.5	3.9
Reversal of taxation credit	(0.2)	(1.5)	-	-
<b>Cash flow from operating activities before movements in working capital</b>	<b>(1,514.7)</b>	<b>(1,382.2)</b>	<b>(1,873.5)</b>	<b>(1,138.0)</b>
Increase/(decrease) in creditors	25.8	(2.9)	17.5	(10.8)
Decrease/(increase) in debtors	1.0	(138.8)	(269.6)	(48.7)
(Increase)/decrease in inventories	(4.4)	(2.0)	(0.9)	0.3
Decrease in provisions	(11.7)	(71.5)	(2.1)	(7.3)
<b>Cash flow utilised by operations</b>	<b>(1,504.0)</b>	<b>(1,597.4)</b>	<b>(2,128.6)</b>	<b>(1,204.5)</b>
Cash payments for employers' contributions to defined benefit pension funds and direct payments to pensioners	(274.6)	(266.5)	28.5	(4.3)
Taxation refund received	0.2	16.0	-	-
<b>Net cash utilised by operating activities</b>	<b>(1,778.4)</b>	<b>(1,847.9)</b>	<b>(2,100.1)</b>	<b>(1,208.8)</b>

## Notes to the Financial Statements (continued)

### 30. Cash flow notes (continued)

#### b. Investing activities

	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
Interest received	17.9	13.8	221.7	249.0
Capital grants received	3,154.9	3,328.4	3,132.6	3,239.4
Capital grants paid to subsidiaries	-	-	(976.6)	(1,445.0)
Purchase of property, plant and equipment and investment property	(2,996.8)	(2,690.8)	(170.2)	(292.8)
Purchase of intangible assets	(39.7)	(33.8)	(9.7)	(1.8)
Proceeds from the sale of property, plant and equipment and intangible assets	2.8	34.6	0.6	-
Net purchases of other investments	(1,209.8)	(570.1)	(1,218.4)	(595.3)
Interim financing advanced to third parties for the Crossrail project	(89.8)	(160.0)	-	-
Issue of loans to subsidiaries (net of repayments)	-	-	(643.1)	(1,214.1)
Proceeds from sale of investment property	19.4	48.6	1.7	40.2
Payments to acquire subsidiaries/ investments in subsidiaries	(1.5)	(184.3)	(1,210.0)	(650.0)
Cash acquired with subsidiaries	-	32.6	-	-
<b>Net cash flows from investing activities</b>	<b>(1,142.6)</b>	<b>(181.0)</b>	<b>(871.4)</b>	<b>(670.4)</b>

#### c. Financing activities

	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
(Repayments)/drawdowns of loans from subsidiaries	-	-	-	(1,527.3)
Cash payments for reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI arrangements	(136.8)	(158.1)	(3.0)	(16.2)
Proceeds from new borrowing	428.5	1,921.8	438.9	2,315.4
Repayments of borrowings	(21.3)	(1,483.1)	(21.3)	-
Premiums paid on early repayment of borrowings and finance lease liabilities	(23.0)	(216.5)	-	(216.5)
Cash paid on settlement of derivatives	(81.9)	(96.3)	-	-
Interest paid	(328.3)	(190.2)	(258.1)	(177.0)
<b>Net cash flows from financing activities</b>	<b>(162.8)</b>	<b>(222.4)</b>	<b>156.5</b>	<b>378.4</b>

## Notes to the Financial Statements (continued)

### 31. Unusable reserves

	2013 £m	2012 £m
<b>Group</b>		
Capital adjustment account	16,047.2	14,638.0
Pension reserve	(2,733.0)	(2,203.7)
Accumulated absences reserve	(5.8)	(5.0)
Retained earnings reserve in subsidiaries	1,308.2	1,087.3
Revaluation reserve	70.7	51.1
Hedging reserve	(229.3)	(117.1)
Available for sale reserve	0.3	-
Financial instruments adjustment account	(205.7)	(216.5)
Merger reserve	466.1	466.1
<b>At 31 March</b>	<b>14,718.7</b>	<b>13,700.2</b>
	2013 £m	2012 £m
<b>Corporation</b>		
Capital adjustment account	4,814.7	3,455.5
Pension reserve	(103.4)	(69.4)
Accumulated absences reserve	(5.8)	(5.0)
Available for sale reserve	0.3	-
Financial instruments adjustment account	(205.7)	(216.5)
<b>At 31 March</b>	<b>4,500.1</b>	<b>3,164.6</b>

## Notes to the Financial Statements (continued)

### 31. Unusable reserves (continued)

#### Capital adjustment account

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

	Note	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
Balance at 1 April		14,638.0	12,435.4	3,455.5	2,269.7
Charges for depreciation and impairment of non current assets	11, 12	(192.0)	(197.5)	(192.0)	(197.5)
Gain/(loss) on sale of investment property	7	2.8	0.3	2.8	0.3
Movements in the market value of investment properties	7	3.5	9.4	3.5	9.4
Capital grants and contributions	9	2,533.7	2,916.6	1,545.1	1,376.0
Profit or loss on disposal of non current assets	6	(0.2)	(2.4)	(0.2)	(2.4)
Adjustments between Group and Corporation financial statements	*	(938.6)	(523.8)	-	-
<b>Balance at 31 March</b>		<b>16,047.2</b>	<b>14,638.0</b>	<b>4,814.7</b>	<b>3,455.5</b>

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

## Notes to the Financial Statements (continued)

### 31. Unusable reserves (continued)

#### Pension reserve

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

	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
Balance at 1 April	(2,203.7)	(1,547.0)	(69.4)	(54.4)
Actuarial gains and losses on pension assets and defined benefit obligations	(482.8)	(731.1)	-	(12.7)
Reversal of charges relating to retirement benefits	(298.0)	(262.8)	(38.5)	(6.6)
Employer's pension contributions and direct payments to pensioners payable in the year	251.5	337.2	4.5	4.3
<b>Balance at 31 March</b>	<b>(2,733.0)</b>	<b>(2,203.7)</b>	<b>(103.4)</b>	<b>(69.4)</b>



## Notes to the Financial Statements (continued)

### 31. Unusable reserves (continued)

#### Accumulated absences reserve

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

	<b>Group 2013 £m</b>	Group 2012 £m	<b>Corporation 2013 £m</b>	Corporation 2012 £m
Balance at 1 April	(5.0)	(4.5)	(5.0)	(4.5)
Settlement or cancellation of accrual made at the end of the preceding year	5.0	4.5	5.0	4.5
Amounts accrued at the end of the current year	(5.8)	(5.0)	(5.8)	(5.0)
<b>Balance at 31 March</b>	<b>(5.8)</b>	<b>(5.0)</b>	<b>(5.8)</b>	<b>(5.0)</b>

#### Retained earnings reserve in subsidiaries

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

	<b>Group 2013 £m</b>	Group 2012 £m
Balance at 1 April	1,087.3	1,437.1
Profit/(loss) for the year	253.9	(327.2)
Actuarial (loss)/gain	(34.8)	(24.1)
Release of revaluation reserve relating to the difference between historic cost of disposal and fair value cost of disposal	1.8	1.5
<b>Balance at 31 March</b>	<b>1,308.2</b>	<b>1,087.3</b>

## Notes to the Financial Statements (continued)

### 31. Unusable reserves (continued)

#### Revaluation reserve

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

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

	Note	Group 2013 £m	Group 2012 £m
Balance at 1 April		51.1	47.7
Revaluation of assets	12	21.4	4.9
Release of revaluation reserve relating to the difference between fair value depreciation and historic cost depreciation		(1.8)	(1.5)
<b>Balance at 31 March</b>		<b>70.7</b>	<b>51.1</b>

#### Hedging reserve

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

	Group 2013 £m	Group 2012 £m
Balance at 1 April	(117.1)	4.4
Net change in fair value of cash flow interest rate hedges	(117.5)	(121.0)
Net change in fair value of cash flow foreign exchange hedges	0.5	(0.5)
Recycling of interest rate fair value losses to profit and loss	4.8	-
<b>Balance at 31 March</b>	<b>(229.3)</b>	<b>(117.1)</b>

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

## Notes to the Financial Statements (continued)

### 31. Unusable reserves (continued)

#### Available for sale reserve

The available-for-sale reserve holds the unrealised gain or loss arising from a change in the fair value of available for sale long term investments. When an available for sale financial asset is derecognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the available for sale reserve and recognised in the Surplus or Deficit on the Provision of Services.

	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
Balance at 1 April	-	-	-	-
Movement in the fair value of available for sale financial investments	0.3	-	0.3	-
<b>Balance at 31 March</b>	<b>0.3</b>	-	<b>0.3</b>	-

#### Financial instruments adjustment account

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

	Group 2013 £m	Group 2012 £m	Corporation 2013 £m	Corporation 2012 £m
Balance at 1 April	(216.5)	-	(216.5)	-
Transfers arising from debt restructuring during the year	-	(216.5)	-	(216.5)
Release of premium	10.8	-	10.8	-
<b>Balance at 31 March</b>	<b>(205.7)</b>	(216.5)	<b>(205.7)</b>	(216.5)

## Notes to the Financial Statements (continued)

### 31. Unusable reserves (continued)

#### Merger reserve

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

	<b>Group 2013 £m</b>	Group 2012 £m	<b>Corporation 2013 £m</b>	Corporation 2012 £m
Balance at 1 April and 31 March	<b>466.1</b>	466.1	-	-

Draft

## Notes to the Financial Statements (continued)

### 32. Business rate supplement

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

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

In the year to 31 March 2013, TfL recognised £120.0m (2012 £168.0m) of BRS income in its Income and Expenditure Statement (see note 9). Receipts in the year totalled £121.6m (2012 £166.4m), and £nil (2012 £1.6m) was held as a debtor on the Corporation and Group's balance sheets.

	<b>Corporation 2013 £m</b>	Corporation 2012 £m
Opening Balance on BRS Account	-	-
Transfer to Capital Adjustment Account in respect of BRS capital expenditure	<b>(120.0)</b>	(168.0)
Transfer from General Fund to clear BRS account deficit	<b>120.0</b>	168.0
<b>Closing Balance on BRS Account</b>	-	-

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

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

## Notes to the Financial Statements (continued)

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

Corporation 2013

	Note	General fund £m	Capital adjustment account £m	Pension reserve £m	Street works reserve £m	Financial instruments adjustment account £m	Accumulated absences reserve £m
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>							
Charges for depreciation, amortisation and impairment of non current assets	3	192.0	(192.0)	-	-	-	-
Movements in the market value of investment properties	7	(3.5)	3.5	-	-	-	-
Gain on sale of investment property	7	(2.8)	2.8	-	-	-	-
Capital grants and contributions	9	(1,545.1)	1,545.1	-	-	-	-
Unapplied capital grants	9	(585.8)	-	-	-	-	-
Loss on disposal of non current assets	6	0.2	(0.2)	-	-	-	-
Reversal of items relating to retirement benefits		38.4	-	(38.4)	-	-	-
Transfers to/from street works reserve		(0.8)	-	-	0.8	-	-
Amortisation of premium on refinancing		(10.8)	-	-	-	10.8	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		0.8	-	-	-	-	(0.8)
<b>Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement which are required to be charged in accordance with statutory requirements</b>							
Employers pension contributions and direct payments to pensioners payable in the year		(4.5)	-	4.5	-	-	-
		(1,921.9)	1,359.2	(33.9)	0.8	10.8	(0.8)

## Notes to the Financial Statements (continued)

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

Corporation 2012

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

## Notes to the Financial Statements (continued)

### 34. Sources of finance

#### Capital expenditure analysed by source of finance:

	Note	Corporation 2013 £m	Corporation 2012 £m
<b>Capital expenditure</b>			
Intangible asset additions	11	9.8	1.8
Property, plant and equipment additions	12	137.1	223.5
Investment property	13	-	0.8
Investments in year	14	1,210.0	650.0
Loans made to subsidiaries in year for capital purposes		643.1	1,208.1
Capital grants allocated to subsidiaries in year	9	976.6	1,445.0
<b>Total capital expenditure</b>		<b>2,976.6</b>	<b>3,529.2</b>
<b>Sources of finance</b>			
Transport grants used to fund capital	9	1,045.5	1,620.0
Business rates supplement	9	120.0	168.0
Crossrail specific grant	9	1,904.0	1,217.0
Less amounts transferred to Capital Grants Unapplied Account	9	(585.8)	(198.7)
Prudential borrowing		421.0	794.3
Third party contributions	9	38.0	14.7
Capital receipts		14.7	-
Net repayment of finance leases		(3.0)	(7.4)
Working capital		22.2	(78.7)
<b>Total sources of finance</b>		<b>2,976.6</b>	<b>3,529.2</b>



### 35. Minimum revenue provision

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

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

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

TfL has therefore adopted the following policy:

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

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

Draft

## Notes to the Financial Statements (continued)

### 36. Financial assistance

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

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

		Corporation 2013 £m	Corporation 2012 £m
<b>Financial assistance to subsidiaries</b>			
Transport Trading Limited		68.6	319.7
London Underground Limited		979.5	1,059.6
London Bus Services Limited		513.5	568.0
Docklands Light Railway Limited		94.0	480.0
Rail for London Limited		107.8	169.1
London River Services Limited		1.1	4.5
Tramtrack Croydon Limited		16.7	12.5
London Transport Museum Limited		6.0	5.8
Crossrail Limited		265.7	448.7
Transport for London Finance Limited		1,172.8	325.0
City Airport Rail Enterprises Limited		-	26.5
Woolwich Arsenal Rail Enterprises Limited		-	49.5
Tube Lines (Finance) plc		4.3	-
		<b>3,230.0</b>	<b>3,468.9</b>
	Note	Corporation 2013 £m	Corporation 2012 £m
<b>Financial assistance to London Boroughs and other third parties</b>			
Local Implementation Plan		125.9	139.5
Taxicard		9.6	10.8
Safety schemes		3.4	4.0
Cycle network		4.6	6.8
Other		3.7	4.6
	3	<b>147.2</b>	<b>165.7</b>

## Notes to the Financial Statements (continued)

### 37. Related parties

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

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

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

#### GLA and functional bodies

Details of the funding granted to TfL by the GLA from the Business Rates Supplement levied by the GLA are included in note 32. In addition, the GLA made grants to TfL in respect of the Crossrail project amounting to £699m. This amount is included in note 9 as part of "Ring-fenced grant to fund capital expenditure relating to Crossrail". The Council Tax precept paid to TfL by the GLA is also shown in note 9.

During 2012/13 TfL had the following other transactions with the GLA and functional bodies.

	Total income during the year £m	Total expenditure during the year £m	Outstanding balance at 31 March 2013 £m
Greater London Authority (GLA)	3.3	1.3	1.2
London Fire and Emergency Planning Authority (LFEPA)	0.2	-	0.1

## Notes to the Financial Statements (continued)

### 37. Related parties (continued)

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

Board Members, Chief Officers, the Commissioner and the Mayor of London are required to complete a declaration regarding any related party transactions. During the year, none of the Corporation Board, key management personnel or parties related to them have undertaken any material transactions with the Corporation or its subsidiaries (2011/12 none).

#### **TfL Pension Fund**

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

#### **Central Government**

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

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

#### **Other public bodies**

TfL provides financial assistance to London Boroughs to support borough schemes that improve the local travelling environment. Financial assistance provided is disclosed in note 36.

TfL receives income from the London Boroughs for the provision of free travel for the elderly, disabled, and students. This income is set out in note 1.

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

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

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

TfL has received funding from the Olympic Delivery Authority in respect of transport projects to support the 2012 Games.

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

## Notes to the Financial Statements (continued)

### 38. Trust Funds

The Corporation acts as the sole trustee for the TfL Healthcare Trust, a trust established in 2012 for the sole purpose of providing certain benefits relating to medical treatment for eligible employees of the Group and their family members. The Trust is administered by AXA PPP Healthcare Administration Services Limited, an independent third party. Under the terms of the Trust deed the funds held by the Trust do not represent the assets of the Corporation or its subsidiaries. Hence the Trust has not been consolidated into these financial statements.

---

	Income £m	Expenditure £m	Assets £m	Liabilities £m
<b>At 31 March 2013</b>				
TfL Healthcare Trust	<b>3.7</b>	<b>(3.2)</b>	<b>0.5</b>	<b>-</b>
<b>At 31 March 2012</b>				
TfL Healthcare Trust	-	-	-	-

---

### 39. Events after the balance sheet date

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