

Date: 6 June 2022

Item: **Review of Governance and the Annual Governance Statement for Year Ended 31 March 2022**

This paper will be considered in public

1 Summary

- 1.1 This paper provides a review of compliance with the TfL Code of Governance in 2021/22 and asks the Committee to approve the Annual Governance Statement, as set out in Appendix 1, to be signed by the Chair of TfL and the Commissioner for inclusion in the 2021/22 Annual Report and Accounts. The paper also reports on progress against the 2021/22 improvement plan (Appendix 2) and the improvement plan for 2022/23.

2 Recommendations

- 2.1 **The Committee is asked to note the paper and:**
- (a) approve the Annual Governance Statement, as set out in Appendix 1 of this paper, for signing by the Chair of TfL and the Commissioner, for inclusion in the 2021/22 Annual Report and Accounts; and**
 - (b) note the progress against the 2021/22 improvement plan, as set out in Appendix 2 and the plan for 2022/23, as set out in Appendix 3 of the paper.**

3 Background

- 3.1 The Accounts and Audit Regulations 2015 require that TfL's Statement of Accounts be accompanied by a Statement on Internal Control, prepared in accordance with proper practices. The Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) provides guidance on what should be included in an Annual Governance Statement.
- 3.2 The Committee monitors TfL's ongoing compliance with TfL's own Code of Governance, which is based on the updated CIPFA/SOLACE Governance Framework and was approved by the Board in March 2008.

4 The 2021/22 Review and the Annual Governance Statement

The 2021/22 Review

- 4.1 The annual review considers the degree of compliance with each undertaking in TfL's Code of Governance. The assessments for the degree of compliance with the Code of Governance's undertakings are consistently high.
- 4.2 The 2021/22 annual review concluded that TfL had a satisfactory level of compliance with the Code of Governance and highlighted the potential governance challenges involved in several anticipated changes.

The Annual Governance Statement

- 4.3 The Annual Governance Statement sets out the key elements of TfL's governance and how TfL complies with the core principles in the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. It draws on the Head of Internal Audit's opinion, which does not identify any significant governance issues but sets out areas for improvement in 2022/23, including the progress on addressing previous audit reports on procurement governance and controls.
- 4.4 The impact of measures to address the coronavirus pandemic on TfL since March 2020 required a review of TfL's operations and finances. In February 2022, the Commissioner stood up a new Executive Committee structure for TfL to best meet the coming challenges and opportunities. The new structure is designed to support TfL being an even more efficient organisation focussed on financial sustainability and on supporting London's recovery. The structure of the Executive Committee was simplified and will lead a single unified organisation with a centrally set strategic framework that further embeds our Vision and Values. Changes to the governance of the organisation below the Executive Committee continue to be worked through. A long-term funding settlement has yet to be agreed with Government and the outcome of the ongoing discussions may require further review and changes to governance processes.
- 4.5 The draft Annual Governance Statement is included as Appendix 1. Progress against the improvement plan for 2021/22 is set out in Appendix 2.
- 4.6 The improvement plan for 2022/23 is set out in Appendix 3 and rolls forward and updates measures from 2021/22. The plan will be reviewed when a long-term sustainable funding settlement is agreed.

List of appendices to this report:

Appendix 1: Annual Governance Statement

Appendix 2: Progress Against Improvement Plan 2021/22

Appendix 3: Improvement Plan 2022/23

List of Background Papers:

TfL Code of Governance

CIPFA Delivering Good Governance in Local Government: Framework 2016 Edition

CIPFA Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE)
Review of Annual Governance Statements 2016/17

CIPFA Developing An Effective Annual Governance Statement 2018

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Annual Governance Statement

The CIPFA/SOLACE Delivering Good Governance in Local Government Framework (the Framework) requires local authorities, which includes TfL, to publish an Annual Governance Statement, and to be responsible for ensuring that:

- its business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and properly accounted for; and
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

As a functional body of the Greater London Authority (GLA), TfL is a signatory to the GLA Group Corporate Governance Framework Agreement, which was updated in March 2022. The Agreement is an overarching commitment in relation to the culture and individual behaviours of the GLA Group and contains specific corporate governance commitments. The TfL Board agreed TfL has in place protocols and processes that address all the requirements of the Agreement.

TfL has approved and adopted a Code of Governance (the Code), which is consistent with the Framework and is published online at tfl.gov.uk. The statement explains how TfL complies with the Code and meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

TfL's governance framework has been in place since the year ended 31 March 2001 and remains in place at the date of approval of the 2021/22 Statement of Accounts. The key elements of the governance framework are set out below:

Key Elements of TfL's Governance Framework

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| Chair, Board, Committees and Panels | The Mayor appoints the Board and is the Chair. The Board provides leadership and determines and agrees TfL's strategic direction and oversees the performance of the Executive Committee to deliver the Mayor's Transport Strategy. The Budget, Business Plan and Capital Strategy set out how the Mayor's Transport Strategy will be delivered and are supported by TfL's Group and individual business area Scorecards. The Board's effectiveness is reviewed annually. |
| Decision Making | Standing Orders set out TfL's decision-making process and are regularly reviewed. The roles of Members and the executive are clearly defined. The Board, its Committees and Panels meet in public and all decisions taken are published. The approval of Financial, Programme and Project, Procurement and Land Authority by the Commissioner and Chief Finance Officer is also reported to Committees along with any Mayoral Directions to TfL. |

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| Audit and Assurance Committee | The Committee reviews the effectiveness of the system of internal controls, including the integrated assurance framework and considers fraud and risk management issues. It also reviews the Annual Accounts prior to submission to the Board and TfL's compliance with the UK Corporate Governance Code (where applicable). The Risk and Assurance directorate and External Auditors support the work of the Committee. |
| Risk Management | TfL has an Enterprise Risk management system that sets out TfL's strategic risks, supported by local risk registers throughout TfL, which are monitored by the appropriate senior manager. The Audit and Assurance Committee oversees the implementation of the risk management system, with individual Committees and Panels reviewing each Enterprise Risk within their remit at least annually. The Executive Committee also regularly reviews all the Enterprise Risks. |
| Scrutiny and review | The Board, Committees and Panels each receive regular quarterly reports on TfL's performance. These reports cover: performance against the Scorecard; financial performance; customer and operational performance; safety, health and environment; and human resources. The Audit and Assurance Committee reviews TfL's overall audit and assurance arrangements. |
| The Commissioner and the Executive Committee | The Commissioner and Executive Committee are responsible for the delivery of day to day operations. The statutory Chief Finance Officer (TfL's appointed officer under s127 of the Greater London Authority Act 1999) is responsible for safeguarding TfL's financial position. Generally ¹ , the postholder reports directly to TfL's managing Chief Finance Officer and, while not on the Executive Committee, plays an active part in TfL strategic decision-making through involvement in all key decisions with a significant financial implication and has management responsibility to produce the Business Plan and statutory accounts. The General Counsel, along with the Commissioner, is responsible for ensuring compliance with the law and promoting good corporate governance and high standards of public conduct. The Director of Risk and Assurance annually comments on the effectiveness of the Code. |

¹ From April 2022 interim arrangements are in place until the appointment of a new managing Chief Finance Officer.

Applying the Framework Principles

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law: TfL's Code of Conduct for Members and staff reinforces a public service ethos and high standards of behaviour. It is supported by more detailed guidance, including a Modern Slavery Statement, TfL's Whistleblowing Procedures and guidance on conflicts of interest. The General Counsel and Commissioner have specific responsibilities to ensure that TfL's decisions meet legal requirements. Inductions for new senior staff and the four new Members of the Board appointed in 2021/22 explicitly covered the importance of behaviours and ethical values. Declarations of interests for Members and the most senior staff are published on [tfl.gov.uk](https://www.tfl.gov.uk) and declared at meetings.

Principle B: Ensuring openness and comprehensive stakeholder engagement: TfL has a transparency strategy and publishes a substantial amount of information. It engages with stakeholders and partners through consultation and its work with London Councils and individual boroughs. It cooperates with appropriate organisations to ensure there is independent scrutiny of its financial and operational reporting processes. Board, Committee and Panel meetings are held in public and are now routinely webcast contemporaneously on TfL's YouTube channel to further enhance transparency in decision-making. TfL has an active social media presence including Facebook, Twitter and YouTube.

Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits. TfL's meets this objective through its delivery of the Mayor's Transport Strategy, supported by its Vision and Values, Business Plan and the annual Scorecard process. The Business Plan and Scorecard measures flow through to team and individual staff objectives. The quarterly reports to the Board, Committees and Panels, as well as papers seeking authority for projects, provide commentary on how they support the objective of delivering the Mayor's Transport Strategy.

In September 2021, following a bottom-up staff engagement process, the Commissioner launched TfL's Vision and Values. This defined TfL's purpose as "To move London forward safely, inclusively and sustainability" and its vision as "We'll be a strong, green heartbeat for London". TfL established five roadmaps to deliver the Vision and Values and these will be reviewed annually. They will guide planning and decision-making, provide direction while maintaining flexibility for different areas of the business to develop their own plans to contribute and support frequent, open reporting on how we are doing. The roadmaps cover:

- Colleagues – be a great place to work for everyone to thrive;
- Customers – give customers more reasons to choose sustainable travel;
- Finance – rebuild our finances, be more efficient and secure our future;
- Green – reduce emissions in London and protect and improve our environment: and
- Our foundation – operational and project delivery.

Principle D: Determining the intervention necessary to achieve intended outcomes. The Quarterly Performance Report and other key quarterly reports submitted to Committees and Panels track TfL's activities in terms of key performance indicators and delivery of the Mayor's Transport Strategy. These also highlight remedial actions taken where slippage occurs. TfL's intervention in the governance of the Crossrail project in 2020, enabled the Elizabeth Line Delivery Group and Elizabeth Line Committee to drive the project forward, with the line opening on 24 May 2022. TfL has also recognised the need to enhance the governance and controls around its property programme to drive forward schemes that will deliver affordable housing for the Mayor and revenue for TfL. A Land and Property Committee has been established to oversee the operation and delivery of TfL's property programme through TfL's subsidiary entity, TTL Properties Limited. The enhanced governance for the entity is being finalised and will be reviewed and overseen by the new Committee.

Principle E: Developing TfL's capacity, including the capability of its leadership and individuals within it: The structure of the Executive Committee and the roles and responsibilities of its Members were refreshed in February 2022 and revised governance arrangements below this level are being reviewed and implemented. TfL undertakes a wide range of Human Resources activities to develop the capacity of its people. Regular reports are submitted to the Safety, Sustainability and Human Resources Panel and the Remuneration Committee on this and key initiatives including the leadership programme, succession planning and TfL's graduate and apprenticeship programmes. During the year, the Remuneration Committee reviewed and supported changes to TfL's approach to talent and performance management. The new Vision and Values are also intended to develop capacity (see Principle C above). Members are developed through induction, briefings and site visits. Four new Members were appointed and inducted during the year.

Principle F: Managing risks and performance through strong internal control and financial management. TfL's Enterprise Risk management system sets out TfL's main strategic risks and mitigations, with more detailed risk registers held throughout TfL and reflected in individual staff objectives. TfL reviewed all Level 0 Enterprise and Level 1 Strategic Risks as a result of the changes brought on by the coronavirus pandemic and each of these has been reviewed by the Executive Committee and the relevant Board Committee or Panel throughout the year, with the exception of Financial Sustainability (ER7), as this risk has been the subject of ongoing discussions and negotiations throughout the year. The Audit and Assurance Committee maintains overall responsibility for scrutinising TfL's approach to risk and receives reports to each meeting. The Finance Committee scrutinises TfL's financial performance and reports on this to the Board. In response to the impact of the coronavirus pandemic on TfL's finances, several rigorous cost control and scrutiny measures were introduced or refined during the year. TfL has also continued to embed the TfL Health, Safety and Environment management system and has continuous improvement plans in place to enhance the system and strengthen the maturity of compliance.

Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability. TfL follows the Government Communication Service guidance on providing clear and accurate information. It has a published transparency strategy and has developed its website and the format of its reports to improve transparency and accessibility. Minutes of meetings, key decisions taken outside of meetings, the registers of Members and the most senior staff's interests and acceptance of gifts and hospitality, along with details of contracts awarded over £5,000 are published on tfl.gov.uk.

Review of Effectiveness

TfL conducts, at least annually, a review of the effectiveness of its governance framework including the system of internal control, which is reported to the Audit and Assurance Committee. There is also an annual Board Effectiveness Review.

TfL continually reviews the effectiveness of its governance arrangements, including all aspects of TfL's operations including its relationships with its group entities. The Risk and Assurance Annual Report includes the opinion of the Head of Internal Audit on the overall framework of TfL's governance, risk management and internal control in the year. The opinion for the year ending 31 March 2022 concluded that the overall framework of TfL's governance, risk management and internal control is generally adequate for TfL's business needs and operated in an effective manner. There were no matters raised for the attention of the Board other than the progress on addressing procurement governance and control issues. The Board Effectiveness Review was considered in December 2021 and concluded that the current decision-making structure was effective. An externally led review is proposed for 2022.

The coronavirus pandemic has continued to have a significant impact on TfL's operational activities and its finances. In January 2021, TfL submitted a financial sustainability plan to Government as part of the process for securing a long-term funding settlement. A series of short-term funding settlements have been approved while work continues to secure a long-term settlement to enable TfL to effectively plan.

Conclusion

TfL is satisfied that appropriate governance arrangements are in place. It recognises that there is always more that can be done and remains committed to maintaining and where possible improving these arrangements. The key ways of doing this are:

- keeping its governance arrangements under continuous review, including through the annual Board Effectiveness Review;
- addressing issues identified by Internal Audit as requiring improvement;
- reviewing and enhancing performance reporting to focus on key risks and areas for improvement; and
- listening to feedback from key stakeholders.

Signed:

Chair of TfL

Signed:

Commissioner

Improvement Plan 2021/22 Progress

| Proposed Activity | Responsible Managing Director | Status Update |
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| <p>Board Effectiveness: Undertake and implement recommendations from a 2021 Board Effectiveness Review and prepare for any changes to the Board arising from the May 2021 Mayoral Election.</p> | <p>General Counsel [Updated from 2020/21]</p> | <p>Complete. A review was conducted in autumn and reported to the Board on 8 December 2021. The Board and its decision-making structure were considered effective. Previous actions had been addressed satisfactorily while recognising the need for continuous improvement.</p> <p>Four new Members were appointed during the year.</p> |
| <p>Subsidiary Entities: Annual reviews to be undertaken to simplify the structure and reduce unnecessary costs. Continued support to new and existing statutory directors on their duties and responsibilities.</p> | <p>General Counsel [Continual]</p> | <p>Ongoing. The 2021 annual review was completed. Changes to operation and governance of TTL Properties Limited and its subsidiaries are being worked through. Changes to Company Director appointments impacted by changes to Executive Committee roles or changes of staff are being implemented. Advice and guidance will continue to be offered to existing and new directors.</p> |
| <p>Operating Model and Processes: Continue to develop TfL's operating model and processes in accordance with agreed organisational change programmes.</p> | <p>Executive Committee [Updated / Continual]</p> | <p>Organisational change programmes continue. Executive leadership team reviewed. Governance at and below Executive Committee level is currently under review.</p> |

| Proposed Activity | Responsible Managing Director | Status Update |
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| <p>TfL Scorecards: Continue to develop TfL's Scorecard and effective operational and performance measurement processes to reflect requests from the Finance and Remuneration Committees for a simplified Scorecard with fewer priorities to help drive performance.</p> | <p>Executive Committee [Continual]</p> | <p>The 2021/22 Scorecards encapsulated the key priorities of attracting customers back onto our network, achieving financial sustainability, and decarbonising our operations, while never compromising on safety.</p> |
| <p>TfL Management System: Continue with the development of a TfL wide integrated system and implement the outcome of the Vision and Values Review.</p> | <p>General Counsel [Continual]</p> | <p>The development of the Management System is a continuous programme, which this year included the implementation of the outcome of the Vision and Values Review.</p> |
| <p>Safety, Health and Environment (SHE): To continue to implement and embed the TfL Safety, Health and Environmental management system.</p> | <p>Chief SHE Officer / Chief Operations Officer / Executive Committee [Continual]</p> | <p>This work is ongoing. Quarterly reports on SHE performance are submitted to the Safety, Sustainability and Human Resources Panel and an annual report is made to the Board each July.</p> |
| <p>Audit, Assurance and Risk Management: Rebase the Audit and Assurance Plan considering the impact of Covid-19. Continue to develop our Risk Management processes and their oversight by Committees and Panels, addressing lessons learnt from 2019/20 (as reported to the Audit and Assurance Committee in March 2020).</p> | <p>Chief Finance Officer / General Counsel / Director of Risk and Assurance / Executive Committee [Continual/Updated from 2020/21]</p> | <p>New Enterprise Risks were adopted and embedded for 2020/21, reflecting the impact of the coronavirus pandemic. Lessons from 2020/21 were addressed. Enterprise Risks were reported to Committees and Panels – except for that on Financial Sustainability as Members received regular updates in relation to the ongoing discussions with Government on a long-term funding settlement.</p> |

| Proposed Activity | Responsible Managing Director | Status Update |
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| <p>Crossrail: To further embed the new governance arrangements for the project to achieve its delivery to completion.</p> | <p>Executive Committee [Updated from 2020/21]</p> | <p>This work is ongoing. The governance of the Crossrail project was transferred to TfL on 1 October 2020. The operation of the Elizabeth Line Delivery Group and the Elizabeth Line Committee have operated effectively, with the opening of the central tunnel section and launch of the Elizabeth line on 24 May 2022. Further changes are being made to the governance as the project draws to a close.</p> |
| <p>Transparency: Continue to develop our proactive approach to transparency and maintain performance on responding to Freedom of Information requests.</p> | <p>Director of News and Corporate Affairs/ General Counsel [Continual]</p> | <p>We continued to publish more information and improve the quality of information published. In 2021/22, we maintained the very good performance in responding to FOI requests.</p> |
| <p>Procurement and Contract Management: Implement the findings from the Independent Investment Programme Advisory Group and Internal Audit reviews of Procurement and Supply Chain governance (arising from Internal Audit Opinions for the years ended 31 March 2019 and 2020).</p> | <p>Chief Finance Officer/Chief Capital Officer</p> | <p>The Audit and Assurance Committee has been provided with updates during the year. The new Procurement and Commercial Services team had been stood up. Significant improvements have been made and previous Internal Audit and IIPAG findings to improve the control environment have been implemented. Action plans are in place to further improve internal control and governance.</p> |

Improvement Plan 2022/23

| Proposed Activity | Responsible Managing Director | Status Update |
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| <p>Board Effectiveness: Commission and undertake an externally led 2022 Board Effectiveness Review and implement its recommendations.</p> | <p>General Counsel [Updated from 2021/22]</p> | <p>An externally led review will be commissioned with the outcome to be reported to the Board before the end of 2022.</p> |
| <p>Land and Property: Establish the Land and Property Committee and review and implement governance changes for the operation of TTL Properties Limited (TTLP) and its subsidiary entities.</p> | <p>Chief Customer and Strategy Officer General Counsel [New]</p> | <p>The Committee has been established, with a first meeting scheduled in June 2022. The governance changes for TTLP are being developed and will be reviewed by the Committee.</p> |
| <p>Subsidiary Entities: Annual reviews to be undertaken to simplify the structure and reduce unnecessary costs. Continued support to new and existing statutory directors on their duties and responsibilities.</p> | <p>General Counsel [Continual]</p> | <p>Changes arising from the leadership structure are being implemented. An annual review is scheduled for later in 2022.</p> <p>Advice and guidance will continue to be offered to existing and new directors.</p> |
| <p>Operating Model and Processes: Continue to develop TfL's operating model and processes in accordance with agreed organisational change programmes.</p> | <p>Executive Committee [Updated/Continual]</p> | <p>Changes to the Executive Committee has resulted in a review of the governance structure below this level. Changes will be implemented and kept under review in 2022/23.</p> |
| <p>TfL Scorecards: Continue to develop TfL's Scorecard and effective operational and performance measurement processes to reflect requests from the Finance and Remuneration Committees for a simplified Scorecard with fewer priorities to help drive performance.</p> | <p>Executive Committee [Continual]</p> | <p>The 2022/23 Scorecards were approved in March 2022 and continue the focus on recovery. As progress on recovery develops and long-term sustainable funding is secured, work will continue to enhance and simplify Scorecards.</p> |

| Proposed Activity | Responsible Managing Director | Status Update |
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| <p>TfL Management System: Continue with the development of the TfL wide integrated system and implement changes arising from the new leadership structure and the Vision and Values Review.</p> | <p>General Counsel [Continual]</p> | <p>The development of the Management System is a continuous programme. Updates will be made to reflect the new leadership structure and to support the implementation of TfL's Vision and Values.</p> |
| <p>Safety, Health and Environment: To continue to implement and embed the TfL Safety, Health and Environmental management system.</p> | <p>Chief Operations Officer/ Chief SHE Officer/ Executive Committee [Continual]</p> | <p>This work is ongoing.</p> |
| <p>Audit, Assurance and Risk Management: Embed and refine the Audit and Assurance Plan and the Enterprise Risk management system. Enterprise Risks will have oversight by Committees and Panels, addressing lessons learnt from 2020/21 and 2021/22.</p> | <p>Chief Finance Officer/ General Counsel/ Director of Risk and Assurance/ Executive Committee [Updated/Continual]</p> | <p>Following the new leadership structure and ongoing funding discussions, Enterprise Risks embedded in 2020/21 are being reviewed. A workshop was recently held with Members and the outcomes will be reported to the Audit and Assurance Committee. Individual Enterprise Risks will continue to be reported to the relevant Committee or Panel.</p> |
| <p>Crossrail: As the project nears completion and is completed, the governance arrangements will be reviewed and further incorporated into TfL's business as usual arrangements.</p> | <p>Executive Committee [Updated from 2021/22]</p> | <p>This work is ongoing. The governance of the project transferred to TfL on 1 October 2020. The Elizabeth Line Delivery Group and the Elizabeth Line Committee have operated effectively leading to the opening of the Elizabeth line on 24 May 2022. As the final stages of the project are completed, the operation of the Delivery Group and Committee will be reviewed and the separate governance arrangements for the project will be incorporated into TfL's business as usual processes.</p> |

| Proposed Activity | Responsible Managing Director | Status Update |
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| <p>Transparency: Continue to develop our proactive approach to transparency and maintain performance on responding to Freedom of Information requests.</p> | <p>Chief Customer and Strategy Officer/ General Counsel [Continual]</p> | <p>This work is ongoing.</p> |
| <p>Procurement and Contract Management: Implement action plans to further improve governance and controls.</p> | <p>Chief Finance Officer</p> | <p>This work is in progress and updates will be provided to the Audit and Assurance Committee.</p> |