

Date: 21 September 2022

Item: TfL Annual Report and Statement of Accounts for the Year Ended 31 March 2022

This paper will be considered in public

1 Summary

- 1.1 This paper presents the draft Annual Report and TfL Group Statement of Accounts for the year ended 31 March 2022 and seeks the Audit and Assurance Committee's approval of the Statement of Accounts for the year ended 31 March 2022 and their publication.
- 1.2 On 27 July 2022, the TfL Board approved the Annual Report and authorised the Chief Customer and Strategy Officer to make any further design or editorial changes as may be required, including changes to reflect the position on TfL funding. The TfL Board considered the Statement of Accounts, recognising that a decision on the approval could not be made until TfL's funding position was resolved, and delegated approval to the Audit and Assurance Committee.
- 1.3 On 30 August 2022 the TfL Board approved a long term 20-month funding settlement with the Department for Transport (DfT) until 31 March 2024. After the approval of the settlement the required financial statement disclosures were updated and TfL's external auditors had to complete their audit work.
- 1.4 Given the significant work required, and the short timescales involved, the Independent Auditor's report remains in draft at the time of publishing the appendix to this paper. A verbal update will be given to the Committee should there be any changes to the draft Independent Auditor's Report from EY as presented and the final version will be submitted to the next meeting of the Committee.

2 Recommendations

- 2.1 **The Audit and Assurance Committee is asked to note the paper and:**
 - (a) **approve the 2021/22 Statement of Accounts, subject to any comments Members might have, and agree that the Statutory Chief Finance Officer will make any adjustments arising from the work prior to the auditors, Ernst & Young LLP, signing their opinion or from any comments made by the board of any Subsidiary company. Should any changes be required to the Statement of Accounts which, in the opinion of the Statutory Chief Finance Officer are material, he will seek approval of the Audit and Assurance Committee for these changes;**

- (b) note that the TfL Board has authorised the Chief Customer and Strategy Officer, to make any further design or editorial changes to the Annual Report as may be required;**
- (c) note that the Chair of the Audit and Assurance Committee will sign and date the Statement of Accounts in due course.**

3 Background

- 3.1 TfL is required under section 161 of the Greater London Authority Act 1999 (the GLA Act) to produce a report on its achievements and the performance of its functions during the year. Approval of the Annual Report is a matter reserved to the Board under TfL's Standing Orders. The Annual Report includes the information that is required under the GLA Act.
- 3.2 TfL is also required, under the Accounts and Audit Regulations 2015 (the Regulations) to prepare a Statement of Accounts each year. The Statement of Accounts has been prepared in accordance with the provisions of the Regulations and the Local Audit and Accountability Act 2014. 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").
- 3.3 The 2021/22 TfL Annual Report is combined with the TfL's Statement of Accounts for the year ended 31 March 2022. While this is not a legal requirement to combine these documents, it is regarded as good practice and will assist key audiences in understanding TfL's financial and operational performance over the year. The structure of the report has been designed for the web and it will be available on TfL's website, electronically and in other formats on request.
- 3.4 The Statement of Accounts (unaudited) was certified by the statutory Chief Finance Officer and published on the tfl.gov.uk on 31 May 2022 as part of the Audit and Assurance Committee papers, with the Annual Governance Statement published on 27 May 2022. Appropriate notices were placed on TfL's website, and media briefings were offered. The period for exercise of public rights was announced to commence on 1 June 2022 and concluded on 15 July 2022
- 3.5 On 6 June 2022, the Audit and Assurance Committee considered the draft Statement of Accounts for the year ended 31 March 2022. Comments made by the Committee have been addressed in the documents.
- 3.6 On 24 June 2022, the current extraordinary funding and financing agreement between TfL and the DfT was extended until 13 July 2022. A further extension was then agreed on 13 July 2022 to 28 July 2022. These extensions were not reflected in the draft TfL Statement of Accounts at that time due to the late stage at which they were agreed and the ongoing discussions on longer-term funding.

- 3.7 On 27 July 2022, the TfL Board approved the Annual Report and authorised the Chief Customer and Strategy Officer to make any further design or editorial changes as may be required, including changes to reflect the position on TfL funding.
- 3.8 Given ongoing discussions on longer-term funding, the Board considered the Statement of Accounts but on 27 July 2022 but did not approve them, with approval authority being delegated to the Audit and Assurance Committee instead.
- 3.9 The Regulations require that the Statement of Accounts is approved by a resolution of a committee or by members meeting as a whole. Approval of the Statement of Accounts is a matter ordinarily reserved to the Board under TfL's Standing Orders, paragraph 99(c). On 27 July 2022 the Board delegated approval of the Statement of Accounts to the Audit and Assurance Committee. To facilitate this, Standing Order 108 was disapplied as part of the Board delegation.
- 3.10 On 30 August 2022 the TfL Board approved a long term 20-month funding settlement with the DfT until 31 March 2024. After the approval of the settlement the required financial statement disclosures were updated and TfL's external auditors had to complete their audit work.

4 Changes Since the Committee Meeting on 6 June 2022

- 4.1 The financial results for 2021/22 and the notable elements of the Statement of Accounts were outlined in the Audit and Assurance Committee paper on 6 June 2022. However, since this date there have been a number of changes to the draft Statement of Accounts due to the funding settlement and to ensure compliance with the Code. These are outlined below.

Funding settlement

- 4.2 The Annual Report, narrative report, going concern disclosures in note in the accounting policies and events after the reporting date note have been updated to reflect the funding settlement approved on 30 August 2022.
- 4.3 The financial statements have been prepared on a going concern basis as the Board remain confident that TfL will continue in operational existence from the date of signing these financial statements at least until 31 March 2024 and will meet its liabilities as they fall due for payment.
- 4.4 In TfL's 2020/21 Statement of Accounts, a material uncertainty was disclosed as to the level of longer-term funding support that would be agreed, and what this meant for the shape of TfL's planned future activities. The uncertainty at that point in time cast significant doubt over TfL's ability both to continue operating the level of services currently provided and to continue with all projects included in the capital investment plan.

- 4.5 The agreement of a longer-term funding settlement on 30 August 2022 significantly reduces this uncertainty. The funding settlement include funding for ongoing capital projects. Therefore, management's assessment on the level of uncertainty over TfL's ability to continue with all projects in the capital investment plan is significantly reduced.
- 4.6 However, a materiality uncertainty remains on the level of funding that will be received during the funding settlement as:
- (a) The settlement enables DfT the Secretary of State for Transport to adjust the amount of funding provided to TfL under this settlement using the 'dispute mechanism' if it believes that measures within the funding settlement have not been met. However, the dispute mechanism has been included in all previous funding settlements during the pandemic and has not been used to implement a deduction in funding in these settlements. Therefore, this is assessed as a low likelihood risk. However, as the dispute mechanism is uncapped, the impact could be up to £1.1bn funding outstanding at the date of approving the TfL accounts.
 - (b) The inflation review mechanism, which may provide TfL more funding as expected inflation is likely to exceed the level assumed in TfL's Budget in 2022/23, is not certain as it is subject to Government ministerial approval. However, TfL has the information required under the funding settlement to clearly set out the impact of inflation on its operating costs. The lack of a clear guarantee and the uncertainty over the national finances mean this is a moderate risk. The impact could be up to £165m that is currently expected through this mechanism.
- 4.7 The Independent Auditor's Report for 2021/22 contains a paragraph on material uncertainty related to the availability of funding to deliver current operational and capital plans. As described in more detail in the going concern note to the Accounting Policies.

Compliance with the Code

- 4.8 At the time that the Statement of Accounts were presented to the Committee on 6 June 2022, the audit was ongoing and there were several presentational amendments processed in the intervening period to ensure compliance with the Code.
- 4.9 The activities and nature of TfL make it unique as a local authority, and therefore ensuring transparent disclosure in the Statement of Accounts whilst complying with the Code is a challenge. Throughout its history, TfL has had to applying an element of judgement to ensure compliance with the Code, whilst ensuring its Statement of Accounts are accessible for its users.
- 4.10 There have been no changes to the Code and the Statement of Accounts presented on 6 June 2022 was prepared on the same basis as previous years. However, EY identified a number of amendments this year to improve compliance with the Code. The TfL Group Finance team worked diligently to

make these changes to tight time scales. Further details of these amendments are listed below.

- 4.11 The format and several disclosure line items in the Group Movement in Reserves Statement, Expenditure and Funding Analysis, Note to the Expenditure and Funding Analysis, Cashflow Statement, Cashflow note, Funding and Financial Risk Management note were updated at the request of EY to enhance compliance with the Code.
- 4.12 Disclosure line items in the Capital Adjustment Account note and the Adjustments Between Accounting Basis and Funding Basis Under Regulations note were grossed up to show capital proceeds, revenue expenditure financed from capital under statute and the Capital Receipts Reserve. Previously, these amounts were shown on a net basis or disclosed elsewhere in the accounts. This enhances compliance with the Code.
- 4.13 The Expenditure and Funding Analysis was moved from a Primary Statement to the Notes to the Financial Statements to be Code compliant.
- 4.14 Additional disclosures in note (b) and note ah) of the Accounting Policies were added to enhance disclosure for our basis of consolidation and unusable reserves in the Financial Statements.

Other changes

- 4.15 The inclusion of the Independent Auditor's Report. This was not incorporated into the draft that went to the 6 June 2022 Committee meeting as the auditors had not completed their audit work at that time.
- 4.16 There were no changes to the closing balances in the Group or Corporation Balance Sheets and Movement in Reserves Statements. The Group Comprehensive Income and Expenditure Statement was updated for rounding differences and an immaterial disclosure item for the movement in the fair value of cashflow hedges.
- 4.17 Throughout the remainder of the Statement of Accounts there were various updates to disclosures as part of the EY audit and immaterial changes for consistency, rounding differences and formatting to enhance compliance with the Code.

5 Subsidiary Companies Audit Exemption

- 5.1 For the year ended 31 March 2014, the Group took advantage of changes under section 479A of the Companies Act 2006 that enable certain UK subsidiary companies to claim exemption from audit of their accounts.
- 5.2 The exemption is conditional on a parent undertaking giving a guarantee to its subsidiary in respect of all liabilities of that subsidiary outstanding at the balance sheet date, and on 5 June 2014, under authority delegated by the Board on 26 March 2014, the then Finance and Policy Committee agreed that, for the year ended 31 March 2014 and for future years until withdrawn, the holding company

for TfL's trading subsidiaries, Transport Trading Limited, will offer the guarantee to a majority of its subsidiaries.

- 5.3 For the year ended 31 March 2022, the majority of TTL's subsidiaries claimed exemption from audit.

List of appendices to this report:

Appendix 1: Draft Annual Report and Statement of Accounts 2021/22

List of Background Papers:

Audit Exemption for Subsidiary Companies – Finance and Policy Committee paper June 2014.

Contact Officer: Patrick Doig, Group Finance Director and Statutory Chief Finance Officer

Email: Patrick.Doig@tfl.gov.uk