

Date: 27 November 2024

Item: Finalisation of TfL's Annual Report and Statement of Accounts for Year Ending 31 March 2024

This paper will be considered in public

1 Summary

- 1.1 This paper presents the Annual Report and TfL Group Statement of Accounts for the year ended 31 March 2024 and requests the Committee's approval of the Statement of Accounts for the year ended 31 March 2024 and their publication.
- 1.2 On 24 July 2024, the 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. The Board also considered the draft Statement of Accounts, recognising that a decision on the approval could not be made until the resolution of several outstanding matters and delegated their approval to the Committee.
- 1.3 The Committee was given a further progress update on 18 September 2024, including the further audit work required by Ernst & Young LLP (EY) in relation to the ongoing cyber security incident. A post balance sheet disclosure has been included in the Statement of Accounts and EY have concluded their work in relation to the effects of the incident on the accounts as at 31 March 2024.

2 Recommendations

- 2.1 **The Committee is asked to note the paper and:**
 - (a) **approve the 2023/24 Statement of Accounts, subject to any comments Members might have;**
 - (b) **note that the statutory Chief Finance Officer has authority to make any adjustments arising from the work prior to the auditors, Ernst and Young LLP, signing their opinion or from any comments made by the board of any Subsidiary company provided that 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 Committee for these changes;**
 - (c) **note that the Chair of the Committee will sign and date the Statement of Accounts in due course; and**

- (d) note that the level of Minimum Revenue Provision has been made in the Statement of Accounts in accordance with the policy approved by the Board.**

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 and was approved by the Board on 24 July 2024. 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 2023/24 TfL Annual Report is combined with the TfL's Statement of Accounts for the year ended 31 March 2024. While it 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 draft Statement of Accounts (unaudited) was certified by the statutory Chief Finance Officer and published on the [tfl.gov.uk](https://www.tfl.gov.uk) website on 14 June 2024. 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 17 June 2024 and concluded on 26 July 2024.
- 3.5 On 5 June 2024, the Committee was given an update on the preparation of the draft TfL Group Statement of Accounts for the year ended 31 March 2024, focusing on the key accounting issues for consideration.
- 3.6 On 24 July 2024, the 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.
- 3.7 On 18 September 2024, the Committee was given a further update on the status of the accounts and audit.

- 3.8 At the time of the Board meeting on 24 July 2024, several matters were outstanding with the Statement of Accounts. The Board considered the draft Statement of Accounts but did not approve them, with approval authority being delegated to the Committee. These matters have now been resolved and a summary of the arising changes is provided in Section 4.
- 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 24 July 2024, the Board delegated approval of the Statement of Accounts to the Committee. To facilitate this, Standing Order 108 was disapplied as part of the Board delegation.
- 3.10 Amendments to the Regulations came into force on 30 September 2024, which amend the deadline for local authorities to publish audited accounts for the year ending 31 March 2024 by 28 February 2025.

4 Changes to the Accounts Since the 24 July 2024 Board Meeting and 14 June 2024 Public Inspection Period

- 4.1 The key changes to the draft Statement of Accounts considered at the 24 July Board meeting are summarised below.

£'m	
562.6	Group surplus on provision of services after tax (24 July)
(96.4)	Long-term leases adjustment
(74.1)	Increase in provision estimates
0.9	Other minor adjustments
393.0	Adjusted group surplus on provision of services after tax (27 November)

Long-term Leases

- 4.2 As part of their audit work, EY undertook a detailed review of long-term leases entered in to by TfL, as the lessor.

Context

- 4.3 As part of the development of London Underground and the Elizabeth line, new property assets were created e.g. stations. Several of these property assets have development potential given the Group owns the rights to the land, building and airspace asset above and below these stations.
- 4.4 The Group historically has attributed a fair value of £nil to sites of this nature until commercial viability has been evidenced by securing a development agreement. These agreements are in the form of long-term leases, typically 99 years or longer, over the site that provide the lessee the right to develop then operate the asset.

- 4.5 Under IFRS 16 Leases, it must be assessed whether the lease constitutes a finance lease or an operating lease at its inception date. There is significant judgement in determining whether the lease transfers from the lessor to the lessee substantially all the risk and rewards incidental to ownership of the asset. Particularly in respect of whether the Group, as a lessor, retains risk and rewards through variable income streams or market rates related to the performance of the asset.
- 4.6 EY challenged management's assumptions in relation to these arrangements. Given their historical nature, with most of the agreements entered in to between 1976 and 2021, management has reassessed each lease.

Results of the Review

- 4.7 Certain long-term leases were accounted for as operating leases but should have been accounted for as finance leases as the Group has transferred to the lessee substantially all the risks and rewards incidental to ownership of the underlying asset. This resulted in an overstatement in investment properties and a corresponding understatement of the finance lease receivables.
- 4.8 Certain property sites were previously accounted for as finance leases but should have been accounted for as operating leases as the Group had not transferred to the lessee substantially all the risks and rewards incidental to ownership of the underlying asset. This resulted in an overstatement on the gain on disposal and a corresponding understatement in deferred income in respect of the lease premium received.
- 4.9 In the draft accounts presented to the Committee on 18 September 2024, a prior period restatement had been recognised. Subsequent to this EY have concluded that the adjustment was not material and therefore it has been reflected in the current year and any references to a prior period restatement have been removed.

Future considerations

- 4.10 EY have discussed with management and raised a management letter point that these transactions should have had their accounting considerations and lease classification clearly documented at inception of the lease.

Provisions and Contingent Liabilities

- 4.11 At the time the Statement of Accounts was presented to the Board on 24 July 2024, the provisions and contingent liabilities in the accounts represented management's best estimate at the time. Subsequent developments and information have since been incorporated in these disclosures.

Penalty Charge Notices (PCN) Not Posted on Day of Issue

- 4.12 On 25 July 2024, during the public inspection period for the Statement of Accounts, a local elector raised an objection to EY our external auditors. This was in relation to the validity of Penalty Charge Notices and Notices to Owner not posted on the same day as issued, as required by the Civil Enforcement of

Road Traffic Contraventions (Approved Devices, Charging Guidelines and General Provision) (England) Regulations 2022 (the 2022 regulations).

- 4.13 The impact on the Statement of Accounts as at 31 March 2024 has been considered as part of management's assessment of provisions and contingent liabilities.
- 4.14 An update on EY's response to the public objection is included in EY's report elsewhere on this agenda.

Other Changes and Audit Matters

- 4.15 The inclusion of the draft Independent Auditor's Report. This was not incorporated into the draft that went to the Board on 24 July 2024 as the auditors had not completed their audit work at that time.
- 4.16 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, disclosure amendments 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 2024, the majority of Transport Trading Limited's subsidiaries claimed exemption from audit.

List of appendices to this report:

Appendix 1: TfL Annual Report and Statement of Accounts: 31 March 2024

List of Background Papers:

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

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