

**Date: 18 September 2024**

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

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**This paper will be considered in public**

**1 Summary**

- 1.1 This paper provides an update on the preparation of the TfL Group Statement of Accounts for the year ending 31 March 2024.
- 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 approval to the Audit and Assurance Committee.
- 1.3 These issues are now resolved. However, we are currently dealing with an ongoing cyber security incident. Our auditors, Ernst & Young LLP (EY) will need to evaluate the effects of the incident on the scope of their work and reporting requirements before the audit can be concluded. EY's draft Annual Audit Report is presented elsewhere on this agenda.
- 1.4 A paper is included on Part 2 of the agenda, which contains supplementary information that is exempt from publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 in that it contains information on the financial or business affairs of TfL and where a claim to legal professional privilege could be maintained in legal proceedings. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

**2 Recommendation**

- 2.1 The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda.**

**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 2023/24 TfL Annual Report is combined with the TfL's Statement of Accounts for the year ended 31 March 2024. 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 draft Statement of Accounts (unaudited) was certified by the statutory Chief Finance Officer and published on the [tfl.gov.uk](http://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 updated 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 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). At the time of the meeting of the Board 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 Audit and Assurance Committee. These matters have now been resolved and a summary of the arising changes is provided in Section 4. However, our auditors, Ernst & Young LLP (EY) will need to evaluate the effects of the ongoing cyber security incident on the scope of their work and reporting requirements before the audit can be concluded.
- 3.8 On 9 September 2024, the Government laid amendments to the Regulations, due to come into force on 30 September 2024 (subject to any objection in Parliament), which amend the deadline for local authorities to publish audited accounts for the year ending 31 March 2024 to 28 February 2025.

- 3.9 Once the EY evaluation is completed, the Statement of Accounts will be submitted for approval to the next meeting of the Audit and Assurance Committee or the Board (whichever is soonest).

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

- 4.1 On 5 June 2024, the Audit and Assurance 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. On 14 June 2024 a draft of the accounts was published on the TfL website for the commencement of the public inspection period and a further draft presented to the Board on 24 July 2024. The key changes to the accounts are listed below.

##### **Provisions and Contingent Liabilities**

- 4.2 At the time the Statement of Accounts were 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. An update on these changes is provided in the paper on Part 2 of the agenda.

##### **Long Term Leases**

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

##### **Context**

- 4.4 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.
- 4.5 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.
- 4.6 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.
- 4.7 EY challenged management's assumptions in relation to these arrangements. Given their historic nature, with most of the agreements entered in to between 1976 and 2021, management has reassessed each lease.

## Restatement of Prior Period

- 4.8 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.
- 4.9 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.
- 4.10 A prior period restatement has been recognised where the classification of the treatment of the leases was incorrect. This is detailed in note 44 of our accounts. The net impact of the prior period restatement is a reduction in usable reserves as at 31 March 2023 from £319.1m to £202.9m. During 2023/24 useable reserves increased by £246.3m and as at 31 March 2024 they were £449.2m.

## Future Considerations

- 4.11 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.

## Public Objection – Weekend Penalty Charge Notices (PCN)

- 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 PCN and Notices to Owner (NTO) not posted on the same day 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 An update on this is provided in EY’s draft Annual Audit Report presented elsewhere on this agenda.

## Other Changes and Audit Matters

- 4.14 The inclusion of the draft Independent Auditor’s Report. This was not incorporated into the draft that went to the meeting of the Board on 24 July 2024, as the auditors had not completed their audit work at that time.
- 4.15 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.

Reconciliation from draft Statement of Accounts presented to the Board on 24 July 2024

	£'m
Group surplus on provision of services after tax	562.6
Increase in provision estimates	(74.1)
Other minor adjustments	0.5
Adjusted group surplus on provision of services after tax	<u>489.0</u>

## 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 (TTL), will offer the guarantee to a majority of its subsidiaries.
- 5.3 For the year ended 31 March 2024, the majority of TTL's subsidiaries claimed exemption from audit.

### List of appendices to this report:

A paper containing exempt supplementary information is included on Part 2 of the agenda.

### List of Background Papers:

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

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