AGENDA ITEM 7

TRANSPORT FOR LONDON

AUDIT COMMITTEE

SUBJECT: CHANGES IN ACCOUNTING STANDARDS IMPACTING ON TfL

DATE: 28 NOVEMBER 2011

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1 PURPOSE AND DECISION REQUIRED

1.1 To update the Committee on the Group's critical accounting policies to be applied in deriving the form and content of TfL's Statement of Accounts for the year ending 31 March 2012. The Committee is asked to note the paper.

2 BACKGROUND

2.1 TfL's Statement of Accounts is prepared in accordance with the provisions of the Audit Commission Act 1998 and the Accounts and Audit Regulations 2011 ("the Regulations"). The form and content followed in preparing the Statement are as prescribed in the Regulations and by the Code of Practice on Local Authority Accounting 2011/12 published by CIPFA ("the Code").

2.2 The Code is based on International Financial Reporting Standards, and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2011.

2.3 This paper deals with the critical accounting policies as they relate to the financial statements for the year ending 31 March 2012. Current and future changes to IFRSs affecting those statements are dealt with in this paper.

3 DEVELOPMENTS IN 2011/12 CODE

3.1 There are few changes in the 2011/12 Code that will impact TfL, although additional disclosure is required in some areas.

3.2 Although guidance on accounting for Business Rate Supplements ("BRS") is included in the 2011/12 Code, it applied retrospectively to the year ended 31 March 2011 and the BRS in relation to Crossrail was accounted for in accordance with this guidance.

3.3 Additional requirements on remuneration disclosure are required by the new Code, in relation to exit packages. The Code has introduced a requirement to disclose the number and cost of exit packages agreed, in line with similar requirements for Government. In the 2010/11 financial statements, there was a requirement to publish the total number and total cost of exit packages. For the current year, the requirement is to produce the number of packages agreed, in rising bands of £20,000 (up to £100,000) and in bands of £50,000 thereafter, together with the total cost of each band. There are a number of detailed questions remaining on how this will work in practice, and it is hoped that the Code guidance notes, to be published in December, will deal with some of the outstanding issues.

3.4 There is a new requirement for the annual governance statement to include a specific statement on whether the authority's financial management arrangements conform with the governance provisions of the CIPFA guidance *Statement on the Role of the Chief Financial Officer in Local Government.*

3.5 The 2011/12 Code adopts the requirements of the UK accounting standard FRS 30 *Heritage Assets*, although there is no equivalent standard under IFRS. Heritage assets for TfL will comprise the collection at the Museum. The Code requires that such assets should be measured at valuation unless the valuation cannot be obtained at a cost commensurate with the benefits to the users of the financial statements. If valuations are not obtained, these assets continue to be recorded at cost.

3.6 TfL is not proposing to commission valuations of the Museum collection as this is considered to be of very limited benefit to the users of the accounts. It is possible that insurance valuations may be used or disclosed as an alternative. It will also be necessary to include some disclosure on the nature and scale of the heritage assets, and the policies for acquisition, preservation, management and disposal of heritage assets. The policies may alternatively be included by cross-reference to another document.

4 IMPENDING CHANGES TO IFRS

4.1 IFRS 9 *Financial Instruments* (2009) ("IFRS 9") was due to be effective for accounting periods beginning on or after 1 January 2013. In August 2011 the International Accounting Standards Board ("IASB") published Exposure Draft 2011/3 Mandatory Effectiveness Date of IFRS 9, which proposed that the effective date of IFRS 9 be put back to accounting periods beginning on or after 1 January 2015.

4.2 Improvements to IFRSs (2010) will be effective for the first time for the year ending 31 March 2012 but its adoption is not expected to have a significant impact on the TfL group.

4.3 The following new standards have yet to be endorsed by the European Financial Reporting Advisory Group ("EFRAG") but are expected to be endorsed by the effective date of 1 January 2013:

- IAS 27 *Separate financial statements (2011)*
    - Not relevant to TfL Group

- IAS 28 *Investments in joint ventures and associates (2011)*
    - Mandates equity method of accounting for joint ventures and associates – not currently relevant to TfL Group
- IFRS 10 *Consolidated financial statements*
    - Deals with definition of control and method of consolidation – no impact on TfL Group
- IFRS 11 *Joint arrangements*
    - Deals with accounting for joint ventures and other joint operations – could affect how certain future transactions are reflected and will be taken into account in analysing the impact on the financial statements of future joint arrangements
- IFRS 12 *Disclosure of interests in other entities*
    - Deals with additional disclosure requirements for interests in other entities – limited application to TfL as requirements mainly relate to unconsolidated "structured" entities (those entities designed so that voting or similar rights are not the dominant factor in deciding who controls the entity).
- IFRS 13 *Fair value measurement*
    - Provides guidance on how fair value should be measured – of limited impact to TfL Group

4.4 Changes that are likely to affect future years also include a new exposure draft on lease accounting. An exposure draft was issued on this subject in 2010, and was much criticised. It is now expected that a second exposure draft will be issued in early 2012 with a final standard due later that year.

4.5 The first exposure draft, if issued as a standard, would have had a significant impact on TfL borrowings as all leased assets would have come on balance sheet, with an associated lease creditor. In addition, the impact on the way in which revenue from rentals would be reported would have been significant. It now appears more likely that a form of off-balance sheet lease in line with current IFRS will be retained.

4.6 The Committee will be updated further regarding the impact of the new leasing standard on TfL once the final form of the standard and the timeline for adoption is known.

5 RECOMMENDATION

5.1 The Committee is asked to NOTE the paper.

6 CONTACT

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