Audit and Assurance Committee

Date: **8 December 2015**

Item: **Changes in Legislation and Accounting Standards Impacting on TfL**

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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 2016.

1.2 This update reflects any changes to the CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting (the Code) and any other changes to International Financial Reporting Standards (IFRS) which may have an impact on TfL's Statement of Accounts for the relevant year. It also reflects legislative changes to the extent that they impact on the Statement of Accounts or the year end process.

2 Recommendation

2.1 **The Committee is asked to note this report.**

3 Background

3.1 TfL's Statement of Accounts is prepared in accordance with the provisions of the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 (the 2015 Regulations). The form and content followed in preparing the Statements are as prescribed in the Regulations and by the Code. The accounting policies followed are also substantially as prescribed by the Code.

3.2 The 2015 Regulations contain provisions on financial management, annual accounts, internal control and audit procedures affecting all local authorities and a number of other local public bodies. The 2015 Regulations revoke the Accounts and Audit (England) Regulations 2011.

3.3 The Code is updated annually by the CIPFA/LASAAC Joint Committee, a standing committee of the CIPFA and LASAAC, and is based on European Union Adopted IFRS, with adaptations and interpretations considered necessary for the local government context. The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2015.

3.4 This paper deals with changes to the critical accounting policies as they relate to the accounts for the year ending 31 March 2016.

4 Developments in 2015/16 Code

4.1 There are only limited changes in the 2015/16 Code that will impact TfL, although additional disclosure will be required in some areas.

4.2 IFRS 13 Fair Value Measurement will be applied for the first time in the 2015/16 financial statements. This standard seeks to provide a single source of guidance for measuring fair value when required or permitted by another IFRS. It defines the term "fair value" as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The key principle is that fair value is the exit price from the perspective of market participants who hold the asset or owe the liability at the measurement date. The standard also specifies and expands the disclosure requirements for fair value measurement.

4.3 The Code has also been amended as a consequence of IFRS 13 to clarify the expected measurement of surplus assets. Under the changes, any items of property, plant and equipment that do not represent either infrastructure, community assets or assets under construction, but which are not currently providing any service potential to the authority should be classified as surplus assets. Surplus assets should be measured at fair value in accordance with IFRS 13.

4.4 No restatement of prior figures is anticipated as a result of the application of the above changes. However there will be additional disclosures required relating to the methodology and inputs used in calculating the fair value of properties and certain financial instruments held at fair value.

4.5 CIPFA/LASAAC has announced that the Code for 2016/17 will require highways infrastructure assets to be recognised as a separate class of property, plant and equipment, measured at Depreciated Replacement Cost (DRC) rather than the current basis of measurement at Depreciated Historical Cost. Opening balances will have to be restated accordingly. This will also require retrospective restatement of the 2015/16 accounts. Work has been progressing in readiness for application of the new requirements in 2016/17 and provisional opening balances as at 31 March 2015 have already been calculated as part of the Whole of Government Accounts data collection process.

4.6 The application of the new requirements is expected to result in an increase in the carrying amount of highways assets as at 1 April 2015 in the region of £13bn. The estimated impact on the Group's balance sheet at 1 April 2015 is shown below:

	31 March 2015 as originally stated	1 April 2015 as restated for highways assets
	£bn	£bn
Highways assets	3	16
Property, plant and equipment	32	45
Net assets	24	37

4.7 These figures have not yet been subject to audit, and the 2016/17 guidance has not been finalised, so the actual uplift on 1 April 2015 which will be recorded in the restatement of opening balances in the 2016/17 financial statements may differ from the figures quoted above. However these have been provided to give the Committee some indication as to the materiality of the required change.

4.8 Although this change is effective for 2016/17, the Code for 2015/16 requires additional disclosure to be included in the 31 March 2016 financial statements, including the expected amount of revaluation gain and the expected change in depreciation.

5 Impending Changes to IFRS

5.1 IFRS 9 Financial Instruments (as revised in 2014) (IFRS 9) will be effective for accounting periods beginning on or after 1 January 2018. IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value. Classification of debt assets will be driven by the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: (a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and (b) the contractual cash flows under the instrument solely represent payments of principal and interest. IFRS 9 also introduces a new impairment model.

5.2 IFRS 15 Revenue from contracts with customers (IFRS 15) will be effective for accounting periods beginning on or after 1 January 2017. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

5.3 Neither IFRS 9 nor IFRS 15 are expected to have a significant impact on TfL, although some minor restatements and additional disclosures are likely to be required. The Committee will be updated further regarding the impact of these standards as the implementation projects proceed.

5.4 Other standards and interpretations currently in issue but not yet mandatory are not expected to have a material impact on TfL.

6 Accounts and Audit Regulations 2015 – The Changes

Categorisation of Authorities

6.1 The 2015 Regulations classify relevant authorities as either Category 1 or Category 2 authorities, in an attempt to reduce the burden on smaller authorities. TfL is a Category 1 authority, and the remainder of this report will focus on the regulations for Category 1 authorities only.

Earlier Timetable for the Closure of Accounts

6.2 For financial years up to and including 2014/15, the 2011 Regulations required that the following provisions be applied for the approval and publication of the Annual Accounts:

(a) the Chief Financial Officer must have certified the presentation of the Annual Accounts no later than 30 June following the financial year end;

(b) the Annual Accounts had to be published with the Audit Opinion and Certificate, and before that must have been approved by the Board, by no later than 30 September; and

(c) the Chief Finance Officer was required to re-certify the presentation of the Annual Accounts before Board approval was given.

6.3 The 2015 Regulations bring forward significantly the timetable for the closure of the Accounts as follows:

(a) the Chief Finance Officer must certify the presentation of the Accounts before public inspection commences;

(b) the Annual Accounts (including the Annual Governance Statement) must be published with the Audit Opinion and Certificate, and before that must have been approved by the Board, by no later than 31 July; and

(c) the Chief Finance Officer must re-certify the presentation of the annual accounts before Board approval is given.

6.4 This change in deadline has no impact on TfL since its accounts have always been approved by the Board in late June or early July.

Exercise of Public's Rights to Inspect the Accounts

6.5 For financial years up to and including 2014/15, the 2011 Regulations required Local Authorities to make the Accounts and other relevant documents available for public inspection for 20 working days before the date appointed by TfL's external auditor for questions and/or objections. Authorities were required to give at least 14 days' notice of the public inspection period.

6.6 The 2015 Regulations extend the period for exercise of Public Rights (which will include rights of objection, inspection and questioning of the external auditor) to 30 working days. During the period for the excise of public rights TfL must make all relevant documents available for public inspection.

6.7 The Regulations also require that the period for the exercise of public rights includes the first 10 working days of June of the financial year immediately following the end of the financial year being reported, although transitional arrangements amend this to the first 10 working days of July for reporting of financial years 2015/16 and 2016/17.

6.8 The extension of the period for exercise of public rights has the effect of slowing down TfL's year end close process. In order to be in a position to conclude the public inspection period in mid July the public inspection period will have to start in early June and conclude after the first ten working days of July. Under the 2015 Regulations, Board approval cannot take place until the public inspection period has concluded and will therefore be later than it has been in the last few years. This is the case even though public inspection will have started earlier and before the issue of papers for the June meeting of the Committee.

Other Changes

6.9 There are a number of other minor changes in the 2015 Regulations that apply from 2015/16. Those worth noting are:

(a) documents relating to the published statement of accounts must remain available for public access for a period of not less than five years; and

(b) a narrative statement must be prepared to support the statement of accounts. It must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the relevant financial year. The Explanatory Foreword to the Accounts that in previous years has been required under the CIPFAA/LASAAC Code of Practice on Local Authority Accounting is expected to meet this requirement as an interim measure for 2015/16 until further guidance is issued by CIPFA.

List of appendices to this report:

None

List of Background Papers:

CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting
International Financial Reporting Standards
Local Audit and Accountability Act 2014
The Accounts and Audit Regulations 2015

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