Audit and Assurance Committee

Date: 18 December 2013

Item 10: **Changes in Legislation and Accounting Standards Impacting on TfL**

This paper will be considered in public

1 Summary

1.1. The purpose of this paper is 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 2014.

2 Recommendation

2.1. The Committee is asked to note the paper.

3 Background

3.1. 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 2013/14 published by CIPFA ("the Code").

3.2. 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.

3.3. This update reflects any changes to the Code, other changes to International Financial Reporting Standards ("IFRS") and changes resulting from amendments to the Companies Act 2006 ("the Act") which are considered likely to have an impact on TfL's financial statements for the year ending 31 March 2014.

4 Developments In IFRS Impacting on the Code in 2013/14

4.1. The following paragraphs outline the changes to IFRS that will materially impact TfL's reporting under the Code for the 2013/14 financial year.

IAS 19 (as revised in 2011) Employee Benefits

4.2. The changes to IAS 19 primarily impact the accounting for defined benefit pension plans. The amended version of IAS 19 replaces the interest cost and expected return on plan assets with a single net finance cost. This new net finance cost represents interest on the net defined benefit pension deficit. The change in calculation methodology will generally increase the net finance cost and therefore reduce the Surplus on the Provision of Services, with an equal and opposite adjustment to the actuarial loss or gain.

4.3. For the TfL Group, the impact of the changes on figures reported for the year ended 31 March 2013 would be to increase the net interest charge by approximately £69m and to reduce the actuarial loss on defined benefit pension schemes by the same amount. There would be no impact on the defined benefit obligation recognised on the Balance Sheet. The revised standard also introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Annual Improvements to IFRSs 2009-2011 Cycle

4.4. These improvements include changes to the guidance surrounding the capitalisation of borrowing costs on assets already under construction as at the date of transition to IFRS, stipulating that interest should be capitalised on these projects from 1 January 2009. Under its previous accounting policies the Group only capitalised interest on qualifying assets for which construction commenced post 1 January 2009.

4.5. The Group will restate comparative amounts on a retrospective basis for the impact of this change. This is expected to result in a reduction in financing and interest expenditure for the year ended 31 March 2013 of approximately £33m and an increase in the net book value of property, plant and equipment of £64m.

5 Developments in IFRS likely to Impact on the Code in Future Years

IFRS 13 Fair value measurement

5.1. This standard is applicable under full IFRS reporting for the year ended 31 March 2014 and so will be applied in the financial statements of TfL's subsidiary companies for the 2013/14 financial year. However it will not be applicable under the Code until 2014/15 and hence will have no impact on disclosures in the financial statements of the Corporation or the consolidated TfL Group until this time.

5.2. IFRS 13 establishes a single source of guidance for fair value measurement and disclosures about fair value measurements that applies to both financial instruments and non financial instrument items for which other IFRSs require or permit fair value measurements and/or disclosures. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under

IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

6 Changes in Companies Act 2006

6.1. Recent changes under section 479A of the Companies Act 2006 enable certain UK subsidiaries to claim exemption from audit. The exemption is conditional on the parent undertaking giving a guarantee to its subsidiary in respect of all liabilities of that subsidiary outstanding at the balance sheet date.

6.2. Under the changes to the Act only a parent company is able to provide the requisite guarantee, but it is hoped that in the near future legislation will be passed that would allow it to be provided by the Corporation.

6.3. For the year ending 31 March 2014, the holding company for TfL's trading subsidiaries, Transport Trading Limited, would be in a position to offer the guarantee to a majority of its subsidiaries. If the option is taken up, it is anticipated that the exemption from audit would provide significant savings to the Group in respect of its external audit fee and in terms of staff time saved in dealing with audit queries and information requests.

6.4. KPMG's Audit Plan, presented as item 5 on this agenda, has been drafted on the basis that the majority of TfL's subsidiaries will not require an audit opinion. The consequent reduction in the audit fee amounts to over £200k.

List of appendices to this report:

None

List of Background Papers:

None

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