

## **Audit and Assurance Committee**

**Date: 16 March 2022**

**Item: Critical Accounting Policies**

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### **1 Purpose and decision required**

- 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 2022.
- 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 year ending 31 March 2022.

### **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 Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 ("the 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 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 2021/22 Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or after 1 April 2021.
- 3.3 This paper deals with changes to the critical accounting policies as they relate to the Statement of Accounts for the year ending 31 March 2022.

## **4 Developments in 2021/22 Code**

- 4.1 The 2021/22 Code introduces a small number of amendments to the accounting requirements, which are described below. These amendments are not expected to have a material impact on the TfL's Statement of Accounts for the year ending 31 March 2022.

### **Reporting requirements of Interest Rate Benchmark Reform**

- 4.3 Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform and additional disclosures related to interest rate benchmark reform.
- 4.4 The impact of the Interbank Offered Rate (IBOR) reform has been documented and it has been assessed to have minimal impact on TfL's Accounts for 31 March 2022 year end. The instruments that used to reference the GBP London Interbank Offered Rate (LIBOR) are lease contracts and interest rate swaps hedging the finance cost related to those leases. The interest rate swaps were treated in accordance with normal IFRS 9 hedge discontinuation rules, while the leases met the economically equivalent criteria to be able to apply the practical expedient allowed under the guidance for the continuation of hedging.

### **Reporting of Estimation Uncertainty**

- 4.5 The Presentation of the Financial Statements section has been amended to include a reference to IAS 1 Presentation of Financial Statements, with respect to the reporting of estimation uncertainty.

### **Replacement of IPSAS 29 with IPSAS 41 Financial Instruments**

- 4.6 The Financial Instruments section has been amended to recognise that IPSAS 29 Financial Instruments: Recognition and measurement, has been replaced with IPSAS 41 Financial Instruments. This does not change the measurement and recognition provisions.

### **Definition of a Business: Amendments to IFRS 3**

- 4.7 Definition of a Business: Amendments to IFRS 3 have been introduced in the 21/22 Code. The amendments clarify the definition of a business, with the aim of helping entities to determine whether a transaction should be accounted for as an asset acquisition or a business combination.

### **IFRS 16 Leases**

- 4.8 CIPFA/LASAAC has agreed to defer the adoption of IFRS 16 to the 2022/23 Code, meaning that, for local authorities generally, IFRS 16 will need to be adopted from 1 April 2022. The TfL Group, however, with the agreement from CIPFA/LASAAC, early-adopted IFRS 16 from 1 April 2019, to be consistent with the adoption date under the IFRS standards that are relevant for all its subsidiary entities. TfL also adopted the Code interpretation of IFRS 16 in relation to the accounting requirements for leases at peppercorn or nominal lease payments, or for nil consideration which stipulates that the principles in the Code for the treatment of

donated assets be followed.

- 4.9 For 2021/22 the Group has also adopted Amendments to IFRS 16 Covid-19 Related Rent Concessions. These amendments provide practical relief to lessees from applying IFRS 16 guidance on lease modification accounting for rental concessions arising as a direct consequence of the coronavirus pandemic.

## **5 UK Climate-related Financial Disclosure Regulations**

- 5.1 Mandatory climate-related financial disclosure requirements are brought into UK legislation for certain large companies from April 2022. The requirements will be based on the Task Force for Climate-Related Financial Disclosures recommendations which encourage disclosure across four key areas: governance, strategy, risk management, and metrics and targets.
- 5.2 In January 2022, The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 and The Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022 were made law. The proposals are implemented through secondary legislation amending the Companies Act 2006 and the Limited Liability Partnerships Act 2000.
- 5.3 TfL has a programme in place to develop its climate change reporting methodology in line with the requirements and will be reporting separately to the Committee on progress.

## **6 Future Changes to IFRS**

- 6.1 Other standards and interpretations mandatory for years commencing on or after 1 January 2022, include the following. These amendments are expected to have limited impact on the TfL Accounts for the year ending 31 March 2023.
- 6.2 Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use:-
- (a) Reference to the Conceptual Framework – Amendments to IFRS 3;
  - (b) Amendments from the 2018-2020 annual improvements cycle;
  - (c) Amendments to IAS 37 in relation to onerous contracts;
  - (d) IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter; and
  - (e) IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities.
- 6.3 Other standards and interpretations mandatory for years commencing on or after 1 January 2023, include the following; these new standards/amendments are expected to have limited impact on the TfL Accounts for the year ending 31 March 2024:

### **IFRS 17 Insurance Contracts**

- (a) this standard will replace IFRS 4 and provides an accounting model for insurance contracts that is more useful and consistent for insurers than the existing IFRS 4 standard;

The standard is not expected to have an impact on the TfL Group consolidated accounts;

- (b) amendments to IAS 1 on classification of current versus non-current Liabilities;
- (c) amendment to IAS 8 on Definition of Accounting Estimates;
- (d) amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements; and
- (e) amendment to IAS 12 on Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

**List of appendices to this report:**

None

**List of Background Papers:**

Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015, as amended.

Contact: Patrick Doig, Group Finance Director  
Email: [Patrick.Doig@tfl.gov.uk](mailto:Patrick.Doig@tfl.gov.uk)