

**Date:** 15 March 2023

**Item:** Critical Accounting Policies

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### **This paper will be considered in public**

## **1 Summary**

- 1.1 This paper updates the Committee on TfL's critical accounting policies to be applied in TfL's Statement of Accounts for the year ending 31 March 2023.
- 1.2 This update reflects any changes to the Chartered Institute of Public Finance and Accountancy (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 2023.

## **2 Recommendation**

- 2.1 **The Committee is asked to note this 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 Statement of Accounts 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 2022/23 Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or after 1 April 2022.
- 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 2023.

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

- 4.1 Mandatory climate-related financial disclosure requirements have been brought into UK legislation for certain large companies from April 2022. The requirements are based on the Task Force for Climate-Related Financial Disclosures (TCFD) recommendations which encourage disclosure across four key areas: governance, strategy, risk management, and metrics and targets.
- 4.2 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 and apply for the year ended 31 March 2023.
- 4.3 TfL has a programme in place to develop its climate change reporting methodology in line with the requirements and reported separately to the Committee in April 2022. Initial improvements were made to TfL's Annual Report and Statement of Accounts for the year-ending 31 March 2022, to make progress on the TCFD requirements ahead of them becoming mandatory.
- 4.4 For the TfL accounts for the year ending 31 March 2023, the complete TCFD requirements will be included in within the Narrative Report alongside the Enterprise Risk Management Framework mitigation disclosures.

## **5 Assessment on Developments in 2022/23 Code and IFRS**

- 5.1 The 2022/23 Code and IFRS introduce a small number of amendments to the accounting requirements, which are outlined in paragraphs 5.2 to 5.7 below. These amendments are not expected to have a material impact on the TfL's Accounts for the year ending 31 March 2023.

### **5.2 Annual Improvements to IFRS Standards 2018-2020**

There are minor changes made to IFRS 1, IFRS 9, IFRS 16 and International Accounting Standards (IAS) 41. None of these changes amend the fundamentals of the relevant standard, the improvements relate to clarifying or enhancing guidance.

### **5.3 Amendments to IAS 16: Property, Plant and Equipment: Proceeds Before Intended Use**

Proceeds from selling the output generated when the item of property, plant and equipment is in the development phase, together with the costs of production, are now recognised in profit or loss.

### **5.4 Amendments to IAS 37: Onerous Contracts – Costs of Fulfilling a Contract**

IAS 37 has been updated to specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour or materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The 2022/23 Code has not explicitly adopted this change.

## **5.5 Amendments to IFRS 3: Reference to the Conceptual Framework**

There are minor changes to IFRS 3 with the addition of an explicit comment that contingent assets acquired as part of a business combination are not recognised (unlike contingent liabilities).

The 2022/23 Code has not explicitly adopted this change.

## **5.6 IFRS 16 – Deferral of CIPFA Mandatory Adoption**

CIPFA/LASAAC has agreed to defer the adoption of IFRS 16 to the 2024/25 Code, meaning that, for local authorities generally, IFRS 16 will need to be adopted from 1 April 2024. 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.

For 2022/23 the Code has extended the early-adoption option to all parties.

## **5.7 CIPFA Code – Accounting for Infrastructure Assets – Temporary Solution**

A temporary solution has been implemented for years beginning 1 April 2021 to 31 March 2025, which features optional temporary relief to not report gross cost and accumulated depreciation for infrastructure assets. This was due to ongoing issues in local government audits particularly around the derecognition where replacement expenditure was incurred on existing highways infrastructure assets.

This has not been a significant audit issue for TfL and therefore we are not adopting this temporary solution.

# **6 Future Changes to IFRS**

6.1 Other standards and interpretations mandatory for years commencing on or after 1 January 2023, include those listed below. These amendments are expected to have limited impact on the TfL Accounts for the year ending 31 March 2024:

- (a) retirement of IFRS 4 and replacement by IFRS 17 Insurance Contracts;
- (b) initial application of IFRS 17 and IFRS 9 – Comparative Information;
- (c) amendments to IAS 1: Disclosure of Accounting Policies;
- (d) amendments to IAS 8: Definition of an Accounting Estimates; and
- (e) amendments to IAS 12: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction.

6.2 Other standards and interpretations mandatory for years commencing on or after 1 January 2024, include those listed below. These new standards/amendments are expected to have limited impact on the TfL Accounts for the year ending 31 March 2025:

(a) amendments to IAS 1: Classification of liabilities as current or non-current;

(b) amendments to IFRS 16: Lease Liability in a Sale and Leaseback; and

(c) amendments to IAS 1: Non-current Liabilities with Covenants.

**List of appendices to this report:**

None

**List of Background Papers:**

None

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