

Date: 5 June 2024

Item: Update on Key Accounting Issues

This paper will be considered in public

1 Summary

- 1.1 This paper provides an update on the preparation of the draft TfL Group Statement of Accounts for the year ended 31 March 2024, focusing on the key accounting issues under consideration.
- 1.2 A paper is included on Part 2 of the agenda, which contains supplementary information that is exempt from publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 in that it contains information on the financial or business affairs of TfL and where a claim to legal professional privilege is being made. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

- 2.1 **The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda.**

3 Progress Update

- 3.1 The draft Statement of Accounts are being 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, content and accounting policies followed in preparing the Statement of Accounts are as prescribed in the Regulations and by the Code of Practice on Local Authority Accounting which is developed and published by the CIPFA/LASAAC joint committee (the Code). The Code is based on International Financial Reporting Standards.
- 3.2 The preparation of the draft Statement of Accounts for the year ended 31 March 2024 is well progressed, although the external audit by Ernst & Young LLP (EY) is ongoing. The draft Statement of Accounts will be published for public inspection shortly and, along with the accompanying draft Annual Report, will be presented to the Board for consideration at its meeting of 24 July 2024.
- 3.3 At the 24 July 2024 meeting of the Board, we will recommend a delegation is provided to the Committee to approve the Statement of Accounts. This will enable the Committee to approve the accounts at the meeting on 18 September 2024 and for the audited accounts to be finalised and published ahead of the deadline set in the Regulations of 30 September 2024.

4 Key accounting issues

Accounting Policies

- 4.1 There have been no changes to the Code for 2023/24 that have had a material impact on the financial statements.

Treatment of Historic Long Leases

- 4.2 An area highlighted in the audit work to date is the accounting treatment of historic 'long leases'. These are leases that have a term that may be for the majority of the useful economic life of the asset e.g. over 100 years. This may have an impact on the classification of some investment properties currently recognised on the TfL Group, Transport Trading Limited (TTL) Group and Places for London balance sheet.
- 4.3 We are finalising the accounting paper and collation of audit evidence, which we will share with EY in early June 2024.

Disclosure of IAS 19 Pension Fund Surplus

- 4.4 The Group Balance Sheet includes the surplus on the Public Sector section of the TfL Pension Fund, TfL's share of the surplus on the Local Government Pension Scheme, the surplus on the Crossrail Shared Cost Section of the Railways Pension Scheme (RPS), and the liability in respect of unfunded pension obligations, all calculated in accordance with International Accounting Standard (IAS) 19 Employment Benefits.
- 4.5 The IAS 19 basis of valuation is different to that used by the Fund Actuary in the triennial valuations which determine the level of contributions that TfL is required to make to the TfL Pension Fund. This is due to the different rules applying to the two valuation bases, particularly the different discount rate. The discount rate for the IAS 19 valuation is required to be based on AA corporate bond yields, but the discount rate for the funding valuation is based on expected returns on the Scheme's assets. There are also differences in the other assumptions. The pension fund Trustees are required to adopt "prudent" assumptions, whereas IAS 19 requires "best estimate".
- 4.6 The draft Statement of Accounts will recognise the full surplus of the TfL Pension Fund, the share of surplus on the Local Government Pension Scheme and the Crossrail Shared Cost Section of the RPS on the Balance Sheet under the IAS 19 basis of valuation.
- 4.7 IAS 19 limits the measurement of the defined benefit assets to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan'. It was concluded in the 2022/23 audit that recognition of the full surplus was the appropriate treatment.
- 4.8 The Code requires that IAS 19 does not impact on Council Tax rates. The income and expenditure account therefore includes an appropriation from or to the Pensions Reserve. The result of these entries is that the pension deficit is

not charged to the General Fund, and is instead charged to a separate reserve, and only the actual contributions paid to the pension funds impact on the General Fund.

Property Valuations

- 4.9 In 2019/20, the majority of TfL's investment properties were consolidated into a commercial property portfolio and transferred to a TfL subsidiary, now known as Places for London Limited. This was established as a vehicle to support delivery of homes under the Mayor's Transport Strategy and grow a sustainable income stream. In the last two financial years there have been further minor phases of other properties transferred.
- 4.10 All valuations were undertaken by external professionally qualified valuers in accordance with the appropriate sections of the Red Book, RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors and are compliant with International Valuation Standards.

5 Audit Opinion

- 5.1 Under the Local Audit and Accountability Act 2014, TfL's auditors, EY are required to opine on the following:
- (a) whether the financial statements, in their opinion, give a true and fair view of the financial position of the Transport for London Corporation and Group as at 31 March 2024 and of its expenditure and income for the year then ended;
 - (b) whether the financial statements have been prepared properly in accordance with the Code; and
 - (c) whether they are satisfied that, in all significant respects, TfL has put in place proper arrangement to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024.
- 5.2 EY's update in respect of audit progress in relation to the above is not covered by this paper but is addressed in the EY Report to Those Charged with Governance included elsewhere on the agenda.

6 Subsidiary Companies Audit Exemption

- 6.1 For the year ended 31 March 2014, the Group took advantage of changes under section 479A of the Companies Act 2006 that enable certain UK subsidiary companies to claim exemption from audit of their accounts.
- 6.2 The exemption is conditional on a parent undertaking giving a guarantee to its subsidiary in respect of all liabilities of that subsidiary outstanding at the balance sheet date, and on 5 June 2014, under authority delegated by the Board on 26 March 2014, the then Finance and Policy Committee agreed that, for the year ended 31 March 2014 and for future years until withdrawn, the holding company for TfL's trading subsidiaries, TTL, will offer the guarantee to a majority of its subsidiaries.

- 6.3 For the year ended 31 March 2024, Crossrail Limited is no longer required to be separately audited under the project agreements between the Department for Transport and TfL. Therefore, on 25 July 2024 we will request approval of an ongoing guarantee by TTL of all the outstanding liabilities of Crossrail Limited for the year ended 31 March 2024 and for future years until withdrawn by the Board. This will enable the Crossrail Limited accounts for the year ended 31 March 2024 to be exempt from audit.
- 6.4 This means that for the year ended 31 March 2024, all of TTL's subsidiaries, except for Places for London Limited, will claim exemption from audit.

List of appendices to this report:

A paper containing exempt supplementary information is included on Part 2 of the agenda.

List of Background Papers:

None

Contact Officer: Patrick Doig, Group Finance Director and statutory Chief Finance Officer
Email: PatrickDoig@TfL.gov.uk