

Highways Network Asset Briefing Number 1

Briefing from the Standards and Financial Reporting Team

December 2015

CIPFA/LASAAC Confirms the Move to Measuring the Highways Network Asset at Depreciated Replacement Cost for 2016/17

The CIPFA/LASAAC Local Authority Accounting Code Board has approved the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* ('the Code') for issue. The changes introduced by the Code will improve the effectiveness of local authority financial reporting and include the move to measuring local authority highways networks at Depreciated Replacement Cost (DRC) instead of historical cost.

CIPFA/LASAAC has been keen to ensure that for the Highways Network Asset (HNA) such a valuable asset is reflected at the true economic value and operational cost of the substantial resources held and maintained by local authorities. Therefore, as announced in the 2014/15 Code, the 2016/17 Code will introduce the requirement to measure the HNA at DRC and in accordance with the methodologies specified in CIPFA's *Code of Practice on Transport Infrastructure Assets* (2013) ('the Transport Code').

Importantly, in a period of restricted funding, CIPFA/LASAAC considers that it is essential that this information is also useful to authorities for asset management purposes. A central theme to the CIPFA Transport Code is that the same data should be used for asset management, financial management and financial reporting, thus ensuring effective use of assets.

Ian Carruthers, Chair CIPFA Standards said:

We welcome CIPFA/LASAAC's decision to move ahead on this important change which will provide invaluable information on local authority Highways Network Assets. The new information will be useful to the users of local authority financial statements and other key stakeholders in taking decisions on this important and valuable economic resource.

While deliberating over this change, CIPFA/LASAAC has considered the feedback provided from stakeholders and as a result has introduced transitional requirements such that the new accounting policies will be applied from 1 April 2016, with **no** requirement to restate the information in the preceding year (ie from 1 April 2015). It will confirm the transitional requirements in an update to the 2015/16 Code which is anticipated to be issued early in January 2016.

Scope

The CIPFA Technical Enquiry Service has received a number of queries about whether the new measurement requirements (ie measurement at depreciated replacement cost) for the HNA apply to district authorities; the response is below (see also our Technical Enquiry Service Frequently Asked Questions section of the CIPFA [website](#)).

Technical Enquiry Service FAQ:

Do the New Measurement requirements (ie measurement at Depreciated Replacement Cost) for the Highways Network Asset Apply to District Authorities?

The CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) has taken its early decisions on the measurement of the Highways Network Asset in the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (the Code). However, its decisions are still subject to the full due processes for the approval of the Code. These decisions might therefore be subject to change, so please look out for any further communications on this issue which will be published on the CIPFA website. It will also be important to consider the final wording of the approved 2016/17 Code once it has been published by CIPFA/LASAAC.

CIPFA/LASAAC has decided that the Highways Network Asset is defined in the 2016/17 Code as a single asset. You may wish to look at the consultation pages on the recent Code consultation to see more on the full definition (though it should be noted that these pages include the consultation Exposure Draft and some changes have been made to this definition). These changes are subject to approval and further changes may yet be made. However, the Exposure Draft does still provide a useful indication of the approach in the 2016/17 Code to defining the Highways Network Asset as a Network and a single asset.

CIPFA/LASAAC has indicated that the Highways Network Asset should only be recognised in the local authority financial statements if it meets the definition of a Network and specifically the Highways Network Asset. Informally, at the moment (as neither the Code nor the minutes for the CIPFA/LASAAC meeting have been approved) it is not anticipated that District Authorities will have an asset meeting the definition of the Highways Network Asset. However, local authorities will need to make their assessment against the definition of the Highways Network Asset in the 2016/17 Code.

Where district authorities agree with the view that they do not have an asset meeting the definition of a Highways Network Asset then they will be able to account for their infrastructure assets in accordance with the current provisions in the Code ie at historical cost.

For archived Code consultation information see the CIPFA [website](#).

Available Resources

LAAP Bulletin

For such a major change to local authority financial statements there are practical as well as technical accounting implementation issues. Local authorities will need careful and effective planning and appropriate systems in place. To assist with this CIPFA issued [LAAP Bulletin 100: Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17](#) in July 2014. LAAP will consider whether this bulletin should be updated in the light of CIPFA/LASAAC's decisions.

Highways Asset Management Finance Information Group (HAMFIG) supporting materials

There are a range of supporting materials developed by HAMFIG to help authorities comply with the requirements of the Transport Code. These are available on the CIPFA [website](#). It is anticipated that the 2015/16 Valuation Toolkit and the Structures Toolkit will be available in January 2016.

Code of Practice on Transport Infrastructure Assets Guidance Notes

The [Code of Practice on Transport Infrastructure Assets: Guidance Notes](#) was published in May 2015, giving both engineers and accountants the practical details they need to value their HNA. Please note that this guidance was published prior to CIPFA/LASAAC's most recent decisions.

Accounting guidance

Early guidance on the detailed accounting entries which will be required for the new measurement requirements is currently being finalised and will be available in 2016.

Further Briefings

It is anticipated that this will be the first of a series of briefings prepared by CIPFA to support the implementation of the new measurement requirements for the HNA. The briefings are intended to complement other forms of communication, such as LAAP bulletins and Technical Enquiry Service FAQs. Future briefings are likely to include the following topics: asset management, Depreciated Replacement Cost, audit issues, including central assurance process, and any other areas where we feel a briefing would be beneficial. If you have any suggestions for future topics, please contact Mandy Bretherton (mandy.bretherton@cipfa.org).

Briefings will be published on the Highways Asset Management Planning (HAMP) Network [website](#). Alerts to new briefings will be sent out through social media and the usual communication channels, such as the CIPFA networks and via Treasurers' Societies.



CIPFA
77 Mansell Street
London
E1 8AN
T: 020 7543 5600
W: cipfa.org
