

# report

CL 05 11-15

Board	CIPFA/LASAAC Local Authority Accounting Code Board
Venue	CIPFA Scotland Edinburgh
Date	4 November 2015
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Subject	Analysis of Responses to the Consultation on the 2016/17 Code – Highways Network Asset

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## Purpose

**To report on the responses to the consultation on the Draft 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom and seek approval of the 2016/17 Code provisions for the Highways Network Asset.**

## 1 Introduction

- 1.1 In total there were 72 responses (listed at Appendix A) to the public consultation on the draft 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom*. This is an extremely positive response rate and other than the responses to the Telling the Story consultation is the most responses the Board has received since the move to the IFRS based Code in 2010/11. The respondents have been listed in this report as it is the first of three reports on CIPFA/LASAAC's agenda which consider the amendments to the 2016/17 Code.
- 1.2 The responses received are summarised in the remainder of this report with more detailed analysis in Appendix B, section by section, followed by the Secretariat's comments and suggestions. Issues of principle are considered in the main body of the report. The statistical analysis of all the responses and individual comments are included in Appendix B. Minor corrections or other minor issues are not included in this analysis but may be included in amendments to the Exposure Draft of the Code.
- 1.3 Copies of the responses received will be made available to Board members electronically on request. The names of the confidential interested parties responding to the consultation will need to remain confidential to the Board. For the avoidance of doubt the body of the report does not refer to the individual entities.

## 2 Summary of Responses

- 2.1 Overall responses to the consultation were positive with between 64% and 69% of respondents agreeing with the proposals (Q1-4). Within Highways Authorities this positive response rate was between 72% and 78%.

2.2 Alongside the CIPFA/LASAAC consultation PISG consulted on preparedness obtaining 70 responses. Most authorities had identified their transport infrastructure assets, completed an initial consideration of materiality and reviewed asset data. In that consultation less than half of authorities had completed a systems audit although over 60% had undertaken a gap analysis. Over three quarters of authorities had engaged with key stakeholders and whilst only just over half had developed a project plan over 65% had set up a project group which included finance and highways professionals. Most authorities (57 or 81.43%) were either very confident or slightly confident about being able to implement the requirements for 2016/17. That said, authorities highlighted that successful implementation still required plans to be achieved and relied on the availability of key resources. A breakdown of the preparedness questionnaire results will be made available to CIPFA/LASAAC separately to this report.

### 3. Transition (Question 4)

3.1 CIPFA/LASAAC has remained concerned about the level of preparedness of local authorities for the move to the Highways Network Asset and therefore the Secretariat will deal with this issue first in this report. Overall 69% of respondents (76% of highways authorities) agreed with the transitional arrangements proposed in the consultation. However, a number of respondents when considering the transitional arrangements did refer to the difficulties of achieving full retrospective restatement; including a number of audit firms. One Scottish authority chief financial officer was concerned that he would not be able to verify the inputs to provide a true and fair view. A number of authorities at various junctures made commentary about the costs and benefits of the proposals.

3.2 An audit body suggested that under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* full retrospective restatement would not be required. However, the move will also require reclassifications and therefore under the Code paragraph 3.4.2.30 retrospective restatement is required. A precedent for this approach was also seen in the move to measuring heritage assets in the 2011/12 Code where full retrospective restatement was required.

3.3 Given comments received it may be difficult for some authorities to provide information for 1 April 2015 (see items 4.1 and 4.3 of Appendix B), the Secretariat has considered the options open to CIPFA/LASAAC for the introduction of the new requirements. It considers that there are three main approaches open to the Board

- i) implement in accordance with the approach outlined in the Exposure Draft ie full retrospective restatement from 1 April 2015 (full implementation in 2016/17);
- ii) defer full implementation until 2017/18 Code and financial year with full retrospective restatement from 1 April 2016 (deferral to 2017/18);
- iii) implement a disclosure approach from 1 April 2016, where the relevant information is provided in the disclosures with no preceding year information (disclosures in 2016/17).

The table overleaf considers the advantages and disadvantages of these three options.

Option	Advantages	Disadvantages
Full implementation in 2016/17	<ul style="list-style-type: none"> <li>▪ Theoretical opportunity for full compliance with the requirements.</li> <li>▪ Less risk of challenge from external stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Information to be produced as at 1 April 2015 with some local authorities highlighting this as a concern.</li> <li>▪ Risk of qualification, particularly for 2015/16 information.</li> <li>▪ Burdensome for local authority practitioners.</li> <li>▪ Qualification risks will be imported into WGA information.</li> </ul>
Deferral to 2017/18	<ul style="list-style-type: none"> <li>▪ Reduction of the implementation burden for local authorities.</li> <li>▪ Less risk of non-compliance.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Perception of local authority stakeholders that there might be more opportunities to postpone in future as this has been on CIPFA/LASAAC's development agenda for some time.</li> <li>▪ Danger that stakeholders will delay further work until deadlines approach.</li> <li>▪ Loss of reputation with those authorities that have put effort into preparations.</li> <li>▪ Concern from external stakeholders that implementation is delayed.</li> <li>▪ Concern about the effects on the WGA qualifications.</li> <li>▪ The delay to 2017/18 will coincide with the first year for faster closing for English local authorities.</li> </ul>
Disclosures in 2016/17	<ul style="list-style-type: none"> <li>▪ Implementation in 2016/17 with clear understanding and message for all stakeholders that implementation will take place.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The changes are not fully implemented in local authority financial statements in 2016/17.</li> <li>▪ This will mean that the WGA qualification may remain for</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Less risk of qualifications and the impact of any qualifications are reduced ie any qualifications are on disclosures and not information in the balance sheet.</li> <li>▪ Information is available for WGA for 2016/17.</li> <li>▪ Allows for a staged process for bedding in the changes and will provide accurate information for proper comparison in the 2017/18 financial statements (ie avoids distortion effect in 2016/17).</li> <li>▪ Maintains momentum for work with local authorities and auditors on preparations for implementation.</li> </ul>	<p>the 2016/17 year for preceding year information.</p>
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3.4 Taking into consideration the feedback from respondents and the option analysis the Secretariat would therefore recommend that the introduction of the new requirements should commence from 1 April 2016. It also recommends that this information should be included in disclosures by including one year's information in the financial statements.

3.5 Following this recommendation the Secretariat has included Section 4.11 in a new Appendix D, including its proposals for the disclosure requirements. With the exception of appropriate cross references to the Appendix no further amendment has been included in the 2016/17 Code.

3.6 If CIPFA/LASAAC agrees with the proposals the reporting requirements for the introduction of new changes in the 2015/16 financial statements under IAS 8 will also need to be amended by Code Update (see 2015/16 Code Appendices C and D which require estimates on the effect of the financial statements for the move to measuring transport infrastructure assets at DRC).

**CIPFA/LASAAC is invited to consider the level of preparedness of local authorities, the advantages and disadvantages of three options outlined above and whether it supports the option to include the Highways**

**Network Asset as a disclosure note in accordance with the provisions in the Code (see CD2).**

- 4 Scope, Definition and Recognition of the Highways Network Asset
- 4.1 CIPFA/LASAAC considered the economic rationale for treating the Highways Network Asset (HNA) as a single asset in its ITC. This was supported by the majority of respondents to the consultation with 50 (69%) respondents concurring with the proposals and 10 (14%) disagreeing. When the statistics are examined for the 49 Highways authorities the support is even more positive with 38 (78%) supporting the proposals and only 6 (12%) disagreeing.
- 4.2 A confidential respondent and a firm did not agree with this approach. The confidential respondent argued that this was not consistent with the bodies following the FReM because it is a single type of carriageways maintained to the same standard. This might be true; however, these bodies still recognise structures ie bridges as a part of the same asset and these cannot be measured at the same standard as carriageways.
- 4.3 The same confidential respondent considered that the asset should be described as the Transport Infrastructure Asset with the seven classifications analysed separately. This does not agree with CIPFA/LASAAC's own views on the economic nature of the flows of service potential as described above and the Secretariat has clarified the nature of the asset in 4.11.2.1.
- 4.4 A firm referred to paragraph 9 (second sentence) of IAS 16 *Property, Plant and Equipment* which sets out that it may be appropriate to aggregate individually insignificant items, however, the Secretariat would argue that this sentence in paragraph 9 is not relevant to the argument as these insignificant items are grouped after a decision on the asset is taken. The relevant sentence in IAS 16 is; "This Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment". The Secretariat considers in accordance with CIPFA/LASAAC's decisions in the ITC eg that the service potential for a bridge would be extremely low, if not non-existent, if the bridge were not attached to a road and the remainder of the network. The draft of the Code has therefore not been amended and the asset remains defined as the HNA.
- 4.5 A local authority respondent considered that it would be easier if the Transport Code also referred to the HNA, a view echoed by one of the firms. The Secretariat agrees and considers that CIPFA/LASAAC might usefully recommend a review of the Transport Code for consistency with the Accounting Code and an update to the Transport Code be issued before implementation in the Accounting Code.
- 4.6 There were also a number of more detailed queries in relation to the components of the HNA. This includes more detailed information/description of the land element of the Network being required and the inclusion of other segregated footways or highways. The Secretariat considers that this will be addressed by the Transport Code and application guidance. The Secretariat has included some more detail in relation to land but is seeking/will seek further assistance on both these elements from PISG and HAMFIG.
- 4.7 One authority suggested that non-highways authorities should be exempt from the requirements of the Code to measure transport infrastructure assets at DRC. The Secretariat considers that with the clearer definition of the HNA, it is unlikely that district authorities will have a network of infrastructure components. It may

have individual assets that meet the definitions of elements of the HNA but it does not have a Network and thus meet the definition of a HNA.

- 4.8 In a similar query a number of respondents questioned whether Housing Revenue Account transport infrastructure should be valued in accordance with the Transport Code and were concerned about the impact that this could have on the HRA. The Secretariat considers though that this is a matter which would need to be dealt with by means of application guidance.
- 4.9 A number of respondents considered that the Code should be clearer on the treatment of subsequent expenditure. The Secretariat has added some minimal clarification but considers that both sentences in paragraph 4.11.2.3 are clear that revenue maintenance should not be added to the HNA as capital expenditure.

## 5. Measurement of the Highways Network Asset

- 5.1 The majority of respondents 46 (64%) supported the approach in the consultation paper to measuring the HNA, with 13 (18%) of respondents disagreeing. For the 49 Highways authorities 35 (72%) respondents supported the proposals with 10 (20%) of authorities agreeing.

### *Queries on Items of Detail*

- 5.2 There were a number of comments on the detail of measurement. The Secretariat considers that these will be dealt with in application guidance. An early draft of the relevant section of the Code Guidance Notes has already been produced by the Secretariat in accordance with the Exposure Draft of the Code (see items 2.4, 2.8, 2.10 and 2.13).

### *The Approach to Drafting the Accounting and Transport Code*

- 5.3 The audit community expressed some concerns over the current structure of the Transport Code, with one firm stating that the length and complexity makes compliance and audit compliance with the Transport Code difficult. A second firm commented that the Transport Code is not drafted appropriately to be considered as proper practices as it contains guidance and not principles and rules. It is noteworthy that other firms and audit bodies support the proposals in the Code. The Secretariat would also highlight that the Transport Code is a CIPFA Code of Practice and has been subject to formal consultation twice.
- 5.4 The Secretariat concurs that the measurement of the HNA is complex and this complexity has led to the need for a separate Code. It has always been the expectation that the Accounting Code would place heavy reliance on the Transport Code otherwise PISG would have drafted an Annex of the Accounting Code to prescribe the requirements. The Secretariat proposes that PISG be asked to review the layout of the Transport Code to make the core measurement principles clearer within the code.
- 5.5 An authority commented that a firm had indicated that the methodologies in the Transport Code were not allowable and also referred to the Code needing to specify indices and depreciation models. The current draft of the Code makes it clear that the methodologies specified by the Transport Code are allowable under the Accounting Code (see item 2.11 of Appendix B).

**CIPFA/LASAAC is requested to consider the comments in paragraph 4.3 to 4.5 above and consider whether more detail should be included in the Accounting Code for the measurement requirements for the Highways Network Asset and agree to refer this issue to PISG.**

*The Treatment of Accumulated Depreciation and Impairment and Annual Depreciation*

- 5.6 A confidential respondent, a firm and an authority expressed concern about the treatment of accumulated depreciation. One respondent noted that this had caused confusion with the different treatment for “other” property, plant and equipment for their clients. CIPFA/LASAAC was clear in the ITC that the methodology for the option where the gross carrying amount is adjusted in a manner which is consistent with the revaluation of the carrying amount (ie where depreciation is not eliminated) provided better information for the users of the financial statements.
- 5.7 An authority considered that the Code should permit both methods in IAS 16 for the treatment of accumulated depreciation on the grounds of consistency. However, based on the approach outlined in the ITC and above and the benefits considered by CIPFA/LASAAC the Secretariat recommends that the Code only permits one option.

**CIPFA/LASAAC is requested to agree with the approach to accumulated depreciation for the Highways Network Asset (see CD 2 Appendix D paragraph 4.11.2.12).**

- 5.8 A firm focussed on the measurement detail which presumes that the performance of the HNA is maintained by replacement and it commented that it was not clear that the expenditure matches depreciation is not reasonable. It was also concerned that the treatment of changes to the estimated age is a revaluation movement (see items 2.5 and 2.7 of Appendix B). There is a clear definition of annual depreciation in the Transport Code based on the estimation of consumption of service potential<sup>1</sup>. The use of age to determine where on the deterioration line and hence the condition of the asset was discussed at CIPFA/LASAAC’s 10 June 2015 meeting and was covered in paragraph 29 of the ITC.
- 5.9 A firm suggested that local authorities should be allowed to use the FReM approach to estimating annual depreciation and considered that the method of estimation of depreciation should not be described as an interpretation as the method was similar to renewals accounting (see item 2.14 in Appendix B). The Secretariat would note as it did at the 10 June 2015 meeting that IAS 16 does not accommodate the measurement of networks of assets where substantial amounts of expenditure of its components are replaced on an annual basis. The definition of annual depreciation is deemed to be consistent with IAS 16 as the method for estimating depreciation is a means of estimating the annual consumption of the asset and is therefore defined as an interpretation. It would not recommend changes for this in the Code.

**CIPFA/LASAAC is invited to consider whether it has any further comments on the estimation of depreciation in the Transport Code and the Accounting Code.**

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<sup>1</sup> See definition for annual depreciation from the Transport Code Glossary in item 2.5 in Appendix B

## 6. Derecognition

- 6.1 The majority of respondents (49 (68%)), agreed with the approach in the Accounting Code for the derecognition of components of the HNA, 6 respondents (8%) disagreed. For the 49 Highways authorities responding 38 (78%) supported the proposals with 5 (10%) authorities disagreeing.
- 6.2 Two firms disagreed, indicating that local authorities should have the information to be able to estimate the service potential remaining of a component being replaced and therefore the rebuttable assumption at paragraph 4.11.2.14 is not necessary. The Secretariat does not concur. This might be easier for some components of the HNA but does not consider that this will be easily measurable for carriageways and footways, where there are numerous ways in which a part of the HNA might be replaced.
- 6.3 A number of authorities raised detailed application issues at 3.3 and 3.4 of Appendix B. The Secretariat considers that these arise in part as a result of authorities not fully understanding the treatment of accumulated depreciation under the non-elimination methodology and its interaction with the methodologies in the Transport Code. This will largely be dealt with in application guidance.
- 6.4 One authority summarised the difficulties of identifying components in the Highways Network Asset at item 3.7 of Appendix B and suggested that the nature of the components should be considered by the Accounting Code. It is not clear, however, how this might be reflected in the Code and the main provisions on measurement and derecognition still remain necessary.

**CIPFA/LASAAC is invited to consider whether it agrees to with the provisions on derecognition in section 4.11 of the Code included in Appendix D (ref CD2).**

## 7 Draft 2016/17 Code

- 7.1 Subject to the decisions of CIPFA/LASAAC on this report and on CL 08-11-15 the report on the main Code (CL 06-11-15) considers the remaining editing processes for the Code.

## Recommendations

**The Board is invited to consider the individual issues brought to its attention above and consider for approval the 2016/17 Code.**

## Appendix A

### List of Respondents

Aberdeenshire Council	Argyll and Bute Council	Barnsley Metropolitan Borough Council
Bournemouth Borough Council	Bracknell Forest Council	Calderdale Metropolitan Borough Council
Chelmsford City Council	Coventry City Council	Conwy County Borough Council
Dartford Borough Council	Daventry District Council	Derbyshire County Council
Devon County Council	East Ayrshire Council	East Riding of Yorkshire Council
Eden District Council	Essex County Council	Glasgow City Council
Gloucestershire County Council Pension Fund	Guildford Borough Council	Gwynedd Council
Hampshire County Council	Hertfordshire County Council	Inverclyde Council
Kent County Council	Kettering Borough Council	Lancashire County Council
Leeds City Council	Leicester City Council	London Borough Camden
London Borough of Hackney	London Borough of Harrow	London Borough of Islington
London Borough of Tower Hamlets	Manchester City Council	Milton Keynes Council
Newcastle City Council	Newport City Council	Northamptonshire Pension Fund
North Ayrshire Council	North East Lincolnshire Council	North Lanarkshire Council
North Tyneside Council	Sandwell Metropolitan Borough Council	Sheffield City Council
Somerset County Council	South Lanarkshire Council	Stoke on Trent City Council
Stirling Council	Suffolk County Council	Surrey County Council
Torfaen County Borough Council	Wakefield MDC	Walsall Council
West Lindsey District Council	Compass Point Business Services on behalf of South Holland and East Lindsey District Councils	Police and Crime Commissioner for Humberside and Police and Crime Commissioner for South Yorkshire - Joint Response
National Police Chief Council sent by South Yorkshire Police	Audit Scotland	National Audit Office
Wales Audit Office	BDO LLP	Grant Thornton UK LLP
KPMG LLP	Mazars LLP	Arlingclose

Capita	Peter Worth Technical Accounting Solutions	Confidential
Confidential	Confidential	Confidential

## SUMMARY OF CONSULTATION RESPONSES

**Note – a group of interested parties best described as professional accounting firms that audit local authorities is abbreviated in this Appendix to firm or “firms”**

### *Statistical Analysis of Responses*

#### ***The Measurement of the Highways Network Asset***

Question	Agree	Disagree	No Comment
1 Do you agree with the proposed new Section 4.11 and the proposed amendments to section 4.1 of the Code for the definition, recognition and scope of the Highways Network Asset? If not, why not? What alternatives do you suggest?	50 (69%)	10 (14%)	12 (17%)
2 Do you agree with the proposed new Section 4.11 and the proposed amendments to section 4.1 of the Code for the measurement of the Highways Network Asset? If not, why not? What alternatives do you suggest?	46 (64%)	13 (18%)	13 (18%)
3 Do you agree with the proposed new Section 4.11 and the proposed amendments to section 4.1 of the Code for the derecognition of components of the Highways Network Asset? If not, why not? What alternatives do you suggest?	49 (68%)	6 (8%)	17 (24%)
4 Do you agree with the transitional provisions in the Code for the move to measurement of the Highways Network Asset at DRC? If not, why not? What alternatives do you suggest?	50 (69%)	8 (11%)	14 (20%)

### ***Statistics for Highways Authorities Only***

Question	Agree	Disagree	No Comment
1 Do you agree with the proposed new Section 4.11 and the proposed amendments to section 4.1 of the Code for the definition, recognition and scope of the Highways Network Asset? If not, why not? What alternatives do you suggest?	38 (78%)	6 (12%)	5 (10%)

2	Do you agree with the proposed new Section 4.11 and the proposed amendments to section 4.1 of the Code for the measurement of the Highways Network Asset? If not, why not? What alternatives do you suggest?	35 (72%)	10 (20%)	4 (8%)
3	Do you agree with the proposed new Section 4.11 and the proposed amendments to section 4.1 of the Code for the derecognition of components of the Highways Network Asset? If not, why not? What alternatives do you suggest?	38 (78%)	5 (10%)	6 (12%)
4	Do you agree with the transitional provisions in the Code for the move to measurement of the Highways Network Asset at DRC? If not, why not? What alternatives do you suggest?	37 (76%)	6 (12%)	6 (12%)

### Comments and Responses

	Issue	Secretariat Response
	<b><i>Question 1 – Highways Network Asset (HNA) definition, recognition and scope.</i></b>	
1.1	A confidential respondent noted that the move to the HNA was not consistent with the Board's decision on the nature of the asset in 2015/16 when the suggestion that the asset should only be applied to Highways authorities was altered to be based on the type of asset and not the authority type.	<p>It is agreed that CIPFA/LASAAC did take this decision. However, this was before the Board took the decision to measure the asset as a single asset because of the nature of the flow of the economic benefits and service potential in the highways network asset and the difficulty in clearly and fully separating the individual flows of service potential. It is argued that the measurement principles in the Accounting Code and the Transport Code were aimed at a network of components rather than individual assets. It is possible that smaller local authorities might have inventories of components that are similar to elements of the Highways Network Asset (HNA) but they are unlikely to have an asset meeting the definition of a Highway Network Asset. This respondent also argues later that the Network would not apply to a non-highway authority.</p> <p><b>The Secretariat recommends no</b></p>

	<b>Issue</b>	<b>Secretariat Response</b>
		<b>further action.</b>
1.2	The same confidential respondent argued that the HNA is different from a motorway network where arguments that a single type of carriageway is maintained to the same standard.	Although the Highways England and Transport Scotland carriageways are similar these bodies also include structures and other components which will be of a varying nature and these are treated as one asset.  <b>The Secretariat recommends no further action.</b>
1.3	The same confidential respondent also argued that this would suggest that the correct accounting is to have individual revaluation reserves for each asset or similar groupings of asset split between the revaluation reserve and the General Fund and the HRA	IFRS only requires one revaluation reserve. Statutory accounting requirements do not require the revaluation reserve to be split between the General Fund and HRA. It is possible that the respondent might have been referring to revaluation reserve balances.  <b>The Secretariat recommends no further action.</b>
1.4	The same confidential respondent also requires that there should be a Transport Infrastructure Asset classification with the seven classifications analysed separately.	CIPFA/LASAAC was clear that it wanted to refer to a term more commonly understood by the users of the financial statements. The Secretariat does not consider that the economic nature of the network would require any changes to the classification of the network as an asset and therefore there is no need to disclose at a lower level of detail.  <b>The Secretariat has made additional clarifications for this purpose.</b>
1.5	A firm disagreed that the Highways Network Asset should be treated as a single asset as the Transport Code clearly identifies different asset types. It noted that IAS 16 does not prescribe the unit of measure of recognition and per the standard judgement might be required. It notes that IAS 16 Property, Plant and Equipment sets out that paragraph 9 of IAS 16 states that "It may be appropriate	CIPFA/LASAAC's consultation paper and views were clear about the interconnected network of assets. For example, the DRC of the service potential of a bridge would be very different (and probably zero <sup>1</sup> ) if it were not connected to a road and therefore should be measured as one asset. As has been previously considered by CIPFA/LASAAC IAS 16 does not focus on

<sup>1</sup> The economic benefits of the scrap value may not be zero.

	<b>Issue</b>	<b>Secretariat Response</b>
	to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value." The firm considers that the asset types identified by the Code it does not consider should be aggregated.	<p>issues of public sector valuations and particularly the measurement of service potential. In addition the reference in paragraph 9 to moulds etc is not relevant to this question as this is referring to aggregation after the measure of recognition decision is made. (As is also discussed this definition of an asset is consistent with the approach used by Highways England and Transport Scotland). The glossary also defines highways infrastructure/highways infrastructure asset as the network of highways, footways and cycleways and structures, street lighting and other assets that are directly associated to them thus supporting the reporting requirements of a Network. Other firms and audit bodies have agreed that the highways network should be treated as a single asset.</p> <p><b>The Secretariat recommends no further action.</b></p>
1.6	A number of respondents suggested that the Code should be clear about the recognition of subsequent expenditure noting a concern that the expenditure might be confused with revenue maintenance.	<p>The Code clarifies that expenditure for the HNA should be consistent with the definition of an asset and the relevant criteria for asset recognition in section 4.1. The Secretariat has sought to make some minor clarifications. This issue arises for most property, plant and equipment.</p> <p><b>Minor amendment made.</b></p>
1.7	One authority whilst agreeing that the HNA was a better description was concerned that the title and references in the Transport Code might cause confusion and recommended that these should be amended.	<p>It is possible that the economic and financial reporting discussions and decisions made by CIPFA/LASAAC might need to be reflected in the Transport Code. It is suggested that this be recommended to the PISG.</p> <p><b>The Secretariat recommends that this is referred to the PISG.</b></p>

	<b>Issue</b>	<b>Secretariat Response</b>
1.8	One authority suggests that non-highways authorities should be exempt from the requirements of the Code to measure the HNA at DRC.	<p>The Secretariat considers that it is unlikely that non-highways authorities will have a network of highways assets as described in the Code consultation and the Code. The Board's views are sought as to whether or not it considers that the Code should be more prescriptive than this.</p> <p><b>CIPFA/LASAAC's views are sought on this issue.</b></p>
1.9	One authority requested further clarification on the inclusion or otherwise of segregated footways or highways.	This issue has been raised by externally and needs to be raised with PISG.
1.10	One authority requested clarification of whether the HRA is within the scope of the HNA. A firm also raised the issue of the HRA being within the scope of transport infrastructure assets.	<p>In theory clarification that the HNA is a single asset might reduce the impact of this issue. If the roads are not managed by the Highways Authority then they are likely to be outside of the definition of the Network. Assets within the HNA would normally be General Fund assets. However, this would be a matter for the individual authority to ultimately decide.</p> <p><b>The Secretariat recommends no further action.</b></p>
1.11	An authority considered that measuring the HNA was not consistent with IFRS 13 and that inflating the asset values to cash values that are not realisable will be misleading to the readers of the financial statements.	<p>This is a conceptual issue which has been much debated by CIPFA/LASAAC on the move to measuring property, plant and equipment at current value. The HNA is excluded from the scope of measurement under IFRS 13 in accordance with the principles already established by CIPFA/LASAAC in the 2015/16 Code.</p> <p><b>The Secretariat recommends no further action.</b></p>
1.12	A number of authorities mentioned the costs and benefits of implementing the new measurement requirements. A Scottish authority commented that their Councillors had questioned the relevance	CIPFA/LASAAC views are sought though the Secretariat would note that this is the fifth Code consultation which has focused on implementing the measurement requirements of the

	<b>Issue</b>	<b>Secretariat Response</b>
	of the valuations. One authority commented that the correct process would have been for the Highways Service to be required to be required to implement the Transport Code first; this would mean that the data would be ready and available. It noted that the process is working the opposite way and this is a huge task.	Transport Code.  <b>The Secretariat invites the Board to consider these comments.</b>
1.13	The definition of land is not very detailed. More information could be added.	The Secretariat has included additional information.
	<b><i>Qu 2 HNA Measurement</i></b>	
2.1	A firm stated that it did not agree with all the provisions in the new section 4.11. It sets out that for measurement purposes the Transport Code becomes proper practices. It noted its particular and illustrative concern for land valuations which are centrally provided but commented that it considered that "in our view, a full reconciliation between the provisions in the TIC and RICS definitions should be undertaken."	There is a close relationship with the Accounting Code and the Transport Code for the measurement of the HNA. It has always been the intention that the Accounting Code would rely on the measurement methodologies in the Transport Code, which although not formally a proper practice is a CIPFA Code of Practice. The Secretariat would note that the Transport Code has been subject to formal consultation twice, and these consultations have focussed on the measurement methodologies representing the value of the Highways Network Asset.  <b>The Secretariat recommends no further action but CIPFA/LASAAC might wish to make the PISG aware of these comments.</b>
2.2	A confidential respondent noted that "In Para 28 of the ITC it makes reference to Para 9.9.5 of the TIA Code as measuring annual depreciation in almost the same way as the FReM. This is not the case as the calculation for annual depreciation on modular footways merely identifies the change in condition and ignores the impact of in-year expenditure." The respondent suggests that the Transport Code should be amended.	The Transport Code paragraph 9.9.3 makes it clear that modular footways do not generally wear out through normal usage and therefore paragraph 9.9.5 is an estimate of the consumption of the asset.  <b>The Secretariat recommends no further action.</b>

	Issue	Secretariat Response
2.3	<p>The same confidential respondent noted that the treatment for accumulated depreciation for the HNA is different from the treatment of other property, plant and equipment. They note that their clients are confused by this and that there is no explanation other than the information is better presented this way for the HNA. A second firm referred to the different treatment being confusing for the readers of the accounts. An authority indicated confusion on this issue and requested more examples.</p>	<p>CIPFA/LASAAC took this decision as the information requirements for the HNA presented the position from Gross Replacement Cost (GRC) to Depreciated Replacement Cost (DRC) and therefore fuller information was available to set out this trail for the users of local authority financial statements. The argument also being more about whether GRC should have a greater focus in disclosures where an entire asset (which is also a class) is measured at DRC. Although this is different from other property, plant and equipment it is considered that mitigation is offered as this information is presented separately from other PPE.</p> <p>The Secretariat has drafted early guidance (the relevant chapter in the Code Guidance Notes) which has included two sets of worked examples.</p>
2.4	<p>A firm indicated that it was concerned about the clarity of the measurement requirements. The firm noted that the Transport Code does not provide a clearly defined set of rules as is usually provided by accounting standards. <i>"The length and complexity makes compliance (and audit compliance) with the Transport Code difficult."</i> Therefore it considers that the Accounting Code should specifically bring in the required methodologies within the Transport Code in the Accounting Code or at the very least make specific references to the paragraphs in the Transport Code.</p> <p>The firm gave specific examples in relation to revaluations, annual depreciation and modern equivalent asset valuations.</p> <p>A second firm commented that the Transport Code is not drafted appropriately to be considered as proper practices as it contains guidance as opposed to principles and rules.</p>	<p>It has always been anticipated that due to the complexity and the practicalities that emanate from the measurement of the HNA that the methodologies for measurement of the Asset would be included in the Transport Code (otherwise the question would arise as to why produce a separate Code for measurement of these assets).</p> <p><b>CIPFA/LASAAC is invited to consider whether it remains content with this approach.</b></p> <p>It is likely to be a very complex process to stipulate which of the specific paragraphs of the Transport Code should be included in the Accounting Code if the second suggestion were to be included. It would also be very difficult to present this information in a format which is easily understood by accounts preparers.</p> <p>In terms of the Transport Code not providing a clearly defined set of rules</p>

	<b>Issue</b>	<b>Secretariat Response</b>
	This second firm indicated that it did not consider that the accounting policy was clear that the frequency of valuations should accord with other PPE.	<p>this is a matter which would need to be referred to PISG although the Secretariat would reiterate that the Transport Code has been subject to full consultation twice.</p> <p>The Code is clear that the same accounting policies apply for frequency of revaluations as for other PPE (this is included in paragraph 4.11.2.9. The Secretariat will seek opportunities to improve the clarity of these provisions. However, it would be in danger of highlighting frequency of valuations above other measurement provisions.</p> <p><b>The Secretariat requests CIPFA/LASAAC's views on this issue.</b></p>
2.5	A firm was concerned with the specifications in relation to annual depreciation which assume that performance of the asset is maintained by the replacement of service potential when it is worn out. It commented that it is not clear that the assumption that expenditure matches depreciation is reasonable.	<p>The PISG was aware of this issue and therefore annual depreciation in the Transport Code is defined as: the depreciation amount allocated each year, which in certain cases may be estimated by the aggregate cost of all the capital replacements/reinstatements needed to restore its service potential over the life cycle, spread over the estimated number of years in the cycle.</p> <p><b>The Secretariat recommends no further action.</b></p>
2.6	The same firm notes that the calculation of depreciation is not prescriptive and is aspirational.	<p>There are intended to be minimum requirements and more detailed requirements as asset management/financial information develops.</p> <p><b>The Secretariat recommends no further action for the Accounting Code though this might usefully be referred to the PISG.</b></p>
2.7	The same firm commented "Although not specifically covered by ED2, the ITC refers to the treatment of changes to the	<p>This is covered in paragraph 29 of the ITC.</p> <p>"The Guidance and supporting tools for</p>

	Issue	Secretariat Response
	<p>estimated age of an asset as a revaluation movement. We would otherwise expect this to be either impairment or depreciation charged to the CIES or where estimated age increases this would be as a result of enhancement or a correction of estimates/ assumptions. We would expect to see valuation changes as a result of changes in rates."</p>	<p>the measurement of transport infrastructure assets, including UK Pavement Management Systems (known as UKPMS), use the definition for annual depreciation and the specific definitions for each asset type for the calculation of annual depreciation. Condition is used as a proxy for age in order to establish where the assets sit on the depreciation line (ie per paragraph 8.5.5.1 of the Transport Code for carriageways). However, the gradient of the line which measures the annual depreciation does not change. In line with the Transport Code, the actual deterioration of the asset between years is not compared to the annual depreciation as this data is not currently readily available for authorities. It is, however, included in the measurement of accumulated depreciation. If the estimated age of the asset changes (up or down) by more than expected this impact is assumed to be a revaluation movement per paragraphs 4.1.2.34 to 4.1.2.36 of the Accounting Code and not a direct annual charge to the Comprehensive Income and Expenditure Statement (CIES)."</p> <p><b>This issue has been discussed by CIPFA/LASAAC at its meeting on 10 June 2015 does the Board have any further commentary.</b></p>
2.8	<p>An authority requested guidance on donated assets.</p>	<p>Donated components of the HNA should be measured in the same way as other assets or components.</p> <p><b>The Secretariat recommends no further action.</b></p>
2.9	<p>One Scottish authority raised concerns as to whether, "as proper officer in terms of Section 95 of the Local Government (Scotland) Act 1973, I would be able to verify the inputs used to enable me to certify that the financial statements give a</p>	<p>The first element is a concern. Hopefully the second would be corrected by SCOTS.</p>

	Issue	Secretariat Response
	"true and fair view". I also understand that errors have been identified in the centrally produced spreadsheet that is to be used to produce the financial information."	
2.10	A number of authorities sought views on detailed accounting issues including the entries for and the treatment of depreciated historical cost. One authority specified that the Code should stipulate how depreciated historical cost should be estimated. Authorities are also seeking whether the transfer between the revaluation reserve for the difference between historical cost depreciation and current value depreciation needs to be made.	<p>These issues are included in the early draft of the Code Guidance Notes. The Code does not currently specify the methodology for estimating the depreciated historical cost for infrastructure assets or other items of property, plant and equipment. The Secretariat would not recommend adding specific stipulation in the Code for this issue.</p> <p>The Code is clear that the transfer needs to be made and this is confirmed in the early draft guidance.</p> <p><b>The Secretariat recommends no further action for the Code.</b></p>
2.11	<p>One Council responded in relation to measurement:</p> <p>"Much more detail needs to be provided in the Code about allowable methodologies for calculating this. Our auditors have indicated that they do not agree with some of the methodologies in the transport infrastructure code, Therefore, if we are permitted to use these it needs to be explicitly stated. It should also be made clear that centrally provided rates should be used (unless the authority has evidence to the contrary, as for derecognitions) and what rates these are."</p> <p>The Council also referred to indices and depreciation methodologies for the same reasons.</p>	<p>The Accounting Code makes it clear that:</p> <p>"The Highways Network Asset shall be measured at Depreciated Replacement Cost in accordance with the methodologies specified in the CIPFA Code of Practice on Transport Infrastructure Assets." Therefore the methodologies in the Transport Code are allowed by the Accounting Code.</p> <p><b>The Secretariat recommends no further action (subject to the Board's decisions on the approach to the relationship between the Accounting and Transport Code's.</b></p>
2.12	The same authority stated that "the code proposes that accumulated depreciation	The Secretariat recommends that following CIPFA/LASAAC's previous

	Issue	Secretariat Response
	<p>will have to be restated proportionally when a revaluation takes place. We believe that, in order to ensure consistency with the treatment of other assets, there should also be an option to write off accumulated depreciation at revaluation."</p>	<p>decisions on consistency for other property, plant and equipment that this suggestion is not taken forward. Also to allow the elimination methodology as well is likely to lead to more confusion.</p> <p><b>The Secretariat recommends no further action.</b></p>
2.13	<p>The same authority stated that</p> <p>"Clarification about the treatment of highways assets under construction is required. It is proposed to treat all highways items as just one asset class, so will assets under construction be included within this or reported separately? Furthermore, how should highways assets under construction be valued, for example, will this be at cost?"</p>	<p>The Code is currently drafted so that assets under construction that will eventually be a part of the HNA are treated as PPE. It is recommended that this does not change.</p> <p><b>The Secretariat recommends no further action</b></p>
2.14	<p>A firm commented:</p> <p>"For some components (modular footways - see paragraph 28 of the ITC) the Transport Code follows the approach to core annual depreciation set out in the FReM. Given the scale of the information required to derive core annual depreciation charges we believe the Accounting Code should at least offer authorities the option of following the approach set out in the FReM, at least until information on highways inventory is more complete."</p> <p>"We also believe it is incorrect to state that this approach to depreciation is an interpretation of IAS 16 for a Network of Assets (para 27 of the ITC). This is similar to renewals accounting for infrastructure under the old UK GAAP standard (FRS 15) and this approach is specifically not allowed under IAS 16."</p>	<p>The PISG were aware of the specifications of the FReM when deriving their methodologies for measurement and did not consider them to be useful as a part of the objectives of Transport Code ie to use the same systems for asset management planning and financial reporting. The extract from the ITC sets out where PISG considered that an approach for a component of the HNA is similar to the FReM. It is unlikely to be cost effective to implement a part of the FReM methodology for estimating the depreciation and the consumption of service potential in accordance the FReM as it is not clear how the two methodologies would be brought together. The Transport Code includes the terminology reinstatement and replacement of service potential for the definition of annual depreciation and not maintenance.</p> <p>The Secretariat is aware of the provisions in FRS 15 <i>Tangible Fixed</i></p>

	Issue	Secretariat Response
		<p><i>Assets.</i> The term interpretation for the estimation of annual depreciation has been used following the 10 June 2015 meeting of CIPFA/LASAAC because this is a measure of the consumption of the service potential of the asset and thus deemed to be consistent with the approach in the IAS 16. The Secretariat would highlight as it did for CIPFA/LASAAC at its June 2015 meeting that IAS 16 does not accommodate the measurement of Network Assets where substantial amounts of the components of the Network is replaced on an annual basis.</p> <p><b>No further action.</b></p>
	Qu 3 HNA Derecognition	
3.1	<p>Two firms responded that information should be available at local authorities to be able to determine that there is an amount of useful life left in a component that is being replaced and therefore the rebuttable presumption at paragraph 4.11.2.14 ie the asset has reached the end of its useful life and/or has been fully utilised is not necessary.</p>	<p>This might be the case for some components of the Highways Network Asset. However, the Secretariat considers that it will be very difficult to measure the remaining service potential of carriageways, footways and some elements of structures, where there are numerous ways in which the component or part of the network may be replaced and therefore derecognition of the components being replaced is by no means straightforward.</p> <p><b>The Secretariat recommends no further action.</b></p>
3.2	<p>One of the firms indicated that the rebuttable assumption at paragraph 4.11.2.14 should be declared an adaptation of IAS 16.</p>	<p>The Secretariat considers that this is not an adaptation but an interpretation of IAS 16 and has added this to ED2. The Secretariat considers that with constraints in budgets described in many responses local authorities would not replace components unless the service potential is fully utilised.</p> <p><b>The Secretariat has clarified that the rebuttable assumption is an</b></p>

	Issue	Secretariat Response
		<b>interpretation.</b>
3.3	A number of authorities stress that the derecognition of components is unnecessary as the systems separately measure the accumulated depreciation of the asset at each year end and thus this would include any elements derecognised.	<p>The Secretariat concurs that the accumulated depreciation is separately measured under the systems required by the Transport Code and therefore in mathematical terms the derecognition transaction is not necessary. However, the Secretariat considers that transactions are necessary in accounting terms. In addition if these components are not derecognised then the valuation adjustments would be larger.</p> <p><b>The Secretariat recommends no further action.</b></p>
3.4	Two authorities note that derecognition does not take into account accumulated depreciation on the asset being derecognised, unless at this point it is assumed that the asset has been fully depreciated, in which case the carrying amount being derecognised will be nil.	<p>It is correct that the carrying amount of the accumulated depreciation should be zero. However, this transaction has not taken place and thus the derecognition entry is required.</p> <p><b>The Secretariat recommends no further action.</b></p>
3.5	<p>An authority noted:</p> <p>“We feel that the wording on components needs to be more specific to the Highways Network Asset. Whereas a building may have identifiable distinct components, the position for a road network is more fluid. There are an infinite number of ways in which a road network could be divided up. The intention may be that any material work carried out should be treated as a component, but this would be a component that only becomes identifiable when a decision is taken on what section of road is to be worked on. If so then some appropriate wording to explain this should be included in the Code. Consideration should also be given to how materiality should be judged. If the network is to be treated as one asset then it seems extremely unlikely that any</p>	<p>This respondent summarises the nature and complexity of the accounting requirements for the HNA and particularly the derecognition provisions. It also summarises the underlying need for the rebuttable presumption in paragraph 4.11.2.14.</p> <p>It is not clear, however, how this might be reflected in the Code and the main provisions on measurement and derecognition still remain necessary.</p> <p>The Secretariat considers that materiality will remain a judgement for each authority and thus the provisions in the Code will be necessary.</p> <p><b>The Secretariat invites CIPFA/LASAAC members to consider this comment.</b></p>

	<b>Issue</b>	<b>Secretariat Response</b>
	works done would ever be so significant as to represent a material component of the whole network."	
3.6	One authority raised the issue of whether the implementation of the measurement of the components of the HNA should be brought into the Code on a phased basis.	<p>The Secretariat considers that the nature of the HNA as one asset would not allow for this. In addition CIPFA/LASAAC has already considered this issue for implementation in its deliberations in the 2014/15 Code and decided not to proceed following the arguments put forward in the consultation process.</p> <p><b>The Secretariat recommends no further action.</b></p>
	<b><i>Qu 4 HNA Transition</i></b>	
4.1	<p>A firm responded:</p> <p>"Given the high value involved, even when measured at depreciated historic cost, we believe it is likely that some authorities will struggle to evidence estimates made are materially correct. This will particularly be the case for those authorities that have significant non-highways infrastructure assets (such as coastal authorities with relatively old sea defences). However, we do not consider that additional relaxation of the transitional provisions would be appropriate."</p>	<p>The Secretariat would invite CIPFA/LASAAC's views on this issue. It agrees with the respondent that it is not possible to make any further relaxations of the provisions in the Code. This is other than looking at the approach to transition which the Secretariat has outlined in the main body of the report,</p> <p><b>CIPFA/LASAAC is invited to note the comments of the firm.</b></p>
4.2	<p>An audit body commented:</p> <p>"Paragraph 17 of IAS 8 state that the initial application of a policy to revalue assets in accordance with IAS 16 is a change in an accounting policy to be dealt with as a revaluation rather than in accordance with IAS 8. Paragraph 18 states that paragraphs 19–31 (which require retrospective application) do not apply to the change in accounting policy described in paragraph 17. There is nothing to suggest that these paragraphs do not apply in the case of a category of</p>	<p>The Secretariat concurs that this would be the application of IAS 8 if this were only a revaluation. However, the move to implementation requires reclassification to the new Highway's Network Asset (as it did in the Heritage Assets approach) and therefore would require restatement following paragraph 3.4.2.40 of the 2015/16 Code and the requirements of IAS 1 <i>Presentation of Financial Statements</i>.</p> <p>Notwithstanding the above comments the Board may wish to consider easing</p>

	Issue	Secretariat Response
	<p>assets rather than all assets. The 2015/16 code adopts IAS 8 without any adaption, and there are no proposed adaptations to IAS 8 in the 2016/17 exposure draft. In [the body's] view, if CIPFA/LASAAC wish[es] the retrospective application of the new measurement requirements for the highways network asset, an adaptation of IAS 8 is required to disapply paragraphs 17 and 18. In the absence of an adaptation, the new measurement requirements would apply from 1 April 2016."</p>	<p>the transitional arrangements for full retrospective restatement following the comments from a number of respondents on the practicalities and the preparedness of local authorities including their information requirements.</p> <p><b>See main body of the report.</b></p>
4.3	<p>A number of respondents including one firm indicated that they had concerns about the ability and information requirements (including their inventory) for local authorities to undertake full retrospective restatement with one authority referring to the suggested new accounting policy date of the 1 April 2018.</p>	<p>The body of the main report addresses options for easing the transitional arrangements. The problem with using the IAS 8 approach to revaluations is that it does not take into account the need for effective comparative information. CIPFA/LASAAC's rationale has been that the best accounting practice for this change in accounting policy would be to have full retrospective restatement ie to allow comparison over time (which accords with IAS 8 paragraphs 1 and 15).</p> <p>Also the Comprehensive Income and Expenditure Statement (CIES) and balance sheet will look very odd (the Secretariat would go as far as to say distorted) if comparative information isn't restated. The CIES net expenditure will increase substantially due to the depreciation charges and the comparative information will largely be meaningless. The Secretariat would therefore recommend that if a transitional approach were to be included in the 2016/17 financial statements commencing on 1 April 2016 then this should be included in the notes to the financial statements. The objection to this in the past is that this information is still required to be audited. This is also the advantage of this proposal in that</p>

	Issue	Secretariat Response
		this provides accurate information for comparatives in the following financial year without distorting the main statements and provides the relevant information for 2016/17.
4.4	<p>An authority responded in relation to the transitional arrangements for splitting the current historical cost of infrastructure assets.</p> <p>"The issue won't just be about splitting DHC between residual infrastructure assets and the HNA. Presumably we will need to estimate this for each component of the HNA so that we can calculate the annual amortisation of the Revaluation Reserve." Another responded "The Code should also permit any reasonable basis to be used to estimate (weighted) useful remaining life."</p>	<p>There is no direct reporting requirement for this. In theory local authorities already have processes in place for estimating annually the depreciated historical cost of infrastructure assets (which has been subject to audit assurance). It might be that the measurement prescriptions of the Transport Code may provide additional information to refine an authority's estimation of depreciated historical cost and this would need to be subject to a discussion with the auditors. Currently the Code does not prescribe how an authority should estimate depreciated historical cost of the individual assets or components of these assets and the Secretariat would suggest that this is an issue of practical guidance where authorities would be able to establish their own estimation processes.</p> <p><b>The Secretariat recommends no further action in the Code but that authorities might be use the guidance available in the Code Guidance Notes.</b></p>
4.5	<p>An authority commented:</p> <p>"The process should be as simple as possible and hence I would suggest treating the initial valuation as deemed cost and make the change a prospective one. This would simplify the accounting and remove the additional pressure of having to complete prior year balance sheets. A similar approach was taken to the introduction of the revaluation reserve."</p>	<p>The Secretariat would not recommend moving to a deemed cost for the HNA. The processes required for the 2007 move to the revaluation reserve has caused information problems since the move, for example, for HRA assets. This would exacerbate the ability for the local authority balance sheet to represent a true and fair view.</p> <p><b>The Secretariat recommends no further action in the Code.</b></p>

	<b>Issue</b>	<b>Secretariat Response</b>
4.6	<p>Following commentary on the individual issues an authority responded:</p> <p>"Some of the issues mentioned above could be detailed within the Guidance Notes but there are two considerations with this, firstly if matters are defined in the Code it will avoid doubt, especially when dealing with auditors, and secondly practitioners will need the above guidance notes a lot earlier than late Autumn 2016 to ensure they have sufficient time to implement. Waiting for the detail in the guidance notes may cause issues for many authorities."</p>	<p>The detailed issues are also subject to CIPFA/LAAAC's commentary on the approach to drafting the provisions for the HNA described in the responses to question 2. Some of the issues are resolved in guidance. The Secretariat has already drafted the Code Guidance Notes (based on the Code Exposure Draft) for Section 4.11 and this should be ready to be available to be issued subject to the draft taking on board any changes made to the 2016/17 Code and following review by LAAP.</p>