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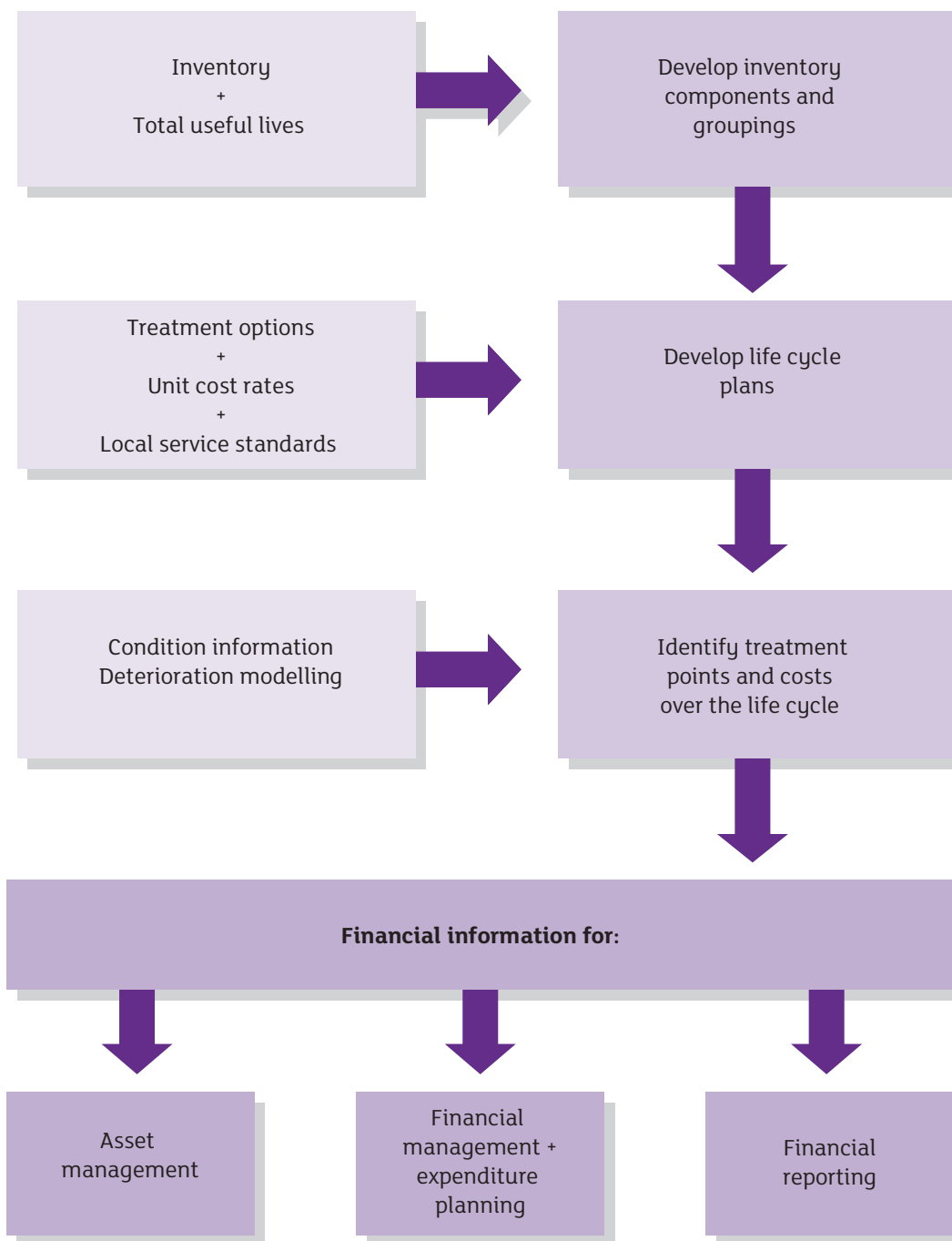
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CHAPTER ONE

Introduction

- 1 The Highways Network Asset represents one of the most valuable assets that the UK public sector holds. The measurement of this substantial asset has been under review for a number of years by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). CIPFA/LASAAC has been keen to ensure that the Highways Network Asset is reflected at its true economic value and operational cost of the substantial resources held and maintained by local authorities.
- 2 Following a number of consultations with local authorities and other stakeholders, the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code) introduced changes, originally announced in the 2014/15 Code, to measure the Highways Network Asset at current value. Therefore, the 2016/17 Accounting Code requires that the Highways Network Asset is measured at depreciated replacement cost and in accordance with the methodologies specified in the CIPFA *Code of Practice on the Highways Network Asset*.
- 3 The new requirements in the 2016/17 Accounting Code are included principally in a new section 4.11 (Highways Network Asset) which includes provisions for the specific accounting policies and disclosures required for the Highways Network Asset. Consequential amendments have been made to section 4.1 (Property, Plant and Equipment) and section 3.4 (Presentation of Financial Statements), the latter to reflect the new presentation requirements on the face of the Balance Sheet. Transitional arrangements apply such that the accounting policies will be on a retrospective basis from 1 April 2016. However, there is no requirement to restate the preceding year information or provide a third Balance Sheet. For clarity, the guidance in this publication will refer to the 'Accounting Code' instead of 'the Code' to differentiate it from the 'Highways Code'.
- 4 The Highways Code is intended to serve as best practice guidance for those who are responsible for the management of the Highways Network Asset and its components. A central principle that underpins the Highways Code is that the same data should be capable of serving the needs of asset management, financial management, budgeting and financial reporting. These principles are demonstrated in the following diagram which provides an overview of how the various inputs in relation to the Highways Network Asset are used under the Highways Code to provide information to support these needs.

Figure 1.1 Modelling financial information



- 5 The diagram demonstrates that information on the highways inventory, treatment options, unit rates, local service standards and the condition survey data which is held for asset management and life cycle planning purposes should also be used for financial management and financial reporting purposes.
- 6 The Accounting Code makes it clear that the components and categories defined in the Highways Code (see Table 4.1 in the Highways Code) form the Highways Network Asset¹.

1. The term ‘Highways Network Asset’ replaces previous references to ‘Infrastructure Assets’ as it provides a clearer description of the asset for the users of local authority financial statements.

- 7 This publication exemplifies the specifications of the Accounting and Highways Codes where they relate specifically to the accounting requirements for the Highways Network Asset and is intended to supplement the Accounting Code by providing practical assistance to enable authorities to comply with those accounting requirements. The other specifications of the Highways Code are discussed in the associated *Code of Practice on the Highways Network Asset: Guidance Notes* (CIPFA, 2016) – referred to as the ‘Highways Code Guidance Notes’ in this publication.
- 8 Paragraph 4.11.1.3 of the Accounting Code clarifies that the recognition, measurement and derecognition principles for the Highways Network Asset follow the requirements for the property, plant and equipment class of assets in section 4.1 of the Accounting Code (unless the provisions in section 4.11 state otherwise). As the accounting guidance provided in this publication is intended to focus on the specific accounting requirements for the Highways Network Asset, accounts preparers will on occasion need to refer to the (Accounting) Code Guidance Notes² for general guidance on the recognition, measurement and derecognition of property, plant and equipment. Specific issues relating to the Highways Network Asset will be included in this publication. For the more general property, plant and equipment accounting treatments, this publication cross-refers to the relevant sections and paragraphs in the (Accounting) Code Guidance Notes, to assist accounts preparers.
- 9 In accordance with the CIPFA/LASAAC terms of reference, the overall aim of this publication is to assist practitioners in the preparation of financial statements, in so far as it relates to the Highways Network Asset. Therefore, this publication does not form part of the 2016/17 Accounting Code, nor has it been reviewed by CIPFA/LASAAC. It attempts to explain and illustrate what is required by the 2016/17 Accounting Code in relation to the Highways Network Asset, but does not carry the authority of the Accounting Code.
- 10 The guidance in this publication will enable authorities to:
- be aware of the background and principles behind the changes regarding the move to measuring the Highways Network Asset at current value
 - understand the key principles of the Accounting and Highways Codes
 - understand the accounting requirements for the Highways Network Asset including initial recognition, in year movements, measurement and derecognition requirements, presentation and disclosure requirements
 - consider the valuation processes for different elements of the Highways Network Asset
 - account for the change in the measurement requirements for the Highways Network Asset (transition arrangements)
 - understand the engineers’ processes sufficiently to critically assess the reasonableness of the estimations for the financial statements, and
 - consider practical implementation issues.

2. The *Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners* (CIPFA, 2015) are referred to in this publication as ‘the (Accounting) Code Guidance Notes’.