

report

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Committee	CIPFA/LASAAC
Venue	CIPFA, Mansell Street
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Subject	Confidential Report on the Measurement of the Highways Network Asset in the 2016/17 Code

To seek CIPFA/LASAAC's views on the approach to the measurement of the Highways Network Asset in the *2016/17 Code of Practice on Local Authority Accounting in the United Kingdom* (Accounting Code) following issues arising from the central rates review.

1 Introduction

- 1.1 This report will set out issues relating to the Highways Network Asset as a result of the delay in the central rates review. It seeks CIPFA/LASAAC's views on the consequences of the approach to the adoption of the measurement requirements for the Highways Network Asset based on the *Code of Practice on the Highways Network Asset* (Highways Code) in the *2016/17 Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code).
- 1.2 Currently the 2016/17 Accounting Code requires full adoption of the new measurement requirements from 1 April 2016. However, it does not require restatement of preceding year information. Instead CIPFA/LASAAC decided that its approach to transition would be such that opening balances (1 April 2016) are to be adjusted for the effects of the change in accounting policy.

2 Central Rates

- 2.1 CIPFA/LASAAC will be aware that the Highways Code requires central rates to be provided for the measurement of Gross Replacement Cost (GRC) for the larger components of the Highways Network Asset ie carriageways, footways and structures. Central rates are also provided for the accumulated depreciation measurements for structures. This is a substantial element of the Depreciated Replacement Cost (DRC) measurement of the Highways Network Asset.
- 2.2 Paragraph 6.8.1 of the Highways Code stipulates that:

"Rates for the built network shall be fully revised at least every five years to support a full revaluation. Revaluations need to be consistent with the requirements of the Code of Practice on Local Authority Accounting."

2.3 Paragraph 4.11.2.8 of the Accounting Code states that:

"The Highways Network Asset shall be subject to revaluations in accordance with the requirements of paragraphs 4.1.2.34 to 4.1.2.47 except as is detailed in paragraphs 4.11.2.9 to 4.11.2.11 below."

This means that the measurement frequency for the Highways Network Asset is consistent with the normal approach to property, plant and equipment.

2.4 The Accounting Code is also clear that the measurement of the Highways Network Asset is in accordance with the methodologies of the Highways Code and permits indexation of the rates in accordance with the Highways Code between the quinquennial (full) revisions of the rates (see the 2016/17 Accounting Code paragraphs 4.11.2.7 and 4.11.2.9).

2.5 The GRC rates were originally produced by EC Harris in 2010 under contract to Department for Transport (DfT) (and have been indexed annually in accordance with the Highways Code requirements until the 2015/16 year). These rates were built from the bottom up and were not comprehensively tested against live data. CIPFA has been working closely with DfT, HAMFIG and WS Atkins to ensure the new central rates are in place for the 2016/17 implementation.

2.6 Despite concerted effort from all parties over the last eighteen months, DfT has yet to issue the contract for the rates review in a timely manner for 2016/17 implementation. The detailed timetable and project plan produced by Atkins would at best now deliver rates by June 2017 which would be too late for implementation in 2016/17. The Secretariat aware of the position of the rates review on the critical path escalated the issue to both HMT and wrote formally to DfT in June 2016 saying that the rates review was now critical. A further meeting was called by CIPFA in September between Atkins, HAMFIG, CIPFA and DfT to try and resolve the issue.

2.7 The CIPFA Secretariat is of the view that as the central rates are integral to the measurement of DRC for the Highways Network Asset there is no other option than to postpone the implementation of the measurement requirements for the Highways Network Asset until the 2017/18 financial year.

2.8 The Secretariat therefore recommends that CIPFA/LASAAC issues a 2016/17 Code Update to formally postpone implementation until the 2017/18 year. The Secretariat also recommends that this is accompanied by CIPFA/LASAAC's original interpretation of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the 2014/15 and 2015/16 Codes ie that a disclosure on the impact of the unadopted accounting standards on the 2016/17 year be provided in the 2016/17 financial statements. As this would still require reasonably estimable information the Update to the 2016/17 year will need to include an adaptation permitting the 2010 central rates to be indexed for a further year.

2.9 The Secretariat is of the view that this would ensure that the progress and momentum achieved by authorities for implementation would be able to be continued. In order to provide the relevant disclosures under IAS 8 local authorities would still need to have the underlying data needed to estimate DRC for the Highways Network Asset, key examples being inventories of the component elements of the asset and condition information.

- 2.10 Again in accordance with CIPFA/LASAAC's original interpretation of IFRS including both IAS 8 and IAS 1 the Secretariat would recommend that the 2017/18 Code requires full retrospective restatement as a result of the application of the new accounting policy for the Highways Network Asset.

CIPFA/LASAAC's views are sought on:

- **the delay in the production of the central rates described in section 2 of this report**
- **the Secretariat's recommendations on the postponement of the measurement requirements of the Highways Network Asset until 2017/18**
- **the issue of the Update to the 2016/17 Code, and**
- **the approach to the IAS 8 reporting requirements in the Update.**

3 The Update to the 2016/17 Code

- 3.1 Following the principles above the Code will need to stipulate that the Highways Network Asset and the provisions of the new Section 4.11 will not exist or apply in the 2016/17 year. This will then ensure that cross references to the Highways Network Asset throughout the Code will no longer apply and will avoid a lengthy and complex set of amendments in the Update to the 2016/17 Code.
- 3.2 The Secretariat would also recommend that Section 4.11 be moved to an Appendix in the Update as local authorities will need these provisions to provide the IAS 8 disclosure in their 2016/17 financial statements. This would be an Appendix F in the 2016/17 Code.
- 3.3 Appendix C of the Code which provides the overview of the IAS 8 reporting requirements can include the adaptation relating to the use of the central rates for the 2016/17 disclosure.
- 3.4 There are a number of statutory changes which apply in the 2016/17 year, principally the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (see CD 7) and the HRA Accounting Practices Directions 2016 (see CD 6). As with practices in previous years these statutory changes can be included in the Update to the 2016/17 Code.

CIPFA/LASAAC is invited to consider the detail of the Update to the 2016/17 Code for approval.

4 Communication of the Decisions of CIPFA/LASAAC

- 4.1 Following the decisions taken by CIPFA/LASAAC it will be important to communicate the changes to local authority accounts preparers. CIPFA/LASAAC is invited to consider the options and approaches available to it. CIPFA already uses the Highways Network Asset Briefing to communicate key messages. It is suggested that this might be a useful mechanism. In addition the Local Government Accounting Conferences will take place in November in Leeds (15 November) and London (23 November). Measurement of the Highways Network Asset is already on the agenda and this therefore might be an opportune mechanism to explain the position to delegates.

Recommendation

CIPFA/LASAAC is asked to consider and agree its approach to the Update of the 2016/17 Code.