

report

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Committee	CIPFA/LASAAC
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Subject	Measurement of Transport Infrastructure Assets in the 2016/17 Code – Early Draft of Amendments to the Code

To consider an early draft of the amendments to the Code for the changes to the measurement of transport infrastructure assets

1 Introduction

- 1.1 The 2014/15 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code) announced that the 2016/17 Code would introduce the measurement requirements of the *Code of Practice on Transport Infrastructure Assets* (Transport Code) ie a Depreciated Replacement Cost (DRC) measurement basis for transport infrastructure assets.
- 1.2 The last meeting of CIPFA/LASAAC considered a number of issues in principle relating to the approach to the adoption of those measurement requirements in the Accounting Code. These issues were identified during the drafting of application guidance for the implementation of the requirements. This report provides an early draft of amendments to the Accounting Code and also highlights a number of consequential issues for drafting of the amendments in the 2016/17 Accounting Code. The early draft of amendments to Chapter Four of the Code is included in the Annex to this report.

2 Recognition

- 2.1 CIPFA/LASAAC agreed at the last meeting that it was content that the carriageways part of the network should be treated as a single asset. This was recognised due to the flow of the economic benefits and service potential in a networked asset. This is also consistent with the approach in the FReM. At the last meeting in November 2014 CIPFA/LASAAC had yet to be convinced that the remainder of the network should be treated as a single asset. This issue is being considered by the Project Implementation Steering Group (PISG) that is responsible for the development of the Transport Code.
- 2.2 The Accounting Code early draft has therefore included the relevant provisions but allows for the possibility of the network to be included if appropriate in due course.

- 2.3 The Secretariat has also currently drafted the provisions in draft paragraph 4.1.2.58 as being prescriptive to ease the decision making processes for local authorities on this issue and following CIPFA/LASAAC's decision at the last meeting. However, CIPFA/LASAAC may wish to consider recommending that the network is considered as a single asset allowing local authorities to consider whether their circumstances or future approaches to the reporting of transport infrastructure assets might be better reported using sub components of the network.
- 2.4 The 2014/15 and 2015/16 Codes already specify that transport infrastructure assets will be treated as a separate class of property, plant and equipment assets. However, the Secretariat considers that due to the different measurement requirements for DRC, and the different treatment for accumulated depreciation these assets should be reported like heritage assets on the face of the balance sheet, as a separate class of assets. This will mean an additional disclosure note for these assets. However, this is likely to be necessary due to the different presentation and accounting policy requirements. This may also be useful because of the anticipated differences in magnitude for the valuations of transport infrastructure assets.
- 2.5 The recognition sections and the definition sections also set out the scope for the transport infrastructure assets class of assets.
- 2.6 The definition sections also describe the remaining elements of infrastructure assets as non-transport infrastructure assets, CIPFA/LASAAC's views are particularly sought on this description.

CIPFA/LASAAC's views are sought on whether it is content for the transport infrastructure assets to be treated as a separate class of assets on the face of the balance sheet and with the early approach to recognition.

3 Measurement

- 3.1 The Code confirms that the measurement requirements for transport infrastructure assets will be in accordance with the methodologies for the estimation of depreciated replacement cost specified in the Transport Code. This is to recognise that these measurement requirements take into account the different nature of transport infrastructure assets as they are a part of a network of assets that are specialised in nature and have constraints on disposal. The measurement requirements also reflect the maintenance of transport infrastructure and the assumptions that have to be made to measure a complex network of assets. These assumptions and the nature of the assets differ from typical assumptions and estimations processes used for other types of property, plant and equipment.
- 3.2 The new measurement section of the Accounting Code therefore identifies the key accounting policies, including the treatment of annual depreciation and the use of indices in accordance with the Transport Code. It also stipulates the treatment of accumulated depreciation in accordance with the decisions taken in principle at the last meeting of CIPFA/LASAAC ie that accumulated depreciation and impairment should not be eliminated and should follow the option under the Code's adoption of IAS 16.
- 3.3 The proposed early draft of the provisions on transport infrastructure also includes the approach to derecognition discussed at the last meeting of CIPFA/LASAAC ie

that the cost of replacement of an asset or component can be used as a proxy for the part that it replaces.

CIPFA/LASAAC is asked to confirm it is content with the early approach to measurement for transport infrastructure assets.

4 Disclosure Requirements

- 4.1 The disclosure requirements for transport infrastructure assets would be the same as those for property, plant and equipment as anticipated by the Transport Code. The early draft of the Code sets out that these need to be reported separately for the transport infrastructure class of assets. This is due to the different accounting policies for transport infrastructure assets and the Secretariat's suggestion to report transport infrastructure assets separately on the face of the local authority balance sheet.

CIPFA/LASAAC's views are sought on the approach to the disclosure requirements for transport infrastructure assets.

5 Transition

- 5.1 As has been announced in the 2014/15 and 2015/16 editions of the Code the introduction of the measurement requirements would be by full retrospective restatement. This has been confirmed in the early draft of section 4.1 of the Code.
- 5.2 The Secretariat is also of the view that further transitional provisions may need to be added to the Code relating to the management of the revaluation reserve on transition and future management of that reserve for transport infrastructure assets this will also be linked to the treatment of whether or not the network or carriageways are treated as single assets. The Secretariat will update the Board on this as soon as possible.

CIPFA/LASAAC's views are sought on the approach to the transitional accounting treatment for the introduction of the new measurement requirements for transport infrastructure assets.

RECOMMENDATION

CIPFA/LASAAC is asked to consider the above report and the early draft of the Code and provide its views on the individual questions raised above and the overall approach to implementation in the 2016/17 Code.