

Audit and Governance Committee

Meeting to be held on Monday, 30 January 2017

Electoral Division affected: (All Divisions);
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Update on the Measurement of the Highways Network Asset

Appendix 'A' refers

Contact for further information:

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Executive Summary

At its meeting in September 2016, the new regulations for the measurement of the Council's Highways Network Asset (HNA), for the purposes of the Council's statutory statement of accounts, was reported to the Audit and Governance Committee. From 1 April 2016, it was intended that these assets would be disclosed separately as a single asset on the face of the Balance Sheet valued at Depreciated Replacement Cost, a change from the previous Historical Cost basis. Although this was expected to increase the Council's noncurrent asset value by several billion pounds, accounting adjustments would be required that would nullify any effect on the Council's net worth, funding requirements or budget.

CIPFA/LASAAC Local Authority Accounting Code Board, in November 2016, has taken the decision to defer implementation for the 2016/17 financial year. They will review this position at their meeting in March 2017 with a view to implementation in 2017/18.

The County Council will continue to develop the technical solutions to deliver these requirements with the new timeframe in mind considering the risks involved in implementing a change of this scale and complexity.

Recommendation

The Audit and Governance Committee is recommended to note this report.

Background and Advice

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 includes the adoption of the asset valuation requirements of the CIPFA Code of Practice on Transport Infrastructure Assets (The Transport Code). The Transport Code was first published in 2010 with the objective of using an asset management based approach to the provision of financial information in relation to transport infrastructure assets.

The Council's transport infrastructure assets are currently measured on a Historical Cost basis and depreciated in accordance with its current accounting policies. From 1 April 2016, it was intended that these assets would be referred to as the 'Highways Network Asset' (HNA) and would be disclosed separately as a single asset on the face of the Balance Sheet, with its valuation built up from data maintained by highways engineers. It would be measured at Depreciated Replacement Cost (DRC) by calculating the cost of replacing the asset with its modern equivalent, then applying deductions for all forms of physical deterioration based on relevant data relating to age and condition of the assets in use. This approach was expected to harmonise the valuation methods used by local and central government and was considered by CIPFA to better reflect the economic value of the substantial assets held and maintained by local authorities.

This change, from the existing historic cost basis, was to be applied prospectively i.e. with effect from 1 April 2016 with no requirement for the 2015/16 position to be restated.

The impact on the Council's Balance sheet is expected to be significant, with the value of noncurrent assets likely to increase by several billion pounds. It should be noted, however, that a compensatory increase to the Revaluation Reserve will nullify the impact so that the overall change to the net worth of the Council's Balance Sheet would be nil. There will also be a commensurate increase in the amount of depreciation charged to service revenue accounts to account for the higher value asset base. As regulations prevent depreciation from being charged to the County Fund, there is no associated funding requirement and there will be no impact on the Council's budget.

Update on the Measurement of the Highways Network Asset

In preparing to implement the new regulations, the Council used video survey of the Highways Network to provide up to date volumetrics. This survey information combined with national indices provided by CIPFA was to form the basis of the opening valuation. Further work was to be carried out by the finance team to validate the initial conclusions and update the opening value for changes to the Highways Network during 2016/17.

However, at its meeting on 9 November 2016, the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) decided to postpone the full implementation of the move to measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements. The statement from CIPFA/LASAAC is provided at Appendix 'A'.

CIPFA/LASAAC have recognised the commitment and work of local authorities in preparing for implementation as well as the engagement of local auditors in the project and is grateful for the level of feedback and input this has given. The latest feedback on preparedness has provided them a strong level of confidence in the amount of work local authorities have done.

A key, final, part of implementation was the provision of central Gross Replacement Cost (GRC) rates from CIPFA. The current rates were originally developed at the

start of the project and are now over five years old. For the last eighteen months CIPFA has been working with the relevant stakeholders, including the Department for Transport, to ensure that the review of the central rates for the measurement of the Highways Network Asset would be ready for the 2016/17 implementation date. New rates are critical to implementation given the timeframe since the last rates were produced. It has become clear that these rates will not be ready in good time for the 2016/17 financial statements.

As a result CIPFA/LASAAC, at its meeting in November 2016, took the decision to defer implementation for the 2016/17 financial year. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. In making its decision in March CIPFA/LASAAC will be looking to ensure that central GRC rates and central assurance processes will be delivered in a timely manner to allow successful implementation. CIPFA/LASAAC has decided that the approach to adoption of the new measurement requirements in the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

The County Council will continue to develop the technical solutions to deliver these requirements with the new timeframe in mind considering the risk involved in implementing a change of this scale and complexity.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Financial

As set out in the report

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
Approval of the County Council's Statement of Accounts 2015/16	26 September 2016	Khadija Saeed, Head of Corporate Finance, 01772 536195

Reason for inclusion in Part II, if appropriate

N/A