

**TO: GOVERNANCE AND AUDIT COMMITTEE  
27 JANUARY 2016**

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**CHANGE IN ACCOUNTING POLICY FOR THE HIGHWAYS NETWORK ASSET  
Borough Treasurer**

**1 PURPOSE OF REPORT**

- 1.1 The valuation basis of the Highways Network Asset (formerly referred to as Infrastructure Assets) is changing and this will need to be reflected in the Council's accounts from 2016/17. This report provides an overview of the impact on the Council.

**2 RECOMMENDATION**

**That the Committee:**

- 2.1 **Note the change in Accounting Policy and the plan to meet the new requirements outlined in Annex A.**

**3 REASONS FOR RECOMMENDATION**

- 3.1 The CIPFA Code of Practice on Local Authority Accounting 2016/17 will require the Highways Network Asset to be valued on a Depreciated Replacement Cost (DRC) basis.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 None.

**5 SUPPORTING INFORMATION**

**5.1 Introduction**

- 5.1.1 Local Authorities have been required to provide figures for Infrastructure Assets on a Depreciated Replacement Cost (DRC) basis for the Whole of Government Accounts (WGA) for a number of years. However in the Council's accounts, the value of these assets has continued to be measured and reported on a Depreciated Historic Cost (DHC) basis. Only the historic values included in the Council's accounts have been subject to external audit.
- 5.1.2 To ensure consistency across public sector bodies, the Council will be required to account for transport infrastructure assets on a DRC basis in 2016/17. As this is a change in accounting policy it will need to be applied retrospectively. Normally this would mean a third Balance Sheet would need to be produced but CIPFA has recently confirmed that it will only be necessary to restate the 31 March 2016 position for comparison purposes.
- 5.1.3 To put this change into perspective, the value of Infrastructure Assets on the Council's Balance Sheet is likely to increase from around £48m to approximately £1.7 billion, a more than 30 fold increase in value. The value of all Long Term Assets was less than a third of this (£528m) as at 31/03/15.

## **5.2 The Highways Network Asset**

5.2.1 The Highways Network Asset (HNA) covers the 7 categories of Infrastructure Assets described in the CIPFA Code of Practice on Transport Infrastructure Assets (The Code), namely:

- Carriageways
- Footways and Cycletracks
- Structures
- Street Lighting
- Street Furniture
- Traffic Management Systems
- Land

5.2.2 Infrastructure Assets not included in the classification descriptions above are not part of the Highways Network Asset and would continue to be reported on a DHC basis. The highways network teams would need to establish if the Council has any infrastructure assets that fall outside the 7 main categories to satisfy the auditors that an appropriate classification has been made. The Code includes details of the measurement and valuation bases for each of the 7 categories.

## **5.3 Impact on the Statement of Accounts and Audit Process**

5.3.1 A separate accounting policy will be required for the HNA which will need to provide details of the measurement bases, depreciation methods and the useful lives used for each category. The methods and significant assumptions applied in estimating each category's current values will also need to be provided for inclusion in a new note to the accounts. The value of the HNA will appear as a separate line in the Balance Sheet.

5.3.2 CIPFA has already confirmed that the Highways Network Asset will be treated as a single asset for financial reporting purposes. A separate note will be required to break down the in-year movements for the HNA. Gross Replacement Cost and Accumulated Depreciation will need to be broken down across a number of headings and the system reports will need to be detailed enough to enable this.

5.3.3 The HNA will be included in the main asset register but the detailed records will be held in the systems used by the Highways Asset Management Team within Environment and Public Protection (for everything other than traffic management) and Highways Network Management within Planning and Transport.

5.3.4 Unlike the information provided for the WGA, both the systems used and figures provided will be subject to full audit scrutiny. As only high level information will be held in the main asset register, the primary focus of External Audit will be on the systems and procedures used within Environment, Culture and Communities. To obtain some comfort that these are robust, Internal Audit will carry out a review early in 2016/17.

5.3.5 Discussions are currently taking place between CIPFA and the main accounting firms on how centrally provided information (valuation toolkits) will be audited and how the material change in the value of the Balance Sheet will be addressed in the audit of the main statements. It is likely that centrally provided systems and assumptions will be assessed at a regional or national level. For any in-

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house/spreadsheet solutions the auditors will undertake direct testing of the system. In either case they will be interested in the assumptions being made to value the assets and whether national or local rates have been used. Due to the material values involved, this area will be a priority for External Audit and additional audit fees are likely to arise as a result.

### **5.4 Resource Implications**

- 5.4.1 The deadlines for the Council's accounts are much tighter than for the WGA and some of the work required will have to be progressed in this financial year and early in next financial year. Although the code change will come into effect in 2016/17, we will need to include information in the 2015/16 accounts on the change in accounting policy and the financial impact of the change. This information would need to be based on the 31/03/16 position and therefore the end of year figures would need to be available a lot earlier than in previous years. For the WGA, the deadline for this information has been in July. For the 2015/16 accounts, the information would be included in a note to the accounts and would need to be provided by the middle of May.
- 5.4.2 For 2016/17, where the information would need to be reflected in the main accounting system (Agresso), the deadline for the DRC figures would be towards the end of April. It's therefore important that the resource implications of these much tighter deadlines are considered and addressed.
- 5.4.3 The key tasks required are outlined in Annexe A. Work to be undertaken by Corporate Finance will be absorbed within existing resources. The Internal Audit review will be built into the 2016/17 Audit Plan and is expected to take place in quarter 1.
- 5.4.4 A detailed piece of work is currently underway to ensure that DRC figures can be produced for Traffic Management Systems. For the other 6 categories it is believed sufficient information is already held within the asset inventories. The tighter timescales will have an impact on day to day activities in Environment, Culture and Communities but additional resources will not be required.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 6.1 The Accounts and Audit (England) Regulations 2015 will require the 2016/17 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman / Mayor by 30 September 2017 and for the accounts to be signed by the appointed auditor by 30 September 2017.

### Borough Treasurer

- 6.2 The CIPFA Code of Practice on Local Authority Accounting is based on approved accounting standards issued by the International Accounting Standards Board. The Council's Statement of Accounts is drawn up in accordance with the Code of Practice which will reflect the change in Accounting Policy for the HNA from 2016/17.
- 6.3 The internal resource implications of introducing this change are outlined in section 5.4. No additional internal costs are expected to arise from the change but it is likely that External Audit fees will increase.

Equalities Impact Assessment

6.3 None required.

Strategic Risk Management Issues

6.4 There are none arising directly from this report.

**7 CONSULTATION**

Not applicable.

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