

Highways accounting

	CIPFA/LASAAC Proposal	FReM	Comments
Initial Measurement	4.11.2.8 The Highways Network Asset shall be measured at Depreciated Replacement Cost in accordance with the methodologies specified in the CIPFA <i>Code of Practice on Transport Infrastructure Assets</i>	7.1.18 The road surface asset will be held at depreciated replacement cost based on service potential	The initial measurement is consistent with the FReM which requires DRC to be used for specialised assets and in particular follows that through for network assets.
Subsequent Measurement	4.11.2.10 The Depreciated Replacement Cost measurements of the Highways Network Asset in accordance with 4.11.2.8 above shall be updated by suitable indices in accordance with the <i>Code of Practice on Transport Infrastructure Assets</i>	7.1.21 The road surface will be subject to annual valuations as measured by suitable indices. Upward movements in value will be taken to the revaluation reserve and included in comprehensive net expenditure. Downward movements in value will be set against any credit balance held in the revaluation reserve until this credit is exhausted and thereafter to net operating cost	Subsequent measurement is consistent with the FReM's requirements to be measured using suitable indices.
Enhancements	4.11.2.4 Subsequent expenditure on the Highways Network Asset will be capitalised where it adds to or replaces the economic benefits or the service potential in the asset. Spending that does not replace or add to the economic benefit or service potential of the asset shall be charged as expenditure in the year that it is incurred	7.1.19 Subsequent expenditure on the road surface will be capitalised where it enhances or replaces the service potential. Spending that does not replace or enhance service potential will be expensed.	Proposed code is consistent with the FReM.
Depreciation	4.11.2.11 Annual depreciation of the Highways Network Asset shall be measured in accordance with the requirements for each component/category identified in the	7.1.20 The annual depreciation charge for the road surface will be the value of the service potential replaced through the maintenance programme plus, or minus, any adjustment resulting from the annual condition survey. The value of maintenance	Proposed code is consistent with the FReM.

	<p><i>CIPFA Code of Practice on Transport Infrastructure Assets</i></p>	<p>work undertaken will be used as an indication of the value of the replaced part. Where the condition survey show that deterioration in the road surface exceeds the service potential replaced by the maintenance programme the additional deterioration will be taken to the Statement of Comprehensive Net Expenditure as part of the depreciation charge. Where the condition survey shows that deterioration in the road surface is less than the service potential replaced by the maintenance programme the depreciation charge will be reduced by the excess maintenance</p>	
<p>Revaluation</p>	<p>4.11.2.12 The Highways Network Asset shall be carried at a revalued amount, being its revalued amount at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment. When the Highways Network Asset is revalued, the carrying amount of that asset is adjusted to the revalued amount.</p> <p>When the Highways Network Asset is revalued, any accumulated depreciation and impairment at the date of valuation shall follow the option in IAS 16 where the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.</p>	<p>The FReM follows the principals of IAS 16 for revaluation:</p> <p>35 When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:</p> <p>(a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or</p>	<p>Approach is consistent with the FReM. Two options are permitted in IAS 16, and the proposed Code has chosen option a) as the methodology for network assets.</p>

		(b) the accumulated depreciation is eliminated against the gross carrying amount of the asset	
Impairment	<p>4.7.2.14 An impairment loss on a revalued asset shall be recognised in the revaluation Reserve to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset (i.e. up to the historical cost of the asset) and thereafter in the Surplus or Deficit on the Provision of Services.</p> <p>4.7.2.15 An impairment loss on a non-revalued asset (i.e. an asset with a carrying value based on historical cost) shall be recognised in the Surplus or Deficit on the Provision of Services.</p>	<p>The road surface will be subject to an annual impairment review. Impairments will be recognised as required by IAS 36 Impairment of Assets as applied by the manual.</p> <p><u>FREM Adaptation</u> References in IAS 36 to the recognition of an impairment loss of a revalued asset being treated as a revaluation decrease to the extent that that impairment does not exceed the amount in the revaluation surplus for the same asset, are adapted such that only those impairment losses that do not result from a clear consumption of economic benefit or reduction of service potential (including as a result of loss or damage resulting from normal business operations) should be taken to the revaluation reserve. Impairment losses that arise from a clear consumption of economic benefit should be taken to the Statement of Comprehensive Net Expenditure.</p> <p>Where an asset has been impaired due to a clear consumption of economic benefit or reduction in service potential, any balance on any revaluation reserve (up to the level of the impairment) to which the impairment would have been charged under IAS 36 should be transferred to the general fund. This ensures that the outcome as reflected in the reserves figure on the Statement of Financial Position is consistent with the requirements of IAS</p>	<p>The code does not has the same adaptation as is in the FReM but does follow the IAS 36 principals for impairment.</p> <p>As network assets are revalued, there will be a difference in the application of the Code compared with the FReM, if impairment was as a result of clear consumption of economic benefit or loss of service potential.</p>

		36 had the FReM adaptation of IAS 36 not been applied	
Derecognition	<p>4.11.1.3 For derecognition of components of the replaced parts of the Highways Network Asset the Code interprets IAS 16 to include a rebuttable assumption that authorities shall assume that the asset has reached the end of its useful life and/or has been fully utilised. This assumption may be rebutted in accordance with paragraph 4.11.2.14</p> <p>4.11.2.14 Derecognition of components of the Highways Network Asset shall follow the requirements for property, plant and equipment. In addition, the cost of the replacement component shall be used as a proxy for the carrying amount of the component replaced for derecognition purposes. If authorities have more detailed information on the gross replacement cost or accumulated depreciation relating to the components to be derecognised, they may use it. Authorities shall assume that the asset has reached the end of its useful life and/or has been fully utilised. This assumption may be rebutted if the authority has evidence that there is a measureable carrying value remaining for the component</p>	<p>The FReM follows IAS 16 principals for derecognition:</p> <p>67 The carrying amount of an item of property, plant and equipment shall be derecognised:</p> <p>(a) on disposal; or</p> <p>(b) when no future economic benefits are expected from its use or disposal</p> <p>68 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless IAS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue</p> <p>70 If, under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed</p>	<p>The code mandate using the cost of the replacement component as the carrying amount for the derecognised component, unless this can be rebutted, which is the opposite way round to the way IAS 16 is worded.</p>