

## Financial Reporting Advisory Board Paper

### Code of Practice on Local Authority Accounting – Measurement of Transport Infrastructure Assets

<b>Issue:</b>	To consider an update on the adoption of the depreciated replacement cost (DRC) measurement requirement for transport infrastructure assets in the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code).
<b>Impact on guidance:</b>	NA
<b>IAS/IFRS adaptation?</b>	No adaptations are currently proposed. However, the move to DRC would require removal of the depreciated historical cost (DHC) option for transport infrastructure assets from the Code.
<b>Impact on WGA?</b>	Yes, a future move to DRC would improve consistency with Whole of Government Accounts and is anticipated to lead to the removal of one of its qualifications.
<b>IPSAS compliant?</b>	Yes, both DRC and DHC measurement bases are IPSAS compliant.
<b>Impact on budgetary regime?</b>	None – local authorities only.
<b>Alignment with National Accounts</b>	The current position regarding alignment with National Accounts is not expected to change.
<b>Impact on Estimates?</b>	None – local authorities only.
<b>Recommendation:</b>	The Board is requested to: <ul style="list-style-type: none"> <li>i) note the report, and</li> <li>ii) comment on the approach in the concepts paper included in the Annex to this report.</li> </ul>
<b>Timing:</b>	NA

## **DETAIL**

### ***Background***

1. At the October meeting of FRAB the Board were informed that the consultation on the 2013/14 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) included a proposal to move to a depreciated replacement cost (DRC) measurement base in 2014/15 (with retrospective restatement in 2013/14 financial statements) by adoption of the requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets* in the (Accounting) Code.

### ***Responses to the Consultation***

2. The results of the consultation were reported to CIPFA/LASAAC at its November and March meetings. The responses to the consultation process indicated a small majority in favour of the move. Although arguably slightly more positive than that received on the issue in the previous consultations, these responses still indicated that there were likely to be substantial practical difficulties in implementing the DRC measurement in the local authority financial statements. Specifically, the respondents commented on:

- the significance of the move for local authorities and the impact on the financial statements;
- their concerns about the practical aspects of such a move by 2014/15;
- the scale of resource input required in order to move to the new measurement requirements - eg changes required in terms of improvements and new developments in systems, time required to develop these systems (ie by 2014/15), communications between departments, links between operational and financial systems, valuations input and impact on audit fees.
- data issues; eg general completeness of the required underlying data and specific issues on structures (eg bridges) and land; and
- a small number of the respondents raised conceptual issues relating to the measurement of infrastructure assets in accordance with the (Transport Infrastructure) Code.

### ***Conceptual Approach to Future Development – The Virtuous Circle***

3. In view of the responses to the consultation the CIPFA Secretariat produced a concepts paper *Highways Infrastructure Assets – creating the ‘virtuous circle’* – which proposes a coordinated approach to the adoption of the CIPFA Code of Practice on Transport Infrastructure Assets in the (Accounting) Code, as well as for Government policy/funding and management purposes. This is appended to this paper at Annex A.

4. CIPFA/LASAAC considered the paper and the benefits of such an approach at its March meeting. It was also concerned to understand both the costs and the benefits of such a move for local authorities and requested an update from the CIPFA Secretariat at its next meeting in June. CIPFA/LASAAC was also keen to ensure that such a move should also be considered against the future requirements of the adoption of IFRS 13 *Fair Value Measurement* in the (Accounting) Code.

### ***Other Developments***

5. In parallel developments the CIPFA Project Implementation Steering Group met on 1 May 2013 and has initiated an update of the *Code of Practice on Transport Infrastructure Assets* in 2013 which will update the guidance available to local authorities on adoption of the Transport Infrastructure Code and measurement on a DRC basis in the light of practical experience since it was originally issued in 2010, and strengthen the links with the Accounting Code.

### ***Impact on disclosures in the financial statements***

6. If the measurement requirements of the *Code of Practice on Transport Infrastructure Assets* in the Accounting Code (ie DRC) were adopted the depreciated historical cost (DHC) option would be removed to ensure consistency across local authorities and Whole of Government Accounts

### ***IAS/IFRS compliance***

7. The move to DRC for local authorities would remove the option for measurement at DHC for local authorities; both options are consistent with IFRS.

### ***Impact on WGA***

8. A future move to DRC would improve consistency with Whole of Government Accounts and is anticipated to lead to the removal of one of its qualifications.

### ***IPSAS compliance***

9. Both DHC and DRC measurement bases are compliant with IPSAS.

### ***Impact on the budgetary regime***

10. The proposals relate to the *Code of Practice on Local Authority Accounting in the United Kingdom* and therefore do not impact on the budgetary regime.

### ***Summary and recommendation***

11. This report provides an update to Board Members about on the progress for a move to DRC measurement for transport infrastructure assets of local authorities.

12. The Board is requested to:

- i) note the report, and
- ii) comment on the approach in the concepts paper included in the Annex to this report.

**CIPFA/LASAAC**  
**24 May 2013**