

# Financial Reporting Advisory Board Paper

## Code of Practice on Local Authority Accounting

<b>Issue:</b>	To consider the Update to the Draft <i>Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</i> which proposes to postpone the implementation of the measurement requirements for the Highways Network Asset until the 2017/18 Code. There are also consequential amendments to the 2017/18 Code as a result of the postponement of implementation.
<b>Impact on guidance:</b>	Changes to the text of the Code to produce the Draft of the Update to the 2016/17 Code and the 2017/18 Code are proposed in relation to the measurement of the Highways Network Asset at Depreciated Replacement Cost.
<b>IAS/IFRS adaptation?</b>	There is an extension of the current adaptation under IAS 16 <sup>1</sup> for the measurement requirements of property, plant and equipment for the new Highways Network Asset and the depreciated historical cost option under IAS 16 is now withdrawn for the Asset. The Draft 2017/18 Code adapts the requirements of IAS 16 by withdrawing the option for accumulated depreciation and impairment to be eliminated on revaluation for the Highways Network Asset. The Draft 2017/18 Code will also bring forward interpretations of the measurement provisions of IAS 16 for the Highways Network Asset for the specification of annual depreciation in accordance with the CIPFA <i>Code of Practice on the Highways Network Asset</i> <sup>2</sup> and the treatment of derecognition. On a transitional basis only the Draft 2017/18 Code will adapt IAS 1 <sup>3</sup> so that on reclassification to the new Highways Network Asset there is no restatement of prior year figures and no requirement for a third balance sheet. <i>Note that all these amendments have been agreed to by FRAB as they were included in the 2016/17 Code.</i>
<b>Impact on WGA?</b>	The changes in respect of the Highways Network Asset are anticipated to result in consistency with the FReM and should substantially contribute to the removal of one of the qualifications in WGA.
<b>IPSAS compliant?</b>	The adaptations and interpretations for the Highways Network Asset apply equally to IPSAS 17 <i>Property, Plant and Equipment</i> .

<sup>1</sup> IAS 16 *Property, Plant and Equipment*

<sup>2</sup> *Code of Practice on the Highways Network Asset*, CIPFA, August 2016

<sup>3</sup> IAS 1 *Presentation of Financial Statements*

<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>Recommendations:</b>	The Board is requested to approve the amendments to the Update to the 2016/17 Code and the 2017/18 Code for the local authority context arising from the proposals set out in this paper for the Highways Network Asset.
<b>Timing:</b>	2016/17 and 2017/18

## DETAIL

### *Background*

1. Currently the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* requires full adoption of the new measurement requirements for the Highways Network Asset from 1 April 2016. However, it does not require restatement of preceding year information. Instead CIPFA/LASAAC decided last year that its approach to transition would be such that opening balances (1 April 2016) are to be adjusted for the effects of the change in accounting policy.
2. CIPFA's *Code of Practice on the Highways Network Asset*<sup>4</sup> (Highways Code) was developed to promote effective asset management and use the same information for financial reporting of the Highways Network Asset within local authorities. For a number of years local authorities have been developing detailed inventory data on their network assets and beginning to use this data to develop the underlying valuation of the Asset with a view to full implementation of the new measurement requirements in the 2016/17 financial statements, using centrally provided models and Gross Replacement Cost (GRC) rates.
3. The Highways Code requires central rates to be provided for the measurement of Gross Replacement Cost (GRC) for the larger components of the Highways Network Asset ie carriageways, footways and structures. Central rates are also provided for the accumulated depreciation measurements for structures. This is a substantial element of the Depreciated Replacement Cost (DRC) measurement of the Highways Network Asset.
4. The CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) has kept implementation progress under review for the move to measuring the Highways Network Asset at DRC. It recognises 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 provides a strong level of confidence in the amount of work local authorities have done on improving highways inventory data. As implementation progresses some detailed issues have emerged but CIPFA/LASAAC remains confident that these can be successfully resolved and many were addressed in the update to the Highways Code published in the Summer.

<sup>4</sup> *Code of Practice on the Highways Network Asset*, CIPFA, August 2016 - note this publication was formerly the *Code of Practice on Transport Infrastructure Assets*

## **Central Rates Review**

5. A key, final part of implementation is the provision of central GRC rates. 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 time frame since the last rates were produced. Unfortunately, despite best efforts, it has become clear that these rates will not be ready in good time for the 2016/17 financial statements.

6. At its meeting on 9 November, 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 to the 2017/18 financial year.

## **Update to the 2016/17 Code**

7. The postponement of the measurement requirements for the Highways Network Asset until the 2017/18 year will require an Update to be issued to the 2016/17 Code. This is attached at Annex A to this report. The Update makes it clear that references to the Highways Network Asset in the 2016/17 Code do not apply and reinstates the definition of the Highways Network Asset as a part of the infrastructure class of assets (which for some authorities also includes assets such as coastal defences and water supply and drainage systems). This class of assets is measured at depreciated historical cost.

8. The Update to the 2016/17 Code also includes changes as a result of the issue of statutory reporting requirements that apply to the 2016/17 financial year, ie the amendments as a result of the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities and the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. Both these sets of changes are factual and the Housing Revenue Account changes have not been amended since the Board considered the Exposure Drafts of the 2017/18 Code in June. The changes relating to Scottish Regulations have been updated as the Scottish Government issued Statutory Guidance after the consultation documents were approved for issue ie Scottish Government Finance Circular 7/2016. The final wording of the Update to the 2016/17 Code is subject to confirmation of approval by the CIPFA/LASAAC. However, the CIPFA/LASAAC Secretariat will update FRAB if there are any substantial changes.

## **Amendments to the 2017/18 Code**

9. CIPFA/LASAAC has agreed to review the deferral 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. The 2017/18 Code is clear therefore that the provisions for implementation in the 2017/18 year will only be confirmed by an announcement by CIPFA/LASAAC after its meeting in March 2017 as CIPFA/LASAAC is of the view that implementation requires that these two elements need to be in place. FRAB members are invited to note that the precise wording in the Code in section 4.11 (Highways Network Asset) in relation to the announcement has still to be confirmed by the CIPFA/LASAAC and it is based on the early decisions of the Board at its meeting on 9 November 2016. The remaining provisions of the Code

in relation to the Highways Network Asset (principally in sections 4.1 and 4.11) are as approved in the 2016/17 Code. The Draft 2017/18 Code is attached to the FRAB 128 (06) at Annex 2.

10. As CIPFA/LASAAC is concerned that the central GRC rates and the central assurance process need to be in place before the new measurement requirements are applied in local authority financial statements, 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. These provisions are included in the Draft of the 2017/18 Code and have only been updated from those in the 2016/17 Code for the following year in accordance with CIPFA/LASAAC's decisions.

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

11. There will be increased disclosures as a new class of asset will be introduced.

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

12. There is an extension of the current adaptation under IAS 16 for the measurement requirements of property, plant and equipment to the new Highways Network Asset and the depreciated historical cost option under IAS 16 is now withdrawn for the Asset. The Draft 2017/18 Code adapts the requirements of IAS 16 by withdrawing the option for accumulated depreciation and impairment to be eliminated on revaluation for the Highways Network Asset. The Draft 2017/18 Code will also bring forward interpretations of the measurement provisions of IAS 16 for the Highways Network Asset for the specification of annual depreciation per the Highways Code and on the treatment of derecognition. On a transitional basis only the Draft 2017/18 Code will adapt IAS 1 so that on reclassification to the new Highways Network Asset there is no restatement of preceding year figures and no requirement for a third balance sheet. *Note that all these amendments have been agreed to by FRAB as they were included in the 2016/17 Code.*

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

13. The changes in respect of the Highways Network Asset are anticipated to be reflected in or be similar to those of the FReM and should substantially contribute to the removal of large parts of one of the qualifications in WGA.

#### ***IPSAS compliance***

14. The adaptations and interpretations to IAS 16 for the Highways Network Asset apply equally to IPSAS 17 *Property, Plant and Equipment*.

#### ***Proposed text for the Update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the 2017/18 Code (as it relates to the Highways Network Asset)***

15. The proposed text of the Draft Update to the 2016/17 Code and the Draft 2017/18 Code (as it relates to the Highways Network Asset) is attached in Annex A to this report and Annex 2 to FRAB 128 (06) respectively. Both publications are still subject to review by CIPFA/LASAAC. Any substantive changes will be reported to FRAB.

***Impact on the budgetary regime***

16. 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***

17. This report sets out details of proposed amendments to the Update to the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) and the 2017/18 Code as it relates to the Highways Network Asset.

18. The Board is requested to approve the amendments to the Update to the 2016/17 Code and the 2017/18 Code for the local authority context arising from the proposals set out in this paper for the Highways Network Asset.

**CIPFA/LASAAC  
November 2016**