

VALUATION OF HIGHWAY ASSETS

To: Audit and Accounts Committee

Date: 24th January 2017

From: Mike Atkins – Highway Asset Manager

Electoral Division(s): All

Purpose: To report to committee on the valuation of highway assets in accordance with forthcoming accounting requirements.

Key Issues:

The highway network is by far the most valuable asset for which the County Council is responsible.

The County Council is required to report the value of the highway assets for which it is responsible, in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA)'s *Code of Practice on the Highways Network Asset (the Highways Code)*.

The Council was previously informed by CIPFA that compliance with *The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* would require the Council to report Depreciated Replacement Cost (DRC) figures for highway assets for its 2016/17 accounts. However, an update from CIPFA in November 2016 has postponed implementation of the DRC requirement, with a view to implementation in 2017/18.

Recommendation: That the Committee notes the progress of the project to ensure that auditable figures for the valuation of highways assets are provided, in accordance with CIPFA requirements.

<i>Officer contact:</i>	
Name:	Mike Atkins
Post:	Highways Asset Manager
Email:	Mike.atkins@cambridgeshire.gov.uk
Tel:	01223 715560

1. BACKGROUND

- 1.1 *CIPFA's Code of Practice on the Highways Network Asset* (the Highways Code) was first published in 2010 and since then has been used to provide information for the Council's Whole of Government Accounts (WGA) return and to support asset management. The key principle of the Highways Code is that the same data should be capable of serving the needs of asset management, financial management, budgeting and financial reporting. The key driver of the Highways Code is the more effective management of assets.
- 1.2 *CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* (the Code), which is used to prepare the Council's Statement of Accounts, included the intention to introduce the implementation of the Highways Code to the 2016/17 accounts for the first time. This would have required the move to reporting local authority highway networks using Depreciated Replacement Cost (DRC), replacing the existing method. The existing method is the reporting of historical cost, with the DRC figure being provided for information purposes only.
- 1.3 However, on 9 November 2016 The CIPFA/LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Board decided to postpone full implementation of the change, as further work is required on updating centrally provided rates for the calculation of Gross Replacement Cost (GRC) figures. These rates are over five years old. CIPFA will issue an update to the 2016/17 Code to confirm this decision, once it has completed the full due process. It is anticipated that the requirement for DRC figures will now apply from 2017/18; however this decision will be reviewed by CIPFA/LASAAC in March 2017.

2. MAIN ISSUES

- 2.1 The current reported historical value of the infrastructure asset (which includes Highways Network Assets) for which the County Council is responsible is £710.817m. This is the figure that was reported as part of the Council's 2015/16 Statement of Accounts.
- 2.2 Under the new reporting requirements, now anticipated to take effect for 2017/18, the Depreciated Replacement Cost for Highway Network Assets will be reported. The DRC value of the County's highway assets reported in the Council's 2015/16 WGA return was £10,588.502m. In accordance with the Highways Code, this figure includes nominal valuations for land. Therefore the increase from the previous historic cost to the 2016/17 depreciated cost will be somewhere in the region of £10 billion.
- 2.3 The highway infrastructure, which is vital to national and local economic prosperity, will therefore become the most valuable asset that the Council holds.

- 2.4 The Highways Asset Management Team and Finance Team have been working closely on this matter for a number of years and are currently in a good position to comply with the requirements of the Highways Code. An internal audit of the 2014/15 valuation was carried out in August 2015 and the report is included as **Appendix A**. The audit report stated *'We can conclude that the 2014-15 Highways Infrastructure Note was developed on a sound basis.'*
- 2.5 In anticipation of the requirement to provide DRC figures for the 2016/17 accounts, a project plan (see **Appendix B**) was developed. Progress on the project to date is in accordance with this original plan. However, further to the recent update from CIPFA/LASAAC, the project plan will now be updated to reflect the anticipated revised timescales.

3 RISKS

- 3.1 The main risk associated with the new financial reporting requirements is with respect to the significantly higher valuation figure. Small proportional errors might result in high absolute variations in the valuation, which could then lead to potential qualification of the Council's accounts.
- 3.2 The procedures being put in place, including the revised project plan, will mitigate the likelihood of errors occurring. Guidance is also being proactively sought from external auditors (BDO) to ensure that the Council can appropriately evidence compliance with the Highways Code.
- 3.3 For 2017/18, the date for closure of the accounts for all authorities will be brought forward to 31st May 2018. Currently the draft accounts for each year are required by 30th June. Therefore this is a compressed timescale in comparison with previous years. The likely first implementation of the DRC reporting requirements will correspond with this time pressure. Officers from both the Highways Service and Finance are aware of this risk and will work together to ensure that the figures are available on time, in accordance with the updated project plan, which is currently being developed and will reflect this new faster closedown timescale.
- 3.4 CIPFA provides toolkits and documents to enable Highways officers to produce DRC figures in accordance with the Highways Code. However, previously these toolkits have not always been provided in a timely manner. The production of the 2017/18 figures in accordance with the revised deadline for the accounts will be dependent upon the timely provision of these tools. This requirement has already been raised with CIPFA and Highways officers will emphasise it further to CIPFA via the Eastern Highways Alliance and other representative groups.

Source Documents	Location
CIPFA Highways network set briefing	http://www.cipfa.org/policy-and-guidance/highways-network-asset-briefing

