

report

Paper CL 06 03-17A

Committee	CIPFA/LASAAC
Venue	CIPFA Scotland, Edinburgh
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Subject	Report on the Implementation of the Measurement of the Highways Network Asset in the Code

To seek CIPFA/LASAAC's views on the implementation of the measurement of the Highways Network Asset in the *Code of Practice on Local Authority Accounting in the United Kingdom (Accounting Code)*

1 Introduction

- 1.1 CIPFA/LASAAC will be aware that it issued its [Update from the CIPFA/LASAAC Local Authority Code Board on the Measurement of the Highways Network Asset](#) on 14 November 2016. The Update announced the postponement of the measurement requirements for the Highways Network Asset until the 2017/18 *Code of Practice on Local Authority Accounting in the United Kingdom (the Code)*. The postponement was implemented in the Update to the 2016/17 Code¹.
- 1.2 CIPFA/LASAAC was clear in its announcement in November 2016 that implementation in the 2017/18 Code would only be confirmed at its March 2017 meeting and that the confirmation of the provisions in the Code would only take place provided that central Gross Replacement Cost rates and central assurance processes were delivered in a timely manner to allow successful implementation. The 2017/18 Code also confirms that this is the case.
- 1.3 This report updates CIPFA/LASAAC on the progress that has been made towards implementation and particularly the developments in relation to the central Gross Replacement Costs rates contract so that CIPFA/LASAAC can make its decision on the implementation of the measurement requirements.

2 Central Rates

- 2.1 Central Gross Replacement Cost rates (central rates) are integral to the measurement of the Highways Network Asset under *the Code of Practice on the Highways Network Asset (Highways Code)*. They were originally produced by EC Harris in 2010 under contract to the Department for Transport (DfT) (and have been indexed annually in accordance with the Highways Code requirements until

¹ [Download Update to 2016/17 Code](#)

the 2015/16 year). These rates were built from the bottom up and were not comprehensively tested against live data. It is therefore essential that new rates are produced and it was anticipated that these rates would be produced under the Highways Asset Management Financial Information Group (HAMFIG) support contract. WS Atkins has held the Highways HAMFIG support contract funded by the DfT which updates the HAMFIG toolkits on an annual basis for a number of years. A methodology for the rates review was produced by WS Atkins early in 2015 and a request for funding made to DfT through the HAMFIG support contract. Despite a verbal acknowledgement of the need to progress the rates review due to its position on the critical path for implementation, no formal approval has been given.

2.2 As reported to the Board in November 2016 despite concerted effort from all parties over the last twenty-two months a DfT contract for the rates review has yet to be issued. Following CIPFA/LASAAC's November meeting the Secretariat raised the issue with HM Treasury colleagues and it was suggested that this might be progressed with the spending team's assistance. In addition to this both the Secretariat and HAMFIG have continued to attempt to clarify progress by both phone and email finally resorting to a second formal letter, this time from CIPFA's Chief Executive and copied to HM Treasury emphasising the need for formal confirmation of progress or otherwise in time for this meeting of CIPFA/LASAAC. This letter is appended to the report at Appendix A (note that the letter refers to an earlier letter written by the Head of Standards and Financial Reporting in June 2016). To date the Secretariat has only received an acknowledgement of the email and an indication that the issue is being discussed with HM Treasury colleagues, should further information be received between the issuing of this report and the meeting date the Secretariat will provide an update at the meeting.

2.3 Following CIPFA/LASAAC's announcement of the postponement the Secretariat informed the Standards and Financial Reporting Board and the Government's Financial Reporting Advisory Board formally of CIPFA/LASAAC's decision, setting out the reasons for the delay.

3 Implementation Issues

3.1 The Secretariat would comment that generally local authorities' response to the postponement has been supportive, demonstrating an understanding of CIPFA/LASAAC's position. A small number have commented on the resources they have expended on implementation against a background of resource constraint. Where these comments have been made CIPFA staff have referred to the asset management benefits of following the principles in the Highways Code.

3.2 One authority, Hampshire County Council, wrote to the Secretary setting out that it understood CIPFA/LASAAC's decision but it wanted certainty in relation to reporting in the 2017/18 year. This letter is appended to the report at Appendix B.

3.3 Highways Network Asset Briefing No 4 was issued in January. This Briefing pulled together the changes to the reporting requirements, included an updated project plan and indicated that both CIPFA and CIPFA/LASAAC wanted to maintain the momentum and progress that local authorities had made towards implementation. The Secretariat has had feedback from a Project Implementation Steering Group (PISG) Member and through the auditor workshop (see item CL 06 03-17B) that resource issues and competing priorities in local authorities had meant that unfortunately in their view the momentum had not been maintained.

- 3.4 CIPFA/LASAAC members are aware that the audit community has responded positively to implementation. The Secretariat has found the constructive comments at the Highways Network Asset Auditor Workshops to be extremely useful in understanding the detailed implementation issues from an auditor's perspective but also in understanding the detailed practical issues faced by local authorities. The notes to the last workshop are available at CL 06 03-17B.
- 3.5 The last meeting of the Workshop identified a list of audit issues that if resolved would lead to successful implementation of the new measurement requirements. There are a relatively small number of issues which the Secretariat considers could be resolved through the workshops and with the support of the National Audit Office's Local Auditor's Advisory Group. Some of the issues would also require local resolution by the authorities. This would also be subject to resources being available for the full central assurance process. The Secretariat would note that CIPFA is in the process of agreeing a contract with a firm to deliver the first stage of the central assurance requirements. As indicated previously to the Board this stage was intended to review the HAMFIG Model and would principally be of benefit to Chief Financial Officers.
- 3.6 One of the issues which would need the direct assistance of CIPFA/LASAAC and the PISG is the measurement of carriageway widths. CIPFA/LASAAC members may be aware that small differences or errors in measurement can have a substantial impact on the final valuation for carriageways. The Secretariat would recommend that at least in the initial stage of implementation standard widths be used to overcome this issue. Some commentators have also indicated that this fits better with the use of the Modern Equivalent Asset for carriageways. The Secretariat would note that the original version of the *Code of Practice on Transport Infrastructure Assets* recommended standard widths for roads.
- 3.7 The Secretariat would also note that a firm wrote in January to the Chair of CIPFA/LASAAC with a number of suggestions for changing the methodology and approach for the measurement of the Highways Network Asset, suggested that a cost benefit analysis be undertaken on implementation of the measurement requirements and suggested that implementation should be delayed until 2018/19.
- 3.8 Overall, however, the Secretariat considers that with the resolution of the audit issues including the use of standard widths, with the support of the audit community and subject to adequate resources for full central assurance implementation would have been achievable for the 2017/18 financial statements, though some authorities may have had to deal with detailed implementation issues.

4 Recommendations

- 4.1 CIPFA has been chasing formal commitment for the rates review for nearly two years. Without any clear commitment to the rates review and as the central rates are integral to the measurement requirements, reluctantly, the Secretariat can see no other option than to recommend implementation is put on hold. This will have implications for the Whole of Government Accounts and the Secretariat would continue to work with HM Treasury to assess the implications and explore whether there are any possible alternative implementation routes building upon the progress made.

- 4.2 If the Board agrees with the Secretariat's recommendation in 4.1 above and as the 2017/18 Code sets out that the new measurement requirements can *only* be implemented if there is a formal decision to implement at this meeting of the Board, the Secretariat would also recommend that the relevant provisions relating to the Highways Network Asset be moved to a separate publication and described as an Appendix to the Code to avoid any confusion by accounts preparers. This is unlikely to require further approval as it was made clear that the provisions on Highways Network Asset measurement would only be enforced by a decision made by CIPFA/LASAAC at this (March 2017) meeting. However, the Secretariat will inform the Standards and Financial Reporting Board, FRAB and LASAAC.
- 4.3 CIPFA/LASAAC is also invited to consider whether it wants to include anything in the 2018/19 Code consultation on ways to improve the measurement and/or disclosures of the Highways Network Asset.
- 5 Communication
- 5.1 Subject to its decision about putting the measurement requirements for the Highways Network Asset on hold the Secretariat would recommend that CIPFA/LASAAC issues a public statement. The Secretariat would suggest that this would need to set out the reasons for this decision, reflect the work of local authorities towards implementation and highlight the benefits of asset management delivered by the Highways Code.

Recommendation

CIPFA/LASAAC is asked to consider the report above and its approach to the implementation of the measurement provisions for the Highways Network Asset in the *Code of Practice on Local Authority Accounting in the United Kingdom*.