

DRAFT CIPFA Bulletin 12 – Accounting for Infrastructure Assets

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CIPFA issues Bulletins to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), the Service Reporting Code of Practice (SeRCOP) and the Prudential Code, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice, but they are not prescriptive and do not have the formal status of the Code, SeRCOP or the Prudential Code.

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Executive Summary

1. This Bulletin is intended to accompany the changes to the Code in relation to infrastructure assets. It is not intended to be prescriptive but to explain the impact of the changes and demonstrate how accounting for infrastructure assets can be applied, providing practical examples which can be used by local authorities, though authorities should always ensure that they reflect local circumstances.
2. Accounting for subsequent expenditure on infrastructure assets, and specifically whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for the replaced components that needs to be derecognised, has recently been subject to heightened audit focus. This may also lead to issues relating to the reporting of gross historical cost and accumulated depreciation (depreciated historical cost).
3. Infrastructure assets are generally inalienable assets, expenditure on which is only recoverable by continued use of the asset created. They work as a part of a continuous network that is maintained in a relatively steady state, though there may be distinctive parts of this network.
4. Infrastructure assets are one of the few categories of property, plant and equipment assets measured at historical cost rather than at the asset measurement basis described as 'current value'.
5. The Bulletin includes a section on materiality to help local authorities with their decision-making processes in terms of the estimations which need to be made. Local authorities will need to consider the information which will be useful to the users of the accounts for taking economic decisions and which might obscure other material information.
6. Although not explicitly included in the Code local authorities have generally adopted the network model for measuring depreciated historical cost. A typical model will operate by adding new expenditure to the brought forward balance and by deducting depreciation. Replaced parts are generally assumed to have been fully depreciated and their derecognition requires no adjustment to the carrying (or net) amount.
7. Paragraph 4.1.2.51 of the Code is (and has been) generally applied in such a way that 'the carrying amount of a replaced or restored part of the asset is derecognised at a zero amount where expenditure has taken place to renew or replace any part of an infrastructure asset.' This fits the economic model because local authorities have not had sufficient resources to do anything other than undertake replacement or renewal expenditure when parts of infrastructure assets are worn out.
8. The [proposed] adaptation in paragraph 4.1.2.51 will support the assumption that derecognition of the carrying amount is zero. It is an adaptation and not an interpretation so that it supports this assumption even where depreciation policies may not have been effective. This should enable all authorities to proceed to close their financial statements and is anticipated to mean that local authorities' net book value is materially accurate in accordance with the provisions of the Code. [Note that the wording of the adaptation is subject of the consultation so may change].
9. It is unlikely that there will be any proceeds from sale on a regular basis related to the disposal of components of the Highways Network Asset and therefore the gross book value should be

reduced in accordance with the normal requirements of the Accounting Code ie in accordance with paragraph 4.1.2.49 of the Code.

10. It will be important that an authority's accounting policies clearly set out how the authority is accounting for infrastructure assets. This might help to resolve some of the issues that have arisen. Accounting policies should include commentary on the adaptation (if applied) and depreciation and where local authorities have not disclosed gross historical cost and accumulated depreciation. Annex A provides an example accounting policy.
11. The consultation includes new provisions and guidance for the approach to depreciation of infrastructure assets. The consultation proposal is such that:
For infrastructure assets a weighted average useful life of its relative parts may appropriately reflect this pattern.
It might be the case that the [draft] provisions will confirm the suitability of the estimation bases developed to satisfy current Code requirements.
12. CIPFA is of the view that for transport infrastructure assets it would be reasonable to use the parts of the network which were defined in the Code of Practice on the Highways Network Asset ie carriageways, footways and cycle tracks, structures, street lighting, street furniture and traffic management systems. The Bulletin provides illustrations for potential approaches including the use of weighted averages. It anticipates that estimates might be needed of gross historical cost and inventories. These estimates or approaches are not intended to represent the minimum that might be needed to satisfy Code requirements as this guidance is not prescriptive. Other reasonable approaches may be used, provided that they materially reflect the consumption of economic benefits.
13. Where the local authority's highways network is in a relatively steady state, it may be possible to calculate multipliers for depreciation for the network as a whole on a periodic basis and revise them only where there might be evidence that they need to be updated, perhaps because spending patterns across components have changed significantly. Alternatively, authorities might perform the calculations annually.
14. The Bulletin also provides an example disclosure note format to demonstrate its presentation for the highways network infrastructure assets where the adaptation (for the disclosure) is applied ie where gross historical cost and accumulated depreciation are not reported.

Section 1: Introduction and Background

15. Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset created (ie there is no prospect of sale or alternative use). They are often homogenous assets that work as a part of a continuous network that is maintained in a relatively steady state though there may be distinctive parts of this network eg carriageways and structure (eg bridges). They are assets with very long lives.
16. Accounting for subsequent expenditure on infrastructure assets, and specifically whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for the replaced components that needs to be derecognised, is subject to heightened audit focus.
17. While the derecognition process is standard practice for many items of property, plant and equipment assets, it may not generally be being implemented for infrastructure assets, particularly highways assets because there are a variety of significant practical difficulties in

applying the standard approach to such assets. This is, particularly in relation to roads, where the engineering records used to maintain, replace and add to the (highways) infrastructure assets have not been created to map against identifiable components.

18. Infrastructure assets are one of the few categories of property, plant and equipment assets which the Code requires to be measured at historical cost rather than on the basis described as 'current value'. On the introduction of resource accounting the valuation process for these assets was deemed to be too costly compared to the benefits which would have been received, and therefore infrastructure assets are held in local authority balance sheets at depreciated historical cost. Current value was not introduced as the view was taken that this information would provide no substantial value to impact on the decisions which might be made on an operational basis.
19. Infrastructure assets were first recognised in conventional local authority balance sheets when the Code aligned reporting on assets more closely with other UK GAAP, moving from older capital accounting systems based on financing requirements. This was on 1 April 1994 for English local authorities, 1 April 1994 in Scotland and 1 April 1996 in Wales. At that time infrastructure assets were brought on to the balance sheet at undischarged capital amounts and this was deemed to be the depreciated historical cost at the implementation date.
20. For many local authorities, further information deficits have arisen because on transfer of balances of infrastructure assets as a result of local government reorganisation where information has not been available to disaggregate the carrying value which has transferred.
21. Previous editions of the Code have acknowledged these deficiencies and the Code requirement is actually a modified form of depreciated historical cost.
22. It should be noted that decisions were taken again following the 2015 consultation that it would be too costly to measure at current value (compared to the potential benefits received).
23. CIPFA and CIPFA LASAAC have agreed to try to assist in the resolution of the issue and have established a joint task and finish group on the reporting of infrastructure assets to consider the issue of both guidance and whether any augmentations of the Code might assist the current reporting position and with the representation of meaningful information for the users of local authority financial statements.
24. This [Draft] Bulletin has been produced by CIPFA via the joint task and finish group to work alongside [proposed] changes in the Code to allow local authorities to understand its provisions and where necessary augment their accounting policies and treatment in local authority financial statements. [Note though that it is currently not formal CIPFA guidance.]

Section 2. Materiality

25. Note that this section largely reflects the provisions in the publication *Code of Practice on the Highways Network Asset: Guidance Notes \ 2016 Edition* updated for changes to the Code and for the fact that this Bulletin 1) reflects the fact that highways network infrastructure assets are measured at historical cost and 2) the Code does not prescribe that the accounting requirements are for a single Highways Network Asset.
26. The Accounting Code contains the following definition of materiality in paragraph 2.1.2.14:

Materiality – information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific local authority. In other words, materiality is an authority-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual authority’s financial statements. Consequently, the Code cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation. Materiality is an important concept for preparers of financial statements, because although decisions on the type of information that is useful are generally made by standard setters¹, judgements on whether matters are material are necessarily a matter for preparers. An authority can comply with the Code, while not complying with specific disclosure and accounting requirements in the Code, if the information is not material to the ‘true and fair’ view of the financial position, financial performance and cash flows of the authority and to the understanding of users.

27. The discussion makes clear that: the focus of materiality is on the potential effect on the decisions or assessments of users of the accounts – consideration of materiality therefore needs to take into account the potential users of the accounts and their interests:
 - a. potential omissions need to be considered collectively as well as individually
 - b. it is not only the size of an item that is important, but also its nature (or a combination of the two) – qualitative factors can be as significant as quantitative factors. For more detail on qualitative factors see the Accounting Code Guidance Notes, module 2, section A.
28. Materiality will continue to be of relevance throughout the planning process for any changes, influencing the degree of precision that needs to be applied to the accuracy of data collected and the design of the systems for collecting it in order to secure materially correct figures for the financial statements.
29. All practitioners should start from a presumption that the Accounting Code’s provisions should be followed, until it can be established that a different or less rigorous approach does not risk a misreading of the local authority’s overall financial position or performance (or any part of it) that might be significant to the primary users.

2.1 Users of the Accounts

30. Materiality is subjective, in that it relies on the effects that omissions and misstatements might have on the users of the financial statements. The authority should consider who are the potential users of the accounts and would they come to different conclusions about the local authority’s standards of stewardship or make different economic decisions if the letter of the Accounting Code were not followed. Materiality therefore has to be judged very carefully according to circumstances:
 - a. generally for each local authority – local authorities come in many shapes and sizes and have their own local readership

¹ IASB decisions on usefulness are incorporated in IFRS requirements, and apply to local authority financial statements, subject to any interpretations or adaptations in the Code.

- b. specifically for any transaction or balance – the context of each transaction or balance as it might be focused upon by users has to be taken into consideration.

2.2 Assessing Materiality

31. It is anticipated that the cost of a highways network infrastructure assets will be material for local highway authorities which means that their highways network infrastructure asset(s) will need to be measured in accordance with the Code. However, for most authorities the incomplete data will limit the usefulness of the figures which will be a relevant consideration for the risk of material misstatement.

Section 3. Derecognition of Infrastructure Assets when there has been Replacement or Renewal Expenditure

32. Although not explicitly required by the Code local authorities have generally adopted the network model for measuring depreciated historical cost. This is based on the relatively steady state of the transport infrastructure assets and on the general assumption (specified in the 2015 consultation to implement current cost accounting in the Code) that parts are only replaced when they are worn out. A typical model will operate by adding new expenditure to the brought forward balance and by deducting depreciation. Replaced parts are generally assumed to have been fully depreciated and their derecognition requires no adjustment to the carrying (or net) amount.
33. These models are based on the impracticality (almost impossibility) of maintaining systems and accounting records for each part of the network that has the potential to be replaced. They also recognise that much of the cost information preceding capital accounting and (where relevant) reorganisation is not recorded. As stated in paragraph 31 this is likely to mean that any information disclosed will have limited usefulness and therefore is at a lower risk of material misstatement.
34. Paragraph 4.1.2.51 of the Code is (and has been) generally applied in such a way that 'the carrying amount of a replaced or restored part of the asset is derecognised', at a zero amount where expenditure has taken place to renew or replace any part of an infrastructure asset. This is consistent with the approach previously consulted on by CIPFA LASAAC ie that local authorities to a material extent only replace parts of infrastructure assets when they have been fully consumed. As this is at a zero amount it will not be necessary to record this transaction in the financial statements of local authorities (or to record the relevant accounting transactions).
35. This fits the economic model because local authorities have not generally had sufficient resources to do anything other than undertake replacement or renewal expenditure when parts of infrastructure assets are worn out. Even though some replacement expenditure simply covers the surface of the asset this meets the same economic position as replacement as what is beneath this resurfacing expenditure is either impaired or now forms a part of the new expenditure and so no derecognition is required (or is able to be measured).
36. The assumption will also hold for the rare occurrences that an asset is impaired eg where expenditure on a replacement has been deemed to be subject to defect and must be replaced. This is because the impairment measurement provisions are inappropriate for infrastructure

assets as value in use is the present value of an asset's remaining service potential and value in use is likely to be significantly more than depreciated historical cost.

37. The [proposed] adaptation in paragraph 4.1.2.51 will support the assumption that derecognition of the carrying amount is zero. It is an adaptation and not an interpretation so that it supports this assumption even where depreciation policies may not have been effective. This should enable all authorities to proceed to close their financial statements and is anticipated to mean that local authorities net book value is materially accurate in accordance with the provisions of the Code. It does not provide any prospective justification for ineffective depreciation policies. [Note that the wording of the adaptation is subject of the consultation so may change].
38. If applied by a local authority this [proposed] adaptation will need to be carefully reported in the accounting policies of local authorities. An illustrative accounting policy is included in Annex A to this Bulletin.
39. This adaptation will not apply where local authorities formally dispose of any infrastructure assets eg where a new structure (of material value) is added to the network and the old structure removed or where a stretch of road or cycle track is no longer able to be used. It is considered that these circumstances will not occur very frequently and will be able to be easily identified from the schemes for improvement of the network for the financial years where local authority financial statements have not yet been given an audit opinion. This should follow the normal processes for accounting for derecognition where replacement/renewals have taken place.
40. Though accounting transactions that will be visible in the statement of accounts are not required for Gross Historical Cost and Accumulated Depreciation, it will be important to retain these records when additions are made to the network. They may be a part of the longer-term solution, or they might be used as a part of the depreciation calculations.
41. It is unlikely that there will be any proceeds from sale on a regular basis related to the disposal of components of the Highways Network Asset and therefore the loss should be recognised in accordance with the normal requirements of the Accounting Code ie in accordance with paragraph 4.1.2.49 of the Code. The relevant statutory reversals of these losses should be applied in accordance with paragraphs 4.1.3.11 to 4.1.3.12 of the Accounting Code. This requires the General Fund to be credited (in the case of a loss) or debited in the unlikely event of the gain with an amount equal to the gain or loss on disposal of the asset (net of any disposal costs), with the double entries being:
 - a credit to the Capital Receipts Reserve or (in Scotland) a statutory capital fund of an amount equal to the disposal proceeds (subject to any consideration of deferred payments (see module 4 paragraphs E9 to E10 of the (Accounting) Code Guidance Notes)
 - a debit to the Capital Adjustment Account of an amount equal to the carrying amount of the component disposal.
42. It is important to note that when a part of the network is replaced the Accounting Code's requirements specified in paragraph 4.1.2.52 (ie using the cost of replacement expenditure as a proxy for the cost of the derecognised part) does not apply while this adaptation applies.

Section 4: Infrastructure Assets – Accounting Policies

43. It will be important that the accounting policies clearly set out how the authority is accounting for infrastructure assets in all material respects. This might help to resolve some of the issues that have arisen. This accounting policy will need to set out the measurement basis for infrastructure assets and the changes which have been proposed/put in place as a result of the temporary changes to the Code.

4.1: Accounting Policies – Derecognition and Depreciation

44. The accounting policy will also need to:
- note the adaptation for derecognition when replacement/renewals expenditure has taken place, except where there has been a disposal of a part of the infrastructure
 - reflect accounting policies which effectively measure the consumption pattern of the economic benefits of the relative parts of the infrastructure asset.

4.2: Accounting Policies – Disclosure

45. Where local authorities decide to avail themselves of the possibility not to report gross historical cost or accumulated depreciation then the accounting policy will need to note that this is not reported. This accounting policy will need to note that at least temporarily gross historical cost and accumulated depreciation are not disclosed in the property, plant and equipment note.

Section 5: Depreciation of Infrastructure Assets

5.1: Pattern of Consumption of Economic Benefits

46. The consultation includes new provisions and guidance for the approach to depreciation of infrastructure assets. The consultation proposal is such that:
For infrastructure assets a weighted average useful life of its relative parts may appropriately reflect this pattern.
It might be the case that the [draft] provisions will confirm the suitability of the estimation basis developed by an authority to satisfy current Code requirements.
47. Useful lives should be determined by persons with relevant experience and expertise with the advice of accountants about the level of precision and the amount of disaggregation that might be required.
48. The Code prescribes that the depreciation charge is based on the depreciable amount allocated over the useful life of the asset, using a depreciation method that reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed. For infrastructure assets this is more difficult as these take the form of a network of assets where there are many different components working as a part of a continuous network of (parts of) assets that is maintained in a relatively steady state. The methodology set out in this Bulletin is an illustration of how weighted averages might be calculated. Authorities may be able to devise alternative approaches that will satisfy Code requirements for local conditions and their own circumstances. This guidance is therefore not intended to be prescriptive. All approaches will need to be supported by reasonable evidence for estimates.

49. CIPFA is of the view that for transport infrastructure assets it would be reasonable to use the parts of the network which were defined in the Code of Practice on the Highways Network Asset ie carriageways, footways and cycle tracks, structures, street lighting, street furniture and traffic management systems. The following examples present information where the local authority has information on gross historical cost for different parts of the highways network, or may be able to estimate it on a reasonable basis. It might be the case for some of the examples cited below those estimations may need to be made potentially using current costs and applying indices to reflect the average age, for example, of street furniture, in which case the authority will seek to rely on the advice of appropriate professional experts or potentially industry standard information.
50. Alternatively, local authorities may wish to consider using as a starting point the net book value and (instead of using total useful lives as is demonstrated in illustrations 1 to 6 below) should use remaining useful lives. Again, the latter may need to be estimated and such estimates might group different parts of the asset.
51. Another alternative might be that an authority will use estimates previously provided for the gross replacement cost of the assets in 2018 (or possibly other years). Where each of the parts of the highways network asset carriageways, footways, structures etc were measured at gross replacement cost an authority may be able to use the appropriate indices to be able to convert this into the average gross historical cost of each part. Note that these indices should reflect prices for highways assets rather than general retail prices indices.
52. It is notable also that many parts of the highways network have similar useful lives for example street furniture and street lightning so it may not be necessary to separately consider all the different items outlined in these examples where they all have the same or materially similar useful lives.
53. **It is notable that this Bulletin is not intended to be prescriptive regarding the methodology for calculating depreciation but to show possible approaches which should provide a reasonable estimate in accordance with the Code. However, it is the case that there are likely to be other alternatives for using the financial information in an authority that will also be able to represent the pattern of consumption of economic benefits in a local authority.**
54. Where the local authority's highways network is in a relatively steady state, it may be possible to calculate multipliers across the network on a periodic basis and revise them only where there might be evidence that they need to be updated, perhaps because spending patterns across components have changed significantly. Alternatively, authorities might perform the calculations annually. Note that the minimum requirement (per paragraph 4.1.2.46 of the Code) will be to review useful lives and depreciation methods at least at each financial year-end, so multipliers cannot be brought forward from previous years without sufficient consideration as to whether there has been a significant change in the pattern of consumption of the future economic benefits or service potential.
55. For all of the estimations it is likely that local authorities will need to provide evidence of their estimation processes and why they have made appropriate reasonable assumptions that the measurements are materially accurate.

5.2: Carriageways

56. The Guidance on the Highways Network Asset set out that there were four classes of road for each of the two separate types of environment (urban and rural) with useful lives ranging from 25 to 28 years. It might be useful to work out an appropriate weighted average for carriageways based on the network length for each of these classifications to develop a weighted average for a local authority's carriageway. As the useful lives are likely to be in a similar range then this would seem to be an appropriate methodology. Alternatively, the example below assumes an average useful life of 25 years. It might be the case that gross historical cost will have to be estimated on a per km basis. This would allow the historical cost of carriageways to be able to be depreciated over this useful life.

Illustration 1 – Carriageways

Awbrai Council has a large network of highways infrastructure with both urban and rural roads. The Chief Highways Engineer has verified that the average useful life for carriageways is 25 years. The estimated total gross historical cost for carriageways is £255.2m. Annual depreciation for carriageways for Awbrai Council on an historical cost basis is therefore calculated to be £10.21m.

5.3: Footways and Cycle Tracks

57. The highways network asset described as four typical categories of footways and cycle tracks ie footways, pedestrian areas, footpaths and cycle tracks. Again, it might be possible to develop weighted average useful lives for these parts of the highways network ie based on estimations of length of these footways or tracks and useful lives. It might be the case that these will need to be developed with highways engineers or it might be possible to rely upon industry standards. It is noted that some forms of modular surfaces do not depreciate and therefore, if possible, should be excluded from estimates of depreciation.

Illustration 2 – Footways and Cycle Tracks

On the advice of the Chief Highways Engineer, Awbrai Council has assessed that useful life for footways, cycle tracks, pedestrian areas and footways is 25 years. The gross historical cost for footways and cycle tracks is £126m and therefore the annual depreciation for footways and cycle tracks is £5.04m.

5.4 Structures

58. Structures might be the most difficult parts of a highways network to estimate depreciation for because of the various types of structure that might be held by local authorities and the maintenance programmes for bridges aim to have an economic life which is indefinite. However, the accounting estimate of useful life for structures is usually of the order of 100 years. It is possible that some authorities might have very significant bridges or other unusual structures such as a tunnel with a material value per unit and differing useful lives and these might have to be separately identified. It is likely to be useful to discuss the useful life with the authority's experts such as the Chief Highways Engineer.

Illustration 3: Structures

Awbrai Council has, with the expert advice of its Chief Highways Engineer, estimated the gross historical cost for of its structures at £405m. The useful lives for its bridges, culverts, retaining walls, signals and signal gantries and high mast lighting columns are assessed to be 100 years. However, it does have a tunnel where the Chief Highways Engineer estimates a useful life of 175 years, and its estimates that of the £405m, the gross historical cost of the tunnel is £36m. Depreciation for structures excluding the tunnel is £3.69m and depreciation for the tunnel is £0.21m. So total annual depreciation is £3.9m.

5.5 Street Lighting, Street Furniture and Traffic Management – Estimates of Gross Historical Cost

59. It is not a requirement for local authorities to have completely separate records for the gross historical cost of these parts of the Highways Network. The task is to develop a model that meets the Code's requirements for calculating depreciation and management assumptions are an integral part of this, provided the assumptions are appropriate, reasonable, and free from bias.
60. Estimates of gross historical cost may need to be made based on the current cost of individual items and using an appropriate index to reflect an estimate of the gross historical cost. Other mechanisms may be used subject to them being on a reasonable basis and subject to an appropriate evidence base which might include the professional advice of the Chief Highways Engineer or equivalent expert and using industry standardised information (or combination of both). For example, the assistance of the Chief Highways Engineer may be necessary to estimate the average age of groups of the individual items so that their gross historical cost might be estimated. It should be noted that the useful lives of the traffic management items may be easier to establish, as information may be more current making this judgement easier.

5.6 Street Lighting

61. Street lighting is an area of highways networks which will require less estimation as calculations are likely to be based on street lighting inventory. CIPFA's Code of Practice on the Highways Network Asset: Guidance Notes 2016 Edition indicated that most local authorities should have good inventories for street lighting. The listing below is unlikely to reflect the full variety of different types of street lighting and local authorities will need to ensure they reflect the full variety of street lighting where different useful lives might exist.

Illustration 4: Street Lighting

Awbrai Council assesses all its streetlighting items (steel streetlights, concrete streetlights, other forms of street lighting, illuminated signs circular, illuminated signs rectangular and illuminated signs triangular) have a useful life of 40 years. The total gross historical cost is £56.2m. **Estimated annual depreciation is therefore £1.41m.**

5.7: Street Furniture

62. Street furniture may be another component of the highways networks which will require estimation as inventories are likely to be based on street lighting inventory. Typically, local authorities are less likely to have good inventory for street furniture. It might be the case that estimates have to be made on the basis of numbers of items per km of road. It might also be the case that estimates of the types of street furniture and the useful lives of these types of items will have to be made.

Illustration 5: Street Furniture

Awbrai Council assesses that the majority of street furniture items (traffic signs – non illuminated, safety fences, pedestrian barriers, street name plates and bollards) have a useful life of 40 years. It estimates its gross historical cost to be £16.24m. Annual depreciation is therefore £0.41m. Bus shelters have a useful life 25 years and the Chief Highways Engineer estimates that their gross historical cost is £4.55m. Annual depreciation is therefore £0.18m. **Annual depreciation for street furniture is therefore £0.59m.**

5.8: Traffic Management

63. Traffic management items may be another component of the highways networks which will require less calculation as they should be able to be based on inventories. Where this is the case estimates of the types of traffic management items and the useful lives of these types of items will have to be made.

Illustration 6: Traffic Management

Awbrai Council has the following inventory of traffic management items throughout the authority. With the assistance of its Chief Highways Engineer and appropriate indices, it has been able to estimate based on current cost per unit of each item and using approximate indices for the sector to deflate to estimate gross historical cost. It has used the gross historical cost for each of the structure types to estimate annual depreciation. **Total annual depreciation is estimated to be £0.54m.**

Description	Number of Units	Useful Life	Total Gross Historical Cost £m	Annual Depreciation £'m
Traffic signals	15,989	20	4.80	0.24
Pedestrian signals	4,600	20	2.25	0.11

Zebra crossings	566	20	0.85	0.04
Safety cameras	120	20	3.00	0.15
Total			10.9	0.54

5.8 Multiplier Approach

Illustration 7: the Multiplier Approach

Awbrai Council has therefore established the following in 20X0/20X1:

	Gross Historical Cost	Depreciation
	£'m	£'m
Carriageways	255.20	10.21
Footpaths and cycle tracks	126.00	5.04
Structures	405.00	3.82
Street lighting	56.20	1.41
Street furniture	20.79	0.59
Traffic Management	10.90	0.54
Total	874.09	21.61

In 20X1/X2 gross historical cost increased to £923.6m. The Chief Highways Engineer confirmed that expenditure for renewals was in accordance with previous patterns (note that this was verified in accordance with historical data) and there were no significant events that impacted on estimates of useful lives. **Annual depreciation for 20X1/X2 was estimated to increase pro rata to £22.83m.**

Section 6: Infrastructure Assets – Disclosures

64. The [proposed] adaptation to paragraph 4.1.4.3 1 d) specifies that disclosures of gross historical cost and accumulated depreciation are not required for infrastructure assets from the inception of

the IFRS-based Code to date. Where local authorities decide not to provide such disclosures then the format is likely to be different from the rest of the property, plant and equipment note. This will not require separate reporting on the face of the balance sheet, but is likely to require a separate presentation in the note on property, plant and equipment and a short reconciling note will be required. An example format is provided in Annex B.

Annex A – Example Accounting Policy – Highways Network Infrastructure Assets

Accounting Policies

Highways Network Infrastructure Assets

Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (eg bridges), street lighting, street furniture (eg illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably.

Measurement

Highways network infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost - opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April [1994 England and Scotland], [1996 Wales] which was deemed at that time to be historical cost.

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives.

Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various parts of the highways network are assessed by the Chief Highways Engineer using industry standards where applicable as follows:

Part of the highways network	Useful Life
Carriageways	25 years
Footways and Cycle tracks	25 years
Structures (bridges, tunnels and underpasses)	100 years
Awbrai Tunnel	175 years
Street lighting	40 years
Street furniture	Bus shelters 25 years and other assets 40 years
Traffic management systems	20 years

Disposals and derecognition

When a component of the Network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal).

The written-off amounts of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Where a part of the network is replaced, an adaptation provided in a separate update to the Code assumes that from the introduction of the IFRS based Code when parts of an asset are replaced or restored the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

Annex B - Example disclosure for highways network infrastructure assets where gross historical cost and accumulated depreciation is not reported

DISCLOSURE NOTE [NO.]

HIGHWAYS NETWORK INFRASTRUCTURE ASSETS

Movements on Balances

	20X0/20X1	20X1/20X2
	£'m	£'m
Net Book Value (Modified Historical Cost)		
at 1 April	X	X
Additions	X	X
Derecognition	X	X
Depreciation		
Impairment		
Other movements in cost	X	X
Net Book Value		
at 31 March 20X2	X	X

Where infrastructure assets are not disclosed on the face of the Balance Sheet a reconciling note will be required:

	31 March 20X1	31 March 20X2
Infrastructure Assets	x	x
Other PPE Assets	x	x
Total PPE Assets	x	x