Nottinghamshire County Council

Report to AUDIT COMMITTEE

16 March 2016

Agenda Item: 6

REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT

HIGHWAYS NETWORK ASSET – REVISED VALUATION METHODOLOGY

Purpose of the Report

1. To update members on the implementation of the CIPFA Transport Infrastructure Asset Code and to assess the potential impact on the 2016/17 Statement of Accounts.

Information and Advice

2. As dictated by the Accounts and Audit Regulations 2015, the Authority prepares its annual Statement of Accounts in accordance with the CIPFA Code of Practice on Local Authority Accounting ("The Code"). CIPFA have agreed that the 2016/17 edition of "The Code" will adopt the asset valuation requirements of the CIPFA Code of Practice on Transport Infrastructure Assets ("The Transport Code"). The Transport Code was first published in 2010 with the objective of using an asset management based approach to the provision of financial information in relation to transport infrastructure assets.

3. The Authority's transport infrastructure assets are currently measured on a Historical Cost basis and depreciated in accordance with the Authority's Accounting Policies. From 1st April 2016, these assets will be referred to as the "Highways Network Asset" (HNA) and will be measured at Depreciated Replacement Cost. This approach will harmonise the valuation methods used by Local and Central Government and is considered by CIPFA to better reflect the economic value of the substantial assets held and maintained by Local Authorities. The HNA will be inclusive of all inalienable network components such as carriageways, street furniture, structures and land.

4. Depreciated Replacement Cost (DRC) refers to measuring the Current Value of the Highways network by calculating the cost of replacing the asset with its modern equivalent. Deductions are then applied for all forms of physical deterioration based on relevant data relating to age and condition of the assets in use.

5. The Authority has been required to submit Highways asset valuation data under DRC for the annual Whole of Government Accounts since 2011. This exercise has been completed on an unaudited basis at the request of HM Treasury to monitor the readiness of Authorities in advance of full adoption of the Transport Code in 2016/17. The convergence of valuation techniques will help address an underlying discrepancy which has resulted in qualification issues for the Whole of Government Accounts (WGA) since its inception. Such inconsistent accounting policies on a national level are estimated to have an annual impact of at least £200bn.

Accounting Implications

6. From a financial reporting perspective, the change in valuation methodology will have a significant impact on the financial statements of the Authority. The transitional requirement is for the new valuation to be applied prospectively from 1st April 2016 without any retrospective adjustment. Consequently there will be a substantial increase in the Total Net Assets evident on the Authority's opening Balance Sheet for 2016/17.

7. Currently Infrastructure assets are included under Property, Plant and Equipment at Depreciated Historic Cost. A comparison with the new requirements based on unaudited 2014/15 figures submitted for WGA purposes is as follows:

Asset Class	**Valuation Basis**	**Valuation @31/3/15 (000's)**
Infrastructure Assets - Current	Depreciated Historic Cost	480,283 (Audited)
Highways Network Asset – New	Depreciated Replacement Cost	9,197,920 (Unaudited)

8. In terms of financial context, the Authority's Balance Sheet recorded Total Long Term Assets for 2014/15 of £1.2bn. Consequently, by translating the new DRC valuation into the asset base, the equivalent Total Asset figure is increased to approximately £10bn. As the scale of this change is highly material, any dispute between the Authority and its external auditors in relation to the valuation is likely to pose a high risk to receiving an unqualified Audit for the 2016/17 Statement of Accounts.

9. Whilst this change represents a considerable increase in the value of NCC assets, it should be noted that a compensatory increase to the Revaluation Reserve will nullify the impact so that the overall change to the Net Worth of the Authority's Balance Sheet is zero. There will also be a commensurate increase in the amount of depreciation charged to service revenue accounts to account for the higher value asset base. As regulations prevent depreciation from being charged to the General Fund, there is no associated funding requirement and there will be no impact on the Authority's budget.

Progress to Date

10. The requirements present a number of practical issues as well as technical accounting challenges. An impact assessment has been jointly completed by colleagues in Finance and Highways to identify the key risks to successful adoption. This has involved identification of relevant assets, reviewing systems and undertaking a gap analysis to address disparity between the Code requirements and the current data held by the Highways Asset Management System (HAMS).

11. As per CIPFA guidance, a Project Plan has been developed that provides a breakdown of key tasks required to ensure the transition to DRC is well managed. Tasks have been

assigned to Finance and Highways staff and high-level milestones identified to ensure sub-tasks are co-ordinated at team level. These tasks will continue to be managed in the same way after the Highways Joint Venture goes live. The project plan has the full support of the Section 151 Officer.

12. As part of wider stakeholder engagement, discussions have been on-going with External Auditors in relation to identifying and managing the risks associated with the transition.

Next Steps

13. A critical success factor in relation to successful delivery is the need for robust asset data. This is heavily reliant on extracting complete and accurate inventory from relevant Highways systems in a timely manner. To achieve the required outcome, there will be direct input from Internal Audit colleagues in relation to undertaking a systems based audit to secure the required level of assurance in relation to the quality of source data.

14. To ensure the integrity of balances at 31st March 2016 under the new DRC requirements, a dry-run will be conducted on the unaudited Whole of Government Accounts return for 2015/16. This will provide a useful opportunity to identify any issues pending full statutory adoption from 1st April 2016.

15. The Narrative Report (previously referred to as the “Explanatory Foreword”) will be updated in the 2015/16 Statement of Accounts to alert users to the changes pending a full revision of Accounting Policy in 2016/17.

Statutory and Policy Implications

16. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That Members of the Audit Committee note the overall level of preparedness and the likely impact of the Transport Code on the Authority’s Financial Statements for 2016/17.

Nigel Stevenson
Service Director – Finance, Procurement & Improvement

For any enquiries about this report please contact:
Glen Bicknell

Constitutional Comments (03/03/2016 HD)

17. None. The report is for noting only.

Financial Comments (03/03/2016 GB)

The impact on the Authority's Statement of Accounts is set out in the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All