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| TITLE | Transport Infrastructure Assets |
| FOR CONSIDERATION BY | Audit Committee on 10 February 2016 |
| WARD | None specific |
| DIRECTOR | Graham Ebers, Director of Finance and Resources |

OUTCOME/BENEFITS TO THE COMMUNITY

This report provides the Audit Committee with an update on the council's implementation of the Transport Infrastructure Assets project (now known as the Highways Network Assets (HNA) project).

RECOMMENDATION

That the Audit Committee notes that the Council is on target to implement the Highways Network Asset valuation requirement for the financial year 2016/17 in line with the required timetable.

SUMMARY OF REPORT

Local authorities are required to produce more accurate information on Highways (largely financial) for the government's Whole of Government Accounts return. The implementation has been delegated to the Chartered Institute of Public Finance and Accountancy (CIPFA). The major effect of this change is that HNA assets will have to be measured on a Depreciated Replacement Cost (DRC) basis (i.e. at their current value), from the financial year 2016/17 onwards, to replace the present method of valuing the assets at depreciated historic cost. The estimated effect is an increase nationally in the valuation of transport assets of more than £200bn.

This fundamental change in valuation will result in improved information (more inclusive and accurate asset data) within the highways asset management systems held in the Environment department. Work is on-going within the department to identify all assets determined as HNA under the CIPFA Code of Practice on Local Authority Accounting, which gives statutory guidance on local authority accounting. The Code requires them to be grouped into the following asset types: Carriageways, Footways and Cycletracks, Structures, Street Lighting, Street Furniture, Traffic Management Systems and Land.

The effect of calculating current valuations is expected to increase the value of HNA on the balance sheets of Wokingham Council by £3bn - £4bn, as assets will be valued at their current value as opposed to the present method of depreciating actual historic cost. The other entry in the balance sheet will be a similar £3bn – £4bn in liabilities, under non usable reserves (revaluation reserve). This will bring the valuation into line with other asset valuations since 'Other Land and Buildings' are already valued at current values e.g. schools. It is also anticipated that these revaluations will be undertaken each year. There is no impact on the Council's cash balances or budgets, as this will be purely an accounting adjustment.

A large amount of the asset data has now been identified and although some dates have slipped in the project plan; we are on target to produce materially accurate data to be available to produce the financial accounting information by the required deadline.

Background

Local authorities are required under legislation to make appropriate arrangements for the implementation of the HNA requirements, so that these assets will be valued at Depreciated Replacement cost from 2016/17 financial year onwards.

Analysis of Issues

This project is jointly managed by Finance and Highways. A project board of relevant Finance and Highways officers was convened in the autumn of 2015, with the remit of implementing the HNA project so that these assets are valued at current rates and that all financial information to a relevant level of material accuracy can be acquired, to produce annual accounting information. This board meets every month and a project plan is updated for each meeting (see Appendix A for summary version of the project plan). In the spring of 2016 we shall be hosting a workshop with the other Berkshire Authorities to assess issues and review each authority's project.

In 2015 the Council employed Metis consultants to undertake an impact assessment around the work required to implement the HNA requirements. They were also used to support the council in producing the 2014/15 Whole of Government Accounts return which requires HNA at DRC valuation. Their template was used to identify componentised assets (for depreciation calculations assets broken down into different components where the cost of the component has a significant value in relation to the overall cost of the asset and a different useful life compared to the rest of the asset) under each asset type, and calculate the DRC's.

The highways asset management systems will value the assets firstly at Gross Replacement Cost (GRC), being the cost of replacing the asset with its modern equivalent asset. This should give the same service and performance as the existing asset, but assumes the use of modern materials and technology. Each asset is then assessed for all physical deterioration and all relevant form of obsolescence and optimisation to determine an accumulated depreciation charge. The DRC can then be calculated for the asset by deducting the accumulated depreciation from the GRC to give a valuation for the current cost of replacing the asset.

From 2016/17 financial accounts onwards detailed disclosure notes in the accounts will be required for the HNA assets due to their size, as they will form the bulk of the council's assets.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

| | How much will it Cost/ (Save) | Is there sufficient funding – if not quantify the Shortfall | Revenue or Capital? |
|------------------------------------|----------------------------------|---|------------------------|
| Current Financial Year (Year 1) | TBC | Yes | Revenue |

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|-----------------------------------|-----|-----|---------|
| Next Financial Year (Year 2) | N/A | N/A | Revenue |
| Following Financial Year (Year 3) | N/A | N/A | Revenue |

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| Other financial information relevant to the Recommendation/Decision |
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| Cross-Council Implications |
| N/A |

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| List of Background Papers |
| Metis Impact Assessment – Transport Infrastructure asset Valuation CIPFA Code of Practice on Transport Infrastructure Guidance Notes |

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