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CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution

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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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CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution

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Executive summary

1. This Bulletin is intended to accompany the changes to the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) and statutory provisions 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). As a result, CIPFA/LASAAC has issued an Update to the Code and Specifications for Future Codes for Infrastructure Assets which includes from 1 April 2021 to 31 March 2025 a temporary relief not to report gross cost and accumulated depreciation for infrastructure assets.

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. 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. Statutory provisions have been issued which will allow local authorities to follow an accounting treatment which supports the assumption that derecognition of the carrying amount is zero though they also allow authorities to follow paragraph 4.1.2.51. 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 and where necessary supported by the statutory provisions.

9. It is unlikely that there will be any proceeds from sale on a regular basis related to the disposal of components of infrastructure assets. 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 statutory prescriptions (if applied) and depreciation. Annex A provides an example accounting policy.

11. CIPFA is of the view that for highways 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 or the carrying amounts of assets 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.

12. 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.

13. For disclosures the Bulletin discusses the implications of the Update to the Code and the application of the temporary relief and the other reporting requirements to be applied where the relief is used. Similarly, it shows how authorities in Scotland might chose to apply Local government finance circular 09/2022: statutory override – accounting for infrastructure assets statutory override 1. Annex B provides example disclosures supporting the use of applying the Update to the Code or statutory override 1.

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 structures eg bridges. They are assets that generally have 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 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 where the engineering records used to maintain, replace and add to the (highways) infrastructure assets have not been created to map against identifiable components, particularly in relation to roads. Paragraph 4.1.2.52 of the Code recognises that this might be the case for some assets and would justify the use of an estimation base in this instance.

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 Bulletin has been produced by CIPFA via the joint task and finish group to work alongside changes in the Code and statutory provisions to allow local authorities to understand these provisions and where necessary augment their accounting policies and treatment in local authority financial statements. Its prescriptions relate primarily to the temporary solution for the current issues that have arisen; they do not consider every transaction relating to infrastructure asset reporting. This Bulletin should therefore be read alongside the Code and the Code Guidance Notes[1] (principally Module 4 but also the example financial statements in Module 3).

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[1] Code of Practice on Local Authority Accounting in the United Kingdom, Guidance Notes For Practitioners issued annually by CIPFA.

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 following:
    1) this Bulletin reflects the fact that highways 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 Code contains the following definition of materiality in paragraph 2.1.2.14 (2021/22 Code):

    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 setters[2], 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 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 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 of the financial statements.

[2] 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.

2.1 Users of the financial statements

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 whether they would come to different conclusions about the local authority's standards of stewardship or make different economic decisions if the letter of the 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
    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 infrastructure assets will be material for local highway authorities, which means that their highways infrastructure asset(s) will need to be measured with sufficient accuracy that there is no risk of material restatement against a figure that would be arrived at if preparation were absolutely 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: Temporary solutions

32. CIPFA/LASAAC's May–June 2022 consultation identified the requirement for temporary prescriptions on accounting/proper practices in two main areas:

    1) **The reporting (disclosure) of gross cost and accumulated depreciation**: CIPFA/LASAAC has suggested that because of historical reporting requirements and information deficits local authorities are unlikely to have reliable, meaningful information to accurately report gross historical cost and accumulated depreciation. As such, disclosures should not be required at least up to and including the 2024/25 financial year until the longer-term solution is provided.

    2) **The accounting transaction to derecognise replaced components**: Historical information deficits and custom and practice mean that information required to evidence the derecognition of replaced components of infrastructure assets will not practicably be able to be produced.

33. Although subject to significant consultation with stakeholders, including with the appropriate bodies of CIPFA/LASAAC's governance structure, CIPFA/LASAAC was unable to take forward the second set of changes. In addition, feedback was such that information deficits and other issues meant that a pure accounting solution was unlikely to remove the risk of qualification. However, the Code has taken forward a temporary relief on the mandatory disclosure of gross cost and accumulated depreciation (see also Section 7 below).

34. Resolution has been provided to these two areas by means of:

    - The Update to the Code and Specifications for Future Codes for Infrastructure Assets (Update to the Code). Note that the Update to the Code should be read alongside the Codes that it updates. Also see the text that accompanies the Update to the Code on the CIPFA website.

- Scottish Government Local government finance circular 09/2022: statutory override – accounting for infrastructure assets
- The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 SI 1232/2022
- The Local Authorities (Capital Finance and Accounting (Wales) (Amendment) Regulations 2022 SI 1254/2022 (W.255).

35. The accounting treatment for the areas described in paragraph 32 is summarised in the following table, though the effect is largely the same across all three jurisdictions.

Table 1: Summary of the mechanisms available for the temporary solution for the reporting of infrastructure assets

	The reporting (disclosure) of gross cost and accumulated depreciation	**The accounting transaction to derecognise replaced components**
Scotland	Statutory override 1 permits local authorities in Scotland not to disclose gross cost and accumulated depreciation. Statutory override 1 applies for accounting periods commencing from 1 April 2021 until 31 March 2024.	Statutory override 2 allows the carrying amount of the replaced part to be derecognised as nil for local authorities in Scotland. Statutory override 2 applies for accounting periods commencing from 1 April 2010 until 31 March 2024.
England	This is covered by the Update to the Code which applies from 1 April 2021 until 31 March 2025 (but will also apply to local authorities in previous years where an audit opinion has not been given).	The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 SI 1232/2022 – new regulation 30M (3) provides that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (ie either a nil amount or to follow the Code). New regulation 30M applies to statements of accounts for financial years beginning on or before 1 April 2024, and to those statements of accounts that have not already been certified by a local auditor.
Wales	This is covered by the Update to the Code which applies from 1 April 2021 until 31 March 2025 (but will also apply to local authorities in previous years	The Local Authorities (Capital Finance and Accounting (Wales) (Amendment) Regulations 2022 provide that where a local authority replaces a component of an infrastructure asset, it must either determine that the replaced component has

	where an audit opinion has not been given).	a value of nil and therefore that there is no requirement to remove any amount from its balance sheet in respect of the disposal of that component, or it must account for the carrying amount in accordance with the accounting practice in the Code. These regulations apply to all local authority statements of accounts from the year beginning 1 April 2021 up to and including statements of accounts produced for the financial year ending 31 March 2025.

Section 4: Derecognition of infrastructure assets (or parts thereof) when there has been replacement or renewal expenditure – including statutory prescription

4.1 Historical treatment of derecognition on replacement

36. 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 highways 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.

37. These models are based on the impracticality 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.

38. 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).

39. 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).

40. This explicit accounting treatment is not specifically included in the Code and there is instead statutory prescription for this treatment as discussed in the following sections.

41. Although the statutory instruments and guidance below present the options as a choice between applying the override to have a nil amount for derecognition and calculating nominal amounts using the Code, in reality the position is more nuanced. Applying the Code's provisions could reasonably result in nil amounts. This is because the application of paragraph 4.1.2.52 means that authorities are able to derecognise parts using the cost of the new part as an indication of what the cost of the replaced part was at the time it was acquired or constructed, adjusted for depreciation. In assessing the nominal amount based on the cost of the replaced part and the fact that the replaced part is at the end of its useful life, a local authority can come to the conclusion that the net carrying amount of the part is nil ie it is fully depreciated. The statutory override would only be anticipated to be used where there is a risk of audit qualification.

4.2 Statutory guidance issued by the Scottish Government

42. The Scottish Government moved early to provide a clear solution for Scottish local authorities and covered the two elements of the solution as outlined in Section 3. Local Government Finance Circular 09 /2022 *Statutory Override – Accounting for Infrastructure Assets* was issued in August 2022 (Circular 09/22). Note that the Update of the Code does not apply to local authorities in Scotland for 2021/22 though the position is under review for future financial years.

43. The statutory guidance noted that the statutory override confirms practice and the economic position outlined above; this is particularly where information deficits exist. The statutory guidance specifies that a local authority may also choose which statutory override to apply. A local authority may choose to only apply one of the two statutory overrides or to apply both statutory overrides. If an authority chooses to apply neither of the overrides, they will need to follow the provisions of the Code directly in the same way as other items of property, plant and equipment in Section 4.1 of the Code.

44. Section 7 of this Bulletin covers the approach required by circular 09/22 where authorities chose not to report gross cost and accumulated depreciation in accordance with statutory override 1 in the circular.

45. If an authority chooses to follow statutory override 2 in circular 09/22 for the periods from 1 April 2010 to 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is a nil amount, and no subsequent adjustment is required to be made to the carrying amount of the asset with respect to that part. The circular explains that this is required on the basis that parts of infrastructure assets are rarely replaced before the part has been fully consumed and should therefore, on average, be fully depreciated at the date of replacement.

46. The Bulletin recommends that a local authority considers the nature of the accounting policies and treatment that the authority has made to date for the carrying amount to be derecognised when replacement expenditure has taken place and if the network approach described in paragraphs 36 to 39 above has been used it might consider it appropriate to use statutory

override 2. Note the reference to no further adjustments is considered to only apply to the derecognition transaction and if any other adjustments need to be made then they should be made in accordance with the Code.

47. Where an authority decides to utilise statutory override 2, appropriate disclosure should be made in the financial statements. This disclosure should set out an authority's accounting policy for the derecognition amount on replacement – see Annex B for a suggested illustrative disclosure.

4.3 Statutory provisions in England – the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022

48. The government has issued a statutory instrument as an amendment to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (Regulation 30M) which considers the treatment of the amount to be derecognised where there is replacement expenditure. It allows that where a local authority in England replaces a component of an infrastructure asset, for the purposes of determining the carrying amount to be derecognised in respect of that component, the authority is able to determine that the amount to be derecognised is nil. The regulations indicate that local authorities may alternatively follow the requirements of proper practices, ie the Code. The accompanying explanatory memorandum sets out the government's expectation in interpreting the statutory provision which is that where local authorities determine the carrying amount to be derecognised at nil value, no further evidence is required to support this. The government has indicated that 'determination' should be interpreted as a choice by an authority. As set out in the Local Government Act 2003 S.21 (3), where there is conflict between accounting practices specified in regulations and those in Code, the practices in regulations take precedent.

49. Regulation 30 (2) specifies that an authority is not required to make any prior period adjustment to the balances of that statement of accounts in respect of infrastructure assets – the Regulations refer to infrastructure assets reporting as a whole and appear not to be limiting this solely to transactions where local authorities have determined that the carrying amount to be derecognised is nil. Indeed, the explanatory memorandum comments, "For absence of doubt, this is not restricted to issues or errors arising only from derecognition …" (but see paragraph 51 below).

50. Where an authority determines in accordance with the regulations that the amount to be derecognised is nil, they require that it makes a disclosure to that effect (see Annex B for an illustration of how this might be achieved).

51. CIPFA is of the view that even though local authorities **are not** required by the Regulations to make any prior period adjustment, where it is aware of a material error (eg as a result of a recent transaction for example a miscoding, a calculation error, a misclassification or similar mistake) and the authority can make the adjustment that it should ensure that such corrections are reasonably made (see the Code Section 3.3).

52. The government has indicated that the intent of the Regulations and the Update to the Code is to mitigate the risks of further audit delays or the qualification of accounts due to issues relating to infrastructure assets, as described. The amendment to the Regulations therefore provides a statutory basis for authorities to apply accounting practices with respect to derecognition that are

consistent with approaches taken by (some) authorities in prior financial years. It is not anticipated that as a consequence of the statutory provision, authorities should revisit prior year accounts where an audit opinion has been entered on the financial statements, but where a certificate has not been entered.

4.4 Statutory provisions in Wales – the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2022

53. The Welsh Government has issued a statutory instrument as an amendment to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (Regulation 24L) which considers the treatment of the amount to be derecognised where there is replacement expenditure. It allows that where a local authority in Wales replaces a component of an infrastructure asset, for the purposes of determining the carrying amount to be derecognised in respect of that component, the authority is able to determine that the amount to be derecognised is nil. The regulations indicate that local authorities may alternatively follow the determinations of proper practices, ie the Code.

54. Regulation 24 L(5) specifies that an authority is not required to make any prior period adjustment to the balances of that statement of accounts in respect of infrastructure assets – the Regulations refer to infrastructure assets reporting as a whole and appear not to be limiting this solely to transactions where local authorities have determined that the carrying amount to be derecognised is nil (but see paragraph 56 below).

55. Where an authority determines in accordance with the regulations that the amount to be derecognised is nil, they require that it makes a disclosure to that effect (see Annex B for an illustration of how this might be achieved).

56. CIPFA is of the view that even though local authorities **are not** required by the Regulations to make any prior period adjustment where it is aware of an error (eg as a result of a recent transaction for example a miscoding, a calculation error, a misclassification or similar mistake) and the authority can make the adjustment that it should ensure that such corrections are reasonably made.

4.5 Other derecognition transactions

57. The statutory prescriptions do not apply where local authorities formally dispose of any infrastructure assets, eg 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.

58. It is unlikely that there will be any material proceeds from sale on a regular basis related to the disposal of components of the highways infrastructure assets and therefore the loss should be recognised in accordance with the normal requirements of the 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 Code. This requires the General Fund to be credited (in the case of a loss) or debited (in the unlikely event of a 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 E11 to E12 of the Code Guidance Notes (2021/22 edition))

- a debit to the capital adjustment account of an amount equal to the carrying amount of the component disposal.

59. It is important to note that when a part of the network is replaced, the 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) do not apply where an authority is applying the statutory prescriptions.

Section 5: Infrastructure assets – accounting policies

60. 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.

61. Note that the Update to the Code sets out the various prescriptions which have led to the current form of modified historical cost in an Annex to Section 4.1 and this may help a local authority to describe this measurement base.

5.1 Accounting policies – derecognition and depreciation

62. The accounting policy will also need to:

- set out an authority's accounting policy for the derecognition of parts of the infrastructure network where there has been replacement expenditure, where necessary setting out where an authority has utilised statutory prescriptions and how this has been effected; this is except where there has been a proper disposal of a part of the infrastructure or network

- reflect accounting policies which effectively measure the consumption pattern of the economic benefits and service potential of the relative parts of the infrastructure asset/highways network.

Section 6: Depreciation of infrastructure assets

6.1 Pattern of consumption of economic benefits and service potential

63. The Code paragraph 4.1.2.44 requires that:

The depreciation charge shall be 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.*

64. Where assets are complicated with potentially hundreds (or in some cases thousands) of components it will be necessary to use average or weighted averages of the expected useful lives of these components to reflect the pattern of the consumption of economic benefits or service potential anticipated to be consumed over the remaining useful lives.

65. The assessment of useful lives is a judgement about what will happen to the assets in the future; while historical evidence will be relevant (including the asset's current condition and factors local to the asset) to the judgement the assessment will be subjective to the extent that it will depend on projections of such things as the amounts that will be spent on repairs and maintenance (see IAS 16 *Property, Plant and Equipment* paragraph 56 b), road use and the impact of technological advancements.

66. It is possible for authorities to have substantial differences in useful lives, depending on the assessments made about the future. The accuracy of these projections will only be confirmed in hindsight. The Code recognises this subjectivity in its requirement to keep useful lives under review on an annual basis.

67. 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.

68. 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 (or parts of) assets that is maintained in a relatively steady state. The methodologies set out in this Bulletin present illustrations 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 and must use an approach which best reflects the consumption of economic benefits or service potential for its local circumstances. This guidance therefore **cannot** be prescriptive. All approaches will need to be supported by reasonable evidence for the estimates made.

69. The prescription for depreciation in paragraph 4.1.2.44 of the Code is that depreciation is an accounting measurement, an estimate which is based on the expectations of consumption of economic benefits and service potential. It cannot be a precise measurement, and this is even more the case for such large, complicated assets. The Code anticipates this in paragraph 4.1.2.46 where it states:

"*…if expectations differ from previous estimates in relation to residual value and/or useful life and/or there has been a significant change in the pattern of consumption of the future economic benefits or service potential, the changes shall be accounted for as a change in an accounting estimate.*"

70. CIPFA is of the view that for highways infrastructure assets it would be reasonable to use the parts of the network that 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, though other components may be needed to reflect the pattern of consumption and where necessary local authorities may use these.

71. The examples in Annex C are **illustrative** examples which present information where the local authority has or is able to estimate information on gross cost and net book value 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 illustrations that those estimations need to be made using current costs and applying indices to reflect the average age of the components of highways infrastructure, for example, of street furniture, in which case the authority will seek to rely on the advice of appropriate professional experts or industry standard information.

72. Alternatively, local authorities may wish to consider using as a starting point the net book value and should use remaining useful lives. The illustrations in Annex C use both. Again, useful lives may need to be estimated and such estimates might group different parts of the highways network or if relevant be across the entire network.

73. Another alternative might be that an authority will use estimates previously provided for the gross replacement cost or net values of the assets in 2018 (or other years). Where each of the parts of the highways network asset carriageways, footways, structures etc were measured at gross replacement cost or net values an authority may be able to use the appropriate indices to convert this into the average gross historical cost or net values of each part. Note that these indices should reflect prices for highways assets rather than general retail prices indices.

74. It is notable also that many parts of the highways network may have similar useful lives, for example, street furniture and street lighting. 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 and for effective estimation processes these could be grouped.

75. **It is important to reiterate that this Bulletin and its illustrations in Annex C are <u>not</u> 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 present the expected pattern of consumption of economic benefits and service potential for a local authority's highways infrastructure assets**.

76. For **all** the estimations it is likely that local authorities will need to provide support for their estimation processes. In particular, why and how they have made appropriate reasonable assumptions that the measurements are materially accurate.

6.2 Carriageways

77. The Guidance Notes on the highways network asset set out four classes of road for each of the two 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. Alternatively, Annex D provides a list of reasonable assessments discussed with the UK Roads Leadership Group Asset Management Board (UKRLG AMB).

78. As the useful lives are likely to be in a similar range then this would seem to be an appropriate methodology. Alternatively, the illustrations assume an average useful life of 25 years. It might be the case that gross historical cost or the net book value will have to be estimated on a per kilometre basis. This would allow the historical cost of carriageways to be able to be depreciated over this useful life or remaining useful lives. Significantly, carriageways are likely to be the largest proportion of the network and therefore this may need to be the focus of a local authority's estimation processes.

6.3 Footways and cycle tracks

79. The highways network asset guidance described 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. Alternatively, Annex D provides a list of reasonable assessments of useful lives as discussed with the UKRLG AMB.

6.4 Structures

80. 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. Annex D provides a list of reasonable assessments discussed with the UKRLG AMB.

81. 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 necessary to discuss the useful life with the authority's experts such as the chief highways engineer or other relevant expert. The variety of structures might mean that the useful lives used will be different from the reasonable estimates provided in Annex D.

6.5 Street lighting, street furniture and traffic management – estimates of gross historical cost

82. It is not a requirement for local authorities to have completely separate records for the gross historical cost or net book value 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.

83. 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. Alternatively net book values may be used.

84. 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 or if appropriate net book values. 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.

6.6 Street lighting

85. 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 in the illustration in Annex C 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.

6.7 Street furniture

86. 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 kilometre 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.

6.8 Traffic management

87. 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.

6.9 Multiplier approach

88. Where the local authority's highways network is in a relatively steady state, it is likely to 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.

6.10 Useful lives

89. The illustrative examples in Annex C include examples of useful lives. Normally useful lives would be set by an authority based on their expert's views on the length of useful life either remaining if net book values are used or if using gross cost an estimate of the total useful life of an asset for an authority.

90. In order to assist local authorities with their estimation processes for depreciation, the Task and Finish Group has sought the UKRLG AMB's assistance with what might be deemed to be a range of reasonable useful lives for different parts of the highways network. The UKRLG AMB brings together national and local government from across the UK to consider roads infrastructure engineering and operations matters.

91. The UKRLG AMB exists to deliver themes and associated research priorities including championing and communicating good highway asset management practice and supporting local, regional and national practitioners to deliver efficient and effective highway asset management. Board members are experienced senior professionals from across the highway industry in the UK with a range of relevant expertise and represent regions or other boards nationally.

92. CIPFA would note that these are reasonable useful lives which an authority may use as a reference point where it might be having difficulties in arriving at its own estimates. Where an authority and its expert has already decided on the useful lives based on its own local circumstances of the assets it holds then it does not need to refer to Annex D (though the ranges of useful lives might be helpful to support a local authority's current evidence base for their decisions). Note that this Annex is intended to assist local authorities. However, it remains the responsibility of individual local authorities to obtain appropriate useful lives to reflect their local circumstances.

93. Reasons a local authority may have different useful lives to the ranges offered by Annex D might be (note this list is not intended to be exhaustive and other factors may be relevant):

- The level of usage a road might have (for example, there may be a higher or lower level of use. Higher use, especially by HGVs, may lead to a different useful life profile to other assets).

- Geographical and environmental factors which may cause useful lives to be shorter or longer. (Examples might include roads with unusual ground conditions like fen roads or roads that are on regular salting routes or in a coastal environment. Additionally, footways, especially in urban areas, that might be subject to frequent vehicle overrunning, utility openings and/or tree root damage may also have different useful lives.)

- Historical specifications (for example, an authority might have a large number of older assets of a particular type (such as concrete street lighting columns) that have a particular life cycle different from the life cycle of modern equivalents). Older assets and listed structures may also have different useful lives and maintenance regimes to their modern equivalents.

- Commitment to repairs and maintenance expenditure.

- Judgements about the impact of future developments and advancements.

Section 7: Infrastructure assets – disclosures

94. The temporary relief introduce by the Update to the Code at paragraph 4.1.4.3 1 d) specifies that disclosures of gross historical cost and accumulated depreciation are not required for infrastructure assets. The temporary relief is an Update to the Code updating both the 2021/22 and the 2022/23 Codes, the provisions will also be included in future Codes for completeness (up until the 2024/25 financial year). It is notable that the Update to the Code also allows authorities where an opinion on the financial statements is not yet given to be able to use the same specifications.

95. Where local authorities decide to avail themselves of the possibility not to report gross historical cost or accumulated depreciation then they will need to note that this is not reported either by using the prescriptions of the Update to the Code or statutory override 1 for Scottish local authorities. This will need to note that at least temporarily gross historical cost and accumulated depreciation are not disclosed in the property, plant and equipment note.

96. For local authorities in England and Wales the Update to the Code sets out a minimum standard disclosure if an authority decides not to report gross cost and accumulated depreciation in accordance with what is allowed by the temporary relief. The minimum standard disclosure is repeated in Annex B.

97. The Update to the Code also requires that a local authority discloses the rationale for not reporting this information. This is likely to be based on making the minimum standard disclosure that due to historical information deficits (and common to most local authorities) this information is not likely to faithfully represent what it purports to represent and setting out the possible impact on the financial statements. The Update to the Code requests that a local authority demonstrates particularly the impact on faithful representation and the relevance of the information not disclosed including the scope for the information to enable the users of the financial statements to take economic or other decisions.

98. Again, most of this is likely to be covered by the minimum standard disclosure set out in Annex B. The information deficits would mean that any reports of gross cost and accumulated depreciation are unlikely to allow the users of the accounts to fully understand the gross cost and accumulated depreciation and it is likely that this information is incomplete and so users of the accounts may not be able to understand what this means and take appropriate decisions based on its disclosure.

99. Where local authorities decide not to provide such disclosures, the format is likely to be different from the rest of the property, plant and equipment note. An illustration is provided in Annex B. 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.

100. Note that an alternative to this would be to maintain a local authority’s current note to the financial statements for property, plant and equipment and to shade out the information on gross cost and accumulated depreciation for infrastructure assets.

101. The Update to the Code also sets out that where an authority has decided not to disclose gross cost and accumulated depreciation it must ensure that this information is maintained as memorandum information in the permanent records of the local authority. A local authority should continue to record this information in its accounting systems in the event that a longer-term solution might require this information to be the base for any new treatment. An authority would already need to maintain these records for recognition purposes, when new expenditure is incurred, but a local authority should, where possible, undertake derecognition transactions if an asset has come to the end of its useful life and is replaced (on a gross basis as well as a net).

102. Where a Scottish local authority uses statutory override 1 to note report gross cost and accumulated depreciation, Circular 09/22 states that this should be disclosed within the relevant note to the annual accounts. Illustrative wording to meet these requirements has been included in Annex B. A local authority in Scotland could choose to (but is not required to) accompany this with the minimum standard disclosure in the Update to the Code if they consider that this is helpful to the user of the accounts.

Annex A – Example accounting policy: highways infrastructure assets

Accounting policies

Highways infrastructure assets

Highways 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 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.

[Note that where local authorities have balances of assets transferred at local government reorganisation or other similar transactions, they are likely to want to include relevant accounting policies describing the transaction here.]

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. Depreciation is charged on a straight-line basis.

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) **Awbrai tunnel**	100 years 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 are 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.

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

DISCLOSURE NOTE [NO.]

HIGHWAYS INFRASTRUCTURE ASSETS

Movements on balances

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets *[Local Government Circular 09/2022 Statutory Override Accounting for Infrastructure Assets for Scottish Local Authorities]* this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

	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

The following note should be added where local authorities have applied the Regulations in England and Wales and determined the carrying amounts to be derecognised are nil where there has been replacement expenditure.

The authority has determined in accordance with Regulation [30M England or 24L Wales] of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

For Scottish local authorities applying circular 09/2022:

The authority has determined in accordance with Local Government Circular 09/2022 Statutory Override Accounting for Infrastructure Assets for Scottish Local Authorities that the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. In accordance with the circular the authority is not required to make subsequent adjustments to the carrying amount of the asset with respect to that part.

Annex C – Illustrations of possible approaches for the estimation of depreciation

Illustration 1.1: Carriageways – gross book value

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 to be £10.21m.

Illustration 1.2: Carriageways – net book value

Awbrai Council has a large network of highways infrastructure with both urban and rural roads. The Chief Highways Engineer has verified that the average remaining useful life for carriageways is 15 years. The estimated net book value for carriageways is £132.5m. Annual depreciation for carriageways for Awbrai Council on an historical cost basis is therefore calculated to be to be £8.8m.

Illustration 2.1: Footways and cycle tracks – gross book value

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.

Illustration 2.2:Footways and cycle tracks – net book value

On the advice of the Chief Highways Engineer, Awbrai Council has assessed that the remaining useful life for footways, cycle tracks, pedestrian areas and footways is 15 years. The gross historical cost for footways and cycle tracks is £64m and therefore the annual depreciation for footways and cycle tracks is £4.26m

Illustration 3.1: Structures – gross book value

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.

Illustration 3.2: Structures – net book value

Awbrai Council has estimated a net book value for its structures at £205m. The remaining useful lives for its bridges, culverts, retaining walls, signals and signal gantries and high mast lighting columns are assessed to be 50 years. However, it does have a tunnel where the Chief Highways Engineer estimates a remaining useful life of 85 years, and it estimates that of the £205m, the carrying amount of the tunnel is £20m. Depreciation for structures excluding the tunnel is £3.7m and depreciation for the tunnel is £0.24m. So total annual depreciation is £3.94m.

Illustration 4.1: Street lighting – gross book value

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.**

Illustration 4.2: Street lighting – net book value

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 remaining useful life of 20 years. The net carrying is £37.2m. **Estimated annual depreciation is therefore £1.86m.**

Illustration 5.1: Street furniture – gross book value

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 of 25 years and the gross historical cost is estimated to be £4.55m. Annual depreciation is therefore £0.18m. **Annual depreciation for street furniture is therefore £0.59m.**

Illustration 5.2: Street furniture – net book value

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 remaining useful life of 20 years. The net carrying amount is estimated to be £9.2m. Annual depreciation is therefore £0.46m. Bus shelters have a remaining useful life of 15 years and a carrying amount of £3.2m. Annual depreciation is therefore £0.21m. **Annual depreciation for street furniture is therefore £0.67m.**

Illustration 6.1: Traffic management – gross book value

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**

Illustration 6.2: Traffic management – net book value

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 net carrying amount. It has used net carrying amount for each of the structure types to estimate annual depreciation. **Total annual depreciation is estimated to be £0.55m.**

Description	Number of units	Remaining useful life	Total carrying amount £m	Annual depreciation £m
Traffic signals	15,989	10	2.35	0.24
Pedestrian signals	4,600	10	1.10	0.11
Zebra crossings	566	10	0.55	0.06
Safety cameras	120	10	1.35	0.14
Total			**5.35**	**0.55**

Illustration 7.1: The multiplier approach – gross book value

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**.

Illustration 7.2: The multiplier approach – net book value

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

	Net vook Value	**Depreciation**
	£m	£m
Carriageways	132.50	8.80
Footpaths and cycle tracks	64.00	4.26
Structures	205.00	3.94
Street lighting	37.20	1.86
Street furniture	12.40	0.67
Traffic management	5.35	0.55
Total	456.45	20.08

In 20X1/X2 net carrying amount increased to £616.32m. 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 £27.11m**.

Annex D – Commentary on the useful lives of the components of the highways network by the UK Roads Leadership Group Asset Management Board

The useful lives in this table are intended for accounting purposes to provide information for the local government financial statements estimation processes by providing typical indicative lives for various components of an authority's highways network. These lives indicate the time over which the depreciable amount of an asset should reasonably be spread. They are not intended for engineering purposes such as scheme design or lifecycle planning.

The UK Roads Leadership Group Asset Management Board endorses these as reasonable estimates for this purpose and recommend their use by local authorities.

CIPFA would thank the Board for this support and would note that local authorities may take other decisions or maintain previous decisions based on the advice of highways experts in their authority.

Part of the highways network	Useful life range
Carriageways	20 to 30 years
Footways and cycle tracks	20 to 30 years
Structures (bridges, tunnels and underpasses	80 to 120 years
Street lighting	30 to 50 years
Street furniture	Bus shelters 20 to 30 years and other assets 30 to 50 years
Traffic management systems	15 to 25 years