

# report

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The purpose of this report is to seek the views of CIPFA/LASAAC members regarding the potential inclusion of the reporting approach in the Code of Practice on Transport Infrastructure Assets in the Code of Practice on Local Authority Accounting in the United Kingdom.

## 1 Introduction

- 1.1 At its June meeting CIPFA/LASAAC considered a report on Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) concerning its potential implementation and future development within the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
- 1.2 HM Treasury has set a timetable for a gradual transition to reporting for WGA purposes, starting with limited, unaudited data submissions for 2009/10, building up to a full audited dry run in 2011/12 and the withdrawal of historic cost-based reporting from 2012/13. An extract from the Whole of Government Accounts (WGA) guidance is set out in Annex 1 to this report.
- 1.3 As set out in the June 2010 report, the advancements in infrastructure asset reporting in WGA provide grounds for considering a move in the Code from an historical cost basis to a current cost basis. Such a move would also mean that local authorities would no longer be required to report infrastructure assets on a different basis for WGA and local authority financial statements. The report received by CIPFA/LASAAC in June 2010 discussed the advantages of a move. At its June 2010 meeting CIPFA/LASAAC requested a further report on data received from the 2009/10 WGA process in order to decide whether, or not, it would be appropriate to move to a current cost basis and consider the timings for such a move.
- 1.4 This report provides the relevant information on returned infrastructure asset information for the 2009/10 WGA data collection exercise and requests that CIPFA/LASAAC considers (in principle) adopting the recommendations of the infrastructure Code into the Code of Practice on Local Authority Accounting in the United Kingdom.

## 2 Returned infrastructure asset data for the Whole of Government Accounts 2009/10

- 2.1 This report includes a summary at Appendix 1 of the returns received as a part of the WGA data collection exercise. The headline indicator from the information summarised in the Appendix demonstrates that for England, Scotland and Wales less than 75 per cent of authorities have submitted the returns for infrastructure assets for the 2009/10 WGA exercise (by administration the results are mixed; 73 per cent England, 88 per cent Scotland and 68 per cent Wales).
- 2.2 The Secretariat considers that a less than 75 per cent return across England, Scotland and Wales is not a sound enough basis for it to make a recommendation for a move to a current cost basis in the Code at this juncture, particularly taking into account the fact that materiality levels are much higher for the WGA accounts than for local authority financial statements. Moreover, the data received thus far from WGA returns is unaudited. The Secretariat believes that it is vital that any change to the Code is made only when authorities are able to provide the robust data (ie good quality, consistent information that is capable of withstanding audit scrutiny) needed to support the carrying value of the assets in local authority balance sheets.
- 2.3 CIPFA/LASAAC might consider that there is an option to review this position on changing the Code in September/October 2012, after the first full WGA data dry-run, in the event that auditors make very favourable conclusions about the process, following the audit of the 2011/12 WGA accounts. Alternatively, it is anticipated from the attached WGA timetable that the first, full audit opinion (including the withdrawal of historic cost-based reporting) will be for the 2012/13 WGA accounts. The audit opinions on the accounts are expected to be received in September/October 2013 at the earliest. It might therefore be better to plan to develop recommendations to CIPFA/LASAAC on adoption, and potential timescales once this information has been received and evaluated.
- 2.4 As noted in the June 2010 report, some authorities might use the fact that no date for moving to a current cost basis has been agreed as a reason for delaying implementation of the infrastructure Code. A decision in principle to adopt the Infrastructure Code for financial reporting purposes, announcing a future indicative timetable might overcome this problem. The CIPFA/LASAAC Joint Committee is invited to consider whether it wishes to consider giving an 'in principle' decision to adopt the Infrastructure Code.
- 2.5 Subject to its views on an 'in principle' decision, CIPFA/LASAAC may also wish to consider permitting adoption of the Infrastructure Assets Code for financial reporting purposes as an option ahead of any date agreed by the Board for mandatory adoption.

## Recommendations

CIPFA/LASAAC is asked to:

- i) Consider whether it wishes at this point in time to make an in principle decision to adopt the Code of Practice on Transport Infrastructure for financial reporting

purposes in the Code of Practice on Local Authority Accounting in the United Kingdom.

- ii) Subject to its views on (i) consider whether early adoption of the Code of Practice on Transport Infrastructure for financial reporting purposes should be permitted as an option.

## Initial analysis of 2010 WGA returns

### Summary

- 154 out of 206 (74.8%) highways authorities completed information
- Of these 38 used actual inventory, 38 used the default values and 50 used a combination of both
- Of these 154, 92 had managed to complete information for footways, 85 for structures and 90 for lighting
- 25 authorities attempted to calculate depreciation for carriageways
- Following a reasonableness check (GRC / road length) 14 authorities looked to have returned information in absolute figures rather than £000's and a further 7 were a factor of £1,000 less than anticipated.
- Of the 52 authorities who did not provide information 8 provided comments as the progress being made

### England

- 111 out of 152 (73%) highways authorities completed information
- Of these 29 used actual inventory, 29 used the default values and 32 used a combination of both
- Of these 111, 64 had managed to complete information for footways, 62 for structures and 65 for lighting
- 15 authorities attempted to calculate depreciation for carriageways
- Following a reasonableness check (GRC / road length) 12 authorities looked to have returned information in absolute figures rather than £000's and a further 6 were a factor of £1,000 less than anticipated.
- Of the 34 authorities who did not provide information 8 provided comments as the progress being made

### Wales

- 15 out of the 22 (68%) authorities completed information
- Of these 5 had used actual inventory, 3 had used default values and 4 had used a combination of both
- Of these 15, 12 had managed to complete information for footways, 8 for structures and 9 for lighting
- 4 had attempted to calculate depreciation for carriageways
- Following the same reasonableness check as was used for England, there were no authorities whose data appeared out of the anticipated range
- Of the 7 who did not submit information 2 provided comments as the progress being made

### Scotland

- 28 out of 32 (87.5%) authorities completed information
- Of those 4 had used actual inventory and 6 default values and 14 a combination of both.
- Of these 28, 16 had managed to complete information for footways and lighting and 15 for structures.
- 6 had attempted to calculate depreciation for carriageways
- Following a reasonableness check (GRC / road length) 2 authorities looked to have returned information in absolute figures rather than £000's and a further 1 were a factor of £1,000 less than anticipated.
- Of the 4 who did not provide information none provided comments as to the progress being made.

## **Annex 1**

### **EXTRACT FROM HM TREASURY WGA GUIDANCE**

#### **2009-10**

Local authorities, through DCLG, and devolved administrations will be requested to supply gross replacement cost (GRC) estimates for their carriageway. Gross replacement cost will be calculated on the basis set out in the CIPFA Code of Practice on Transport Infrastructure Assets.

Authorities will also be requested to provide any DRC and lands data they may have, though it is anticipated that the availability of this information will not be widespread. Only the completion of the GRC data will be required.

The requirement for this data will be included in the annual 2009-10 WGA data collection exercise (L Pack) that Local Authorities are required to complete. The request and documentation for the information will be included in the WGA local government consolidation pack issued by DCLG and devolved administrations.

Auditors will not be asked to express an opinion on the data obtained from this exercise, though they may find it useful in considering value for money enquiries.

The WGA account will disclose that local authority highways infrastructure balances are included at historic cost for this year. It will also provide details of the work being undertaken on local authority convergence and the expected timetable.

#### **2010-11**

A similar approach to that for 2009-10 will be adopted for 2010-11, though it is envisaged that the amount of DRC and lands data will significantly increase. The data collection exercise will once again form part of the WGA process with Local Authorities providing their information as part of the normal WGA data collection. The completion of all information will be mandatory.

Auditors should include a review of reported GRC balances within their audit scope and they should provide a report of that review to Local Authorities and HM Treasury on the processes adopted and the quantity and quality of the information. This will not form part of the formal opinion on WGA returns that will feed into the account. It is important that there is a review of balances, and that all balances are complete, as the 2010-11 numbers will be required for prior year comparatives. In 2011-12, authorities will be permitted to refine the 2010-11 starting position to reflect the improvements in data quantity and quality; however the changes must be tracked against the figures reported in 2010-11.

The WGA account will disclose that Local Authority transactions and balances conform to the IFRS based Code of Practice on Local Authority Accounting, except for infrastructure assets that are included at historic cost. It will provide details of the work to be completed for the transition of highways infrastructure assets, and the expected timescales.

#### **2011-12**

This is a full dry run year. WGA consolidation packs, to be completed as part of the normal WGA data collection, will include a requirement for full DRC balances, including lands valuations. Auditors should again plan on the basis of providing a report on the processes adopted and the quantity and quality of the information.

The WGA account will disclose that local authority transactions and balances conform to the IFRS based Code of Practice on Local Authority Accounting, except for infrastructure balances that are included at historic cost. The notes will disclose the estimate of the highways valuation with the caveat that the amount is unaudited.

### **2012-13**

Subject to the agreement to proceed, the WGA financial statements will be prepared on the premise of local authority highways infrastructure assets on a DRC basis, with auditors providing a full opinion on their valuation and disclosure. Comparative data from the 2011-12 dry run will be used, with the caveat that it had been reviewed by audit, but was not subject to a full audit opinion.