1 INTRODUCTION, MAIN FINDINGS AND RECOMMENDATIONS

The final report

1.1 This is the final report of CIPFA's review of accounting, management and financing mechanisms for local authority transport infrastructure assets. A draft report was published for consultation in summer 2007, and the responses to the consultation and other exchanges with stakeholders have informed this final report. The consultation and follow up to it are covered in a new Section 7 and Annex N, and resulting changes to the review recommendations are reflected in Section 8 and in the summary of findings later in this section. Apart from some minor updating and clarification, the material in Sections 2 – 6 and in the other Annexes has not changed.

Introduction

1.2 The roads network and other transport infrastructure assets together represent by far the biggest capital asset that the UK public sector holds. It is worth many billions of pounds and is vital to national economic prosperity. The comfort and safety in which we can move from place to place and the appearance of our streets are important to our quality of life. But few authorities know what their infrastructure is worth, and detailed information on what it consists of, and the condition it is in, is patchy and often out of date. Nor do they have the detailed information that is needed to ensure that the money being spent is delivering best value.

1.3 There is also often a perception that at the national level we are not spending enough to maintain our transport infrastructure to satisfactory standards. However Government does not have robust, consistent information about the true cost of holding and maintaining these vital assets, or the size of maintenance and investment backlogs.

1.4 Although not a simple panacea in isolation, asset management could play a key role in tackling these problems. Experience in other sectors and from those transport authorities that have made good progress towards comprehensive asset management shows that it has the potential to deliver significant value for money benefits and improve service delivery, but that most local authorities are not yet achieving these benefits. Most English authorities hoped to have an Asset Management Plan (AMP) in place by the end of 2007. However, in most cases, completed AMPs will not initially be underpinned by good quality inventories and cost information, nor be based on robust information about asset condition and how this is changing over time.

The Review

1.5 The Government has concerns about the inadequacy of information about transport infrastructure, the slow progress in implementing asset management, and the need for consistent information to support Whole of Government Accounts (WGA). As a result HM Treasury and the Department for Transport commissioned CIPFA to undertake a review of accounting, management and finance mechanisms for local authority transport infrastructure. The full terms of reference for the review are given at Annex A, but the main objectives were:

1.6 To evaluate the issues associated with implementing an asset management plan based approach to accounting, managing and financing local authority transport infrastructure assets, and in particular to consider the best way to use AMP based information to:

- Support good financial management decisions locally;
- Provide good information to support policy development and resource allocations;
- Provide financial accounts complying with relevant IFRS requirements; and
- Deliver consistent high quality information for WGA and National Accounts purposes.

We were also asked to consider whether there might be lessons for other (non-infrastructure) local authority assets

1.7 The issue of depreciation hitting the bottom line (i.e. having to be fully funded) in local authority accounts was outside the terms of reference. We have however been concerned that any new arrangements should so far as possible deliver the benefits and disciplines that full depreciation accounting would bring.

1.8 The review has been overseen by a project steering group, which includes representatives from local government — both finance and transport professionals, the four UK administrations and the national audit bodies. The full list of members is at Annex B, and information on how the review has been carried out and the organisations interviewed/consulted is at Annex C.

Consultation

1.9 The main messages from the consultation were:

- very strong support for adoption of AMP based approaches;
- substantial but less unanimous support for a change to the Statement of Recommended Practice (SORP) on local authority accounting. Some respondents were content with (or did not comment upon) the suggested 2009-10 implementation, but others felt that a slower timescale would be desirable;
- substantial support for proposed work on further guidance, and a desire to progress AMP matters quickly;
- strong support for extending AMP-based approaches to transport infrastructure outside the SORP; and
- strong support for the principle of putting all local authority operational assets on a comparable basis and for work to look at the scope for extending an AMP based approach beyond infrastructure.

Main findings and final recommendations

1.10 Comprehensive transport asset management has the potential to deliver significant value for money benefits and improvements in the services delivered to users. Having looked at the available approaches, the report concludes that an AMP based approach is the only one capable of delivering all the objectives identified in the review terms of reference. In particular, it is the only one capable of fully supporting sound financial management decisions and effective long term stewardship of the asset base. The approach should help authorities to take better informed decisions about spending priorities, by demonstrating the long term consequences of particular levels of investment, and help them to maximise the output that can be achieved for the chosen level of expenditure. Robust information about what authorities really need to spend to maintain transport infrastructure to defined levels could also better inform future national spending decisions.

1.11 The few local authorities that have made good progress are already seeing significant benefits, and expect to achieve more as their systems and expertise develop further. Although it is impossible as yet to quantify precisely the extent of the possible value for money improvements from implementing an AMP based approach, the significant benefits from the approach are confirmed by the experience in other UK sectors.

1.12 In the UK water industry infrastructure asset management was initially implemented as a requirement of price regulation, but it is now closely integrated with financial and other key business management processes. Network Rail, where asset management has been introduced only recently, demonstrates that the approach can start to deliver significant benefits quickly, so long as implementation is well managed and has strong leadership and support from the top of the organisation.

1.13 Early findings from local government, combined with the greater experience in the water and rail industries, indicate that improved long term value for money from proper Asset Management Planning could be equivalent to at least 5% p.a (worth some £250m on the 2005/06 capital and revenue budget spent on roads maintenance). Improvements would come from more soundly based investment appraisals and consequent reductions in the long term whole life costs of the assets in question. It is important to avoid assuming these are 'cashable savings' that could ultimately be redirected to other service priorities (such as social care) or result in some reductions in council tax. That might be the case to some degree, but in reality the improvements in value for money are more likely be felt in equivalent reductions in existing sizeable maintenance backlogs.

1.14 The CSS/TAG guidance on highway infrastructure asset valuation (described in Annex D) has been designed specifically to support transport infrastructure asset management, and provides a comprehensive approach to producing the information required to deliver the review's objectives. However, this report makes a number of recommendations for further work to update and simplify the current version of the guidance, as well as to support implementation.

1.15 The report also concludes that if the benefits of an AMP based approach are to be realised quickly and in full, an early change is necessary to the relevant accounting guidance contained in the SORP. While many of the benefits from effective Asset Management Planning do not require changes in the relevant accounting guidance (e.g. better targeting of current and future spend), the full benefits from consistent measurement and accounting treatment across the sector will only flow from the consistent discipline imposed by changing the SORP. Clearly, even this would not resolve the amount of funding for road maintenance. That remains a function of national and local priority setting.

1.16 However, changing the current SORP treatment to an AMP based approach would require local authorities to have good quality, consistent information that is capable of withstanding audit scrutiny. The speed with which this could be achieved depends on the priority — including funding and other resources — that stakeholders are willing to give to it.

1.17 In the light of consultation responses, we recommend that 2010/11 – which will be the year in which local authorities complete the transition to IFRS – should also be the first year for which current value accounting information about infrastructure assets should be reported, but that this should be treated as a 'dry run' year. The main financial statements would still be on a historic cost basis but authorities would disclose information on a current (AMP based) accounting basis in the notes to the Accounts. The change to the SORP treatment could then be implemented in 2011/12. A 'prepare and decide' approach should be adopted, with the possibility kept open of making 2011/12 a further dry run year. The final ‘switchover’ decision would then be made in the light of progress made for the 2010/11 dry run year. This approach should strike an appropriate balance between concerns about the work involved in implementing a significant change to infrastructure accounting alongside the move to IFRS based accounts, and the need to make early progress in developing sound financial information to support better asset management.

1.18 In 2010/11, the year before the proposed full adoption of the new AMP based accounting policies, dry run information would be used to inform WGA consolidation returns. However an interim approach will still be required for 2009/10, which will now be the first year of WGA publication, as well as for the 2008/09 dry run. The consultation draft proposed an interim approach to address the WGA information requirements, using a combination of national unit costs, asset inventory and condition information already held by local authorities. This approach has been explored further since the draft report was published, in discussion with central government, the Audit Commission and the National Audit Office and some local government practitioners, and is reflected in the revised Annex L.

1.19 Meeting the recommended timetable would, we estimate, require costs of £15m across Great Britain to set up systems and collect and input core inventory data, which would require funding support from stakeholders. After this initial ‘pump-priming’, the efficiency benefits delivered by better asset management should be capable of funding the ongoing information needs. The development of inventory and condition data needs to be driven by asset management planning considerations rather than simply being seen as an accounting requirement. The key to this is effective prioritisation of work, concentrating initially on the high value/high spend assets, and then gradually extending the coverage and detail over time.

1.20 The UK administrations will need to consider whether and how to support local authorities to deliver to a fixed early timetable in order to deliver the significant ongoing efficiency savings available. Otherwise the timetable for any change to the accounting will depend on the natural progress of the slower authorities, and the substantial potential benefits from the asset management plan based approach are unlikely to be realised for some years. In the light of the consultation report, DfT has announced that it will provide £15m to support development of transport asset management in England; further details are awaited on when and how this support will be allocated.

1.21 Not all local transport assets are covered by the SORP. For non-network infrastructure assets held in local authority companies, e.g. airports, the report concludes that there is not a strong case for any change in accounting approach. However, there is a good case, and strong support from consultees, for authorities, principally the Passenger Transport Executives (PTEs), who do hold significant public transport assets, including major networks, to implement asset management planning and generate financial information on the same basis and to the same standard as would apply to local authority assets within the SORP. In the absence of any Government imposed requirement, it would be for individual PTAs/PTEs and relevant local authority companies to take this recommendation forward as a matter of best practice. The guidance on asset valuation should be extended to provide appropriate coverage across all types of local transport assets in order to facilitate implementation of this recommendation.

1.22 Finally, the review looked at possible lessons for non-infrastructure assets. The MRA approach for local authority housing and the CSS/TAG guidance for transport infrastructure provide comparable measures of the cost of holding and maintaining two very different asset types. If this comparability could be achieved across the whole asset base it would provide better information to support spending decisions both centrally and locally. The extension of an AMP based approach to other asset types should help to strengthen the links between asset management and financial management, and promote a more integrated, corporate approach across both property and infrastructure assets. It could also help to provide the data required to support implementation of the Government's objective that in the longer term depreciation should hit the bottom line in local authority accounts. In the knowledge that Asset Management Planning is already considerably better developed in some areas (e.g. local authority building stock), and the consultation response on this issue, we recommend that the national administrations should undertake research to look at the scope for applying a consistent AMP based approach to all local authority assets, with a view to establishing consistent financial information to support asset management, financial management, resource allocation and policy decision making across the full range of assets.

Structure of report

1.23 The remaining sections of the report set out the review evidence and findings using the following structure:

Section 2 sets out the context for the review. It looks first at the role of accounting information, particularly depreciation, in supporting effective long term management of assets and other requirements such as resource allocation. It then looks briefly at the development of transport asset management planning and valuation methodology and at the guidance which underpins them.

Section 3 looks at different definitions of infrastructure assets and at the main approaches to accounting for them in the UK — the SORP for local authorities, the Financial Reporting Manual for central government (the FReM), and the CSS/TAG valuation guidance. It also looks at the impact of accruals accounting and of the introduction of WGA.

Section 4 looks at the drivers for transport asset management, progress to date in implementing it, and at the costs and benefits involved. It includes case studies to highlight some early wins and other examples of good practice.

Section 5 compares the three main accounting approaches available for local transport infrastructure against the objectives in the review terms of reference. It then looks at the case for changing the existing SORP approach, what this would involve, and raises a number of important implementation issues that would need to be addressed before any change could take place.

Section 6 looks at how transport infrastructure is accounted for and managed in some other developed countries, and in the UK rail and water industries. It then goes on to look at the Major Repairs Allowance (MRA) regime for local authority housing and at the potential to extend an AMP based approach to other assets.

Section 7 reports on the outcome of the consultation on the previous draft report and comments on the issues raised.

Section 8 makes final recommendations, for implementing an AMP based approach to managing and accounting for transport infrastructure assets, taking account of the timetable for implementing WGA. It also considers the position of local transport assets that are not covered by the SORP and the potential benefits of an AMP based approach for non-transport assets.