

2 POLICY CONTEXT

Asset information

- 2.1 Despite the fact that the roads network and other transport infrastructure assets together represent by far the UK public sector's biggest capital asset, there is remarkably little financial information available about it. With respect to the roads network there is excellent information about road lengths, a lot of information about condition, particularly of the road carriageway, and various other detailed performance statistics. Information is also published about annual expenditure on roads, which can be broken down into the various categories shown in Box 2.1.

Box 2.1: UK Road Lengths and Expenditure

	<u>England</u>	<u>Wales</u>	<u>Scotland</u>	<u>Northern Ireland</u>
Length (Kilometres) 1.4.05				
Motorways	2,992*	141	386	110
Trunk roads	4,330	1,547	2,806	2,270
Principal roads	27,885	2,625	7,464	
B roads	19,863	2,981	7,345	2,880
C roads	64,294	9,841	10,324	4,700
Unclassified roads	178,548	16,098	28,538	14,960
Total	297,911	33,233	56,864	24,930
Expenditure (£ million) 2004/05				
National	1,685	177	325	
Local	4,318	289	338	
Total	6,003	466	663	293

* includes 54 km of non-trunk motorways

In Northern Ireland all roads are the responsibility of DRD Roads Service. In the rest of the UK, most motorways and all trunk roads are the responsibility of the national administrations. All other road classes are local roads.

Expenditure figures include capital and revenue spending on new construction/improvement, structural, routine and winter maintenance, revenue expenditure on road safety and public lighting. National government figures also include expenditure on shadow tolls. Totals may not add precisely because of roundings. Northern Ireland road lengths rounded to nearest 10 km.

Data sources: Transport Statistics GB 2006; Welsh Transport Statistics 2006; Scottish Transport Statistics 2006; Northern Ireland Transport Statistics 2005/6.

- 2.2 Following the introduction of Resource Accounting and Budgeting (RAB) for national government departments, information is also available about the current value of the national motorway and trunk road network. The relevant departmental accounts also include a measure of 'depreciation' which provides an estimate of whether sufficient is being spent each year to maintain the assets at a stable level. However, except for Northern Ireland, where all roads are a national government responsibility, and are therefore covered by RAB, there is no equivalent published figure for the value of the UK local roads network. Similarly, published national statistics for other types of public transport concentrate on passenger journeys, revenues and expenditure but do not deal with the value of the assets or their condition.
- 2.3 The nearest approximation is a figure in the national accounts for the value of local government 'civil engineering works', with an estimated value of £282.3 billion, most of which appears to be attributable to highways. The reasons for the lack of useful information about the value of local highways and other transport infrastructure are discussed in more detail in the next section of the report.

Asset costs

- 2.4 Information about the cost of holding and maintaining assets is even more important than their valuation but again, as described in the next section, it does not generally exist — at least not on a robust and consistent basis between authorities. Within accounting, the function of depreciation is to provide a measure of the cost of the economic benefits embodied in a tangible fixed asset that have been consumed during the accounting period. Depreciation can be measured in various ways and the choice of method should therefore be dictated by whatever is most relevant and appropriate to the nature of the assets and the needs of the holding entity. For commercial undertakings one of the aims should be to reflect changes in market value or income generating potential, but for long life public sector infrastructure a more appropriate measure would be what needs to be spent to maintain the asset in a stable condition.
- 2.5 However, as described later, present depreciation figures bear no relation to spending need or trends in asset condition, and provide no useful information either for day to day management or to support resource allocation or long term planning. This is partly because the present basis of valuation for local authority infrastructure assets — historic cost — is not a good basis for dealing with assets that have very long lives. But it also a consequence of the way depreciation is treated more generally within local authority accounts. Although depreciation is calculated, the charge is reversed out before it hits the 'bottom line' so it does not have to be funded. Instead a charge based on the level of capital financed through borrowing (known as 'minimum revenue provision') is substituted. This has the effect in the short term of keeping down expenditure, but it also removes the incentives that depreciation should provide — to maintain assets to an adequate standard.
- 2.6 Government has a stated long term objective of moving to a position where depreciation does hit the bottom line in local government accounts, as it already does in those of central government, but this needs to be managed in a way that is affordable for both central and local government and does not have undesirable impacts on council tax levels. The question of when and how such a change should happen is outside the scope of this review. However, in addressing the issues within our terms of reference, a key consideration has been to look at how far different accounting approaches might achieve the benefits and disciplines of depreciation, even without the charge hitting the bottom line. We have also been conscious that our recommendations should support rather than hinder any future move to full depreciation accounting.

- 2.7 The potential role of depreciation in supporting more effective asset management was highlighted in 2003, when in the run up to the introduction of the prudential system, the Government undertook a consultation in England on future support for local authority capital investment. As well as consulting on short term issues, the document also looked at the scope for moving, in the longer term, towards a position where depreciation of assets would hit the bottom line in authorities' accounts.
- 2.8 In particular, the 2003 paper proposed that, if depreciation hit the bottom line, Government support for existing assets would be geared to supporting the associated charges. This would be done in ways that ensured that the assets could be maintained at an appropriate level, along the lines of the Major Repairs Allowance (MRA) regime for local authority housing that was introduced in England in 2001. (Similar arrangements operate in Wales). It was noted that two conditions needed to be satisfied before such a change could be made:
- affordability at both central and local levels; and
 - availability of robust data with an accounting treatment that was consistent, and, as with MRA, that ensured that sufficient resources were put in to allow operational assets to be maintained in good condition.

This approach received strong support from those who responded to the consultation. However, various issues, including data limitations which make it very difficult to get a feel for affordability, have prevented much further progress being made.

Background to introduction of asset management planning

- 2.9 In England, the Government made preparation of property AMPs and capital strategies for local authorities a formal requirement in 1999 and issued detailed guidance on how it should be done. In the first few years, English authorities were required to make annual submissions on their property asset management plans and capital strategies to Government Offices so that progress could be assessed. No upfront funding was provided, but authorities who received good or excellent ratings were given performance reward money in the form of additional unringfenced capital allocations. Early AMP scores were fed into the first round of Comprehensive Performance Assessments. By 2004, all but a handful of authorities were judged to have good quality AMP processes in place, and the requirement to make annual submissions to Government Offices was ended, although central government has continued to provide wider encouragement and guidance.
- 2.10 In Wales and Scotland, there has been less central direction, but again authorities have been encouraged to develop AMPs, in Wales supported by some pump-prime funding. Property asset management has become an important generator of capital receipts from identification and disposal of surplus and under-used assets, but attention has also increasingly focussed on managing retained assets more effectively. Property asset management is now accepted in both central and local government as an important element in improving service delivery and achieving significant efficiency gains. More generally, asset management was a key theme for the 2007 Comprehensive Spending Review.

Transport asset management plans

- 2.11 The terms of reference for the review specifically require us to look at the scope for implementing *an asset management plan based approach* to accounting, managing and financing local authority transport infrastructure assets. Although most UK public bodies have always undertaken some aspects of transport asset management, the adoption of comprehensive AMP systems is a relatively recent development and is still maturing.
- 2.12 An early driver for property asset management in the UK public sector was the ability to generate capital receipts that could finance additional capital investment. However the potential for disposal receipts from highways is low. As a result, while property asset management became a focus of attention from the late 1990s, work on transport infrastructure was more strongly focussed on achieving greater integration between different transport modes. Some individual elements of highway asset management were being developed and widely adopted, and attention was increasingly being focussed on asset condition and maintenance, but comprehensive infrastructure asset management systems for both central and local government lagged behind their property equivalents.
- 2.13 Accounting information started to be developed for national government infrastructure in order to support the introduction of RAB during the late 1990s, but as we discuss in more detail later, developments here very much focussed on meeting accounting requirements, and did not, at least directly, have a great impact on asset management.
- 2.14 The development of comprehensive asset management for local government transport infrastructure received a significant boost in 2004 when the County Surveyors Society, with the support of fellow professionals across the UK plus the relevant government bodies and CIPFA Commercial Services, produced the 'Framework for Highway Asset Management'. This is the recommended Best Practice framework for developing highway asset management in the UK. The framework defines asset management as 'a strategic approach that identifies the optimal allocation of resources for the management, operation, preservation and enhancement of the highway infrastructure to meet the needs of current and future customers'.
- 2.15 Transport Ministers for England, Scotland, Wales and Northern Ireland and the Mayor for London were joint signatories to a pamphlet issued in November 2005 called 'Maintaining a Vital Asset', which is aimed primarily at members and corporate managers. This document is available at www.roadscodes.org. It points out that the highway network is almost certainly the most valuable asset that any highway authority owns, that local roads are essential for a successful economy and society, and that their effective management and maintenance should be a key priority. As well as commending the various Codes of Maintenance Practice it says that 'all authorities should produce a Highway Asset Management Plan (HAMP) which will set out what they want to achieve with their highway network, clearly quantifying the value of the asset, identifying investment needs and priorities, based on whole life cost, and establishing co-ordinated programmes of work.'
- 2.16 Authorities are also being encouraged to apply asset management planning to other transport assets, though the detail here obviously varies depending on whether the authority owns/controls the other assets or is interfacing with and seeking to influence other providers of transport services. Asset management planning should underpin Local Transport Plans.

The CSS/TAG approach

- 2.17 Effective asset management requires good quality financial information as well as good inventory and condition data. In 2005, to assist authorities in implementing highway asset management planning and in anticipation of WGA implementation (see Section 3), the County Surveyors Society (CSS) and the Local Authority Technical Advisors Group (TAG) issued a Guidance Document for Highway Infrastructure Asset Valuation ('the CSS/TAG Guidance').
- 2.18 The CSS/TAG guidance (summarised in Annex D) was endorsed by H M Treasury, the (then) Office of the Deputy Prime Minister which was responsible for local government finance policy and the statutory framework in England, and the Department for Transport. It has been taken as the starting point for the review's consideration of valuation issues and AMP based financial information. Authorities are generally adopting, or intend to adopt, this approach to valuation for asset management purposes. However, as we discuss in Section 4, progress to date varies greatly between authorities.
- 2.19 It is important to note that while the two guidance documents were produced for highways, both the framework for asset management and the valuation guidance can be readily applied to other types of transport infrastructure. Both documents are available on-line at www.roadscodes.org.

Conclusions

- 2.20 The present historic cost accounting treatment for local authority transport infrastructure assets does not support effective long term management of the assets or other information needs such as resource allocation. The fact that depreciation does not hit the bottom line and therefore does not exert the normal financial disciplines is also a contributing factor here. A key issue for the review is therefore whether more can be done to achieve those benefits and disciplines even without a depreciation charge hitting the bottom line.
- 2.21 Despite strong support from the professional bodies and the four UK administrations, the implementation of transport asset management planning is not yet well advanced. Progress with the introduction of transport asset management plans is considered in more detail in Section 4, after the next section which considers infrastructure asset definitions and current approaches to accounting for them currently adopted in the UK.