

## 8 IMPLEMENTING AN AMP BASED APPROACH

- 8.1 In Section 4 we concluded that implementing an AMP based approach to managing all transport infrastructure assets is worthwhile in its own right because of the ongoing savings and further improvements it can deliver. In Section 5 we further concluded that an early change to the current SORP accounting treatment is necessary to ensure that the benefits of an AMP based approach are realised quickly and in full. As discussed in Section 7, these conclusions were supported by the majority of those who responded to the consultation.
- 8.2 As discussed in Sections 4 and 5, while some authorities have made significant progress, many authorities are still at a relatively early stage in developing transport asset management, and many have not yet really got to grips with valuation issues. They need sufficient time to develop inventories and unit cost rates. On the other hand, there is now a substantial and growing body of experience and best practice which, if brought together in further guidance, would allow a more streamlined and standardised process to be established, delivering much more consistent implementation of the CSS/TAG principles and making it easier for those authorities still at an early stage on valuation to catch up.
- 8.3 This final section considers what further actions need to be taken to support consistent implementation of an AMP based approach to managing both highways and other transport infrastructure assets. It then assesses the changes required to implement an AMP based accounting treatment for transport infrastructure in the SORP, taking account also of the requirements and timetable for implementing WGA. Finally it looks at the position of local transport assets that are not covered by the SORP and whether an AMP-based approach might have benefits for other operational assets.

### **Recommended actions to support consistent AMP implementation**

- 8.4 The way in which implementation is approached could have a big influence on how quickly asset management planning starts to deliver worthwhile information that can begin to support better management of all forms of transport assets locally, deliver efficiency savings and provide useful financial information for wider purposes. Work in other sectors, and by those furthest forward in local highways asset management, demonstrates that the key to success is effective prioritisation of work, concentrating initially on the high value/high spend assets, and then gradually extending the coverage and detail over time.
- 8.5 To allow the benefits of an AMP based approach to be delivered quickly and securely and to address the particular issues and concerns identified in Section 5, we recommend that the following actions should be taken:
- (i) **'Quickstart' guidance should be prepared by CSS/TAG for those local authorities yet to start asset valuation or still in the initial stages.** This should cover key processes and issues such as how to use and build on information already collected, but ideally should also cover approaches to developing inventories — advice on sampling, how to prioritise data collection etc, so that authorities can start to get a worthwhile payback from their efforts even before fully developed inventories and systems are in place. Work to develop Quickstart guidance has been included in the CSS/TAG Asset Management Working Group's work programme for 2008/9.
  - (ii) **Further work should be undertaken to refine the elements to be included in the calculation of Gross Replacement Cost and to develop the approach to address initial Depreciated Replacement Cost and**

**annual depreciation.** This should simplify and streamline the valuation process in the existing CSS/TAG guidance, as well as helping to promote greater consistency. This work should be project managed by CIPFA, and the project team would need to include accountancy as well as engineering expertise. It should be a national project, drawing on information from regional groups across the UK.

In the light of the consultation responses discussed in Section 7, CIPFA proposes to invite MSIG to work with them as lead regional group in developing further valuation guidance, with support from the South East Group, drawing on their Centre of Excellence project. Potentially, the newly established MSIG/South East working group described in Section 7.14 would provide a good basis for taking forward joint working and could bring in some wider representation, including from Scotland and Wales. The work of this core group would need to be supplemented by other arrangements to ensure that other regional groups and authorities are able to contribute experience and data, and participate in the development and testing of the further guidance. This is likely to involve a combination of electronic communication and occasional workshop sessions.

The proposed CIPFA steering group (see recommendation vi) and the CSS/TAG Asset Management Working Group, which has UK wide representation, including from the national agencies, should both have responsibilities for making sure that the interests and experience across the UK are properly reflected as further work is taken forward.

Guidance should be promulgated as each new part is produced, rather than waiting until the process is complete. A consolidated version should be produced at the end of the project.

- (iii) **Other work is needed to develop consistent approaches to depreciation,** for example to ensure appropriate consistency of treatment in respect of non-depreciable elements. This work should be taken forward jointly by the CSS/TAG Asset Management Working Group and CIPFA. CSS/TAG should be responsible for liaising as necessary with the Boards of the UK Roads Liaison Group to draw on their specialist expertise where needed and to ensure that the guidance fits with and is reflected as appropriate in the various engineering Codes of Practice.
- (iv) **Appropriate training and support should be provided for local authority transport and finance staff involved in transport asset AMP implementation.** There is also a need for more to be done to raise awareness among members and officers more generally of the importance of transport asset management and what it can contribute to the achievement of strategic objectives.
- (v) **In England, consideration should be given to involving the Regional Improvement and Efficiency Partnerships** (successors to the Regional Centres of Excellence), since transport asset management has the potential to make an important contribution to the delivery of their core objectives and would benefit from their collective engagement and support. Areas where they might have a role include supporting further regional projects as has already happened in the South East, and considering the scope for joint procurements, e.g. of systems and inventory data.
- (vi) **An implementation steering group should be established to co-ordinate implementation of the recommendations.** This should have

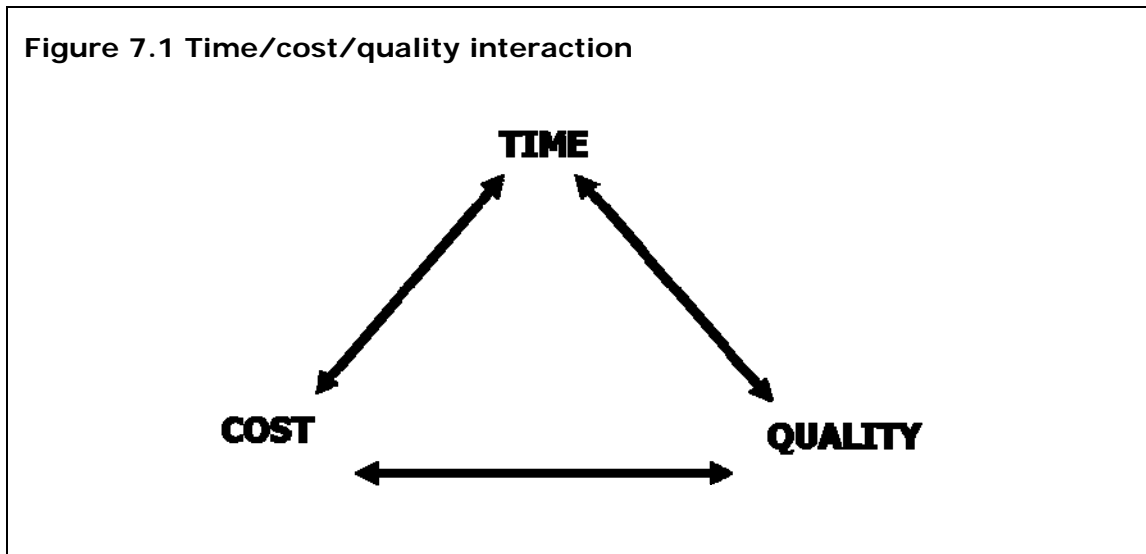
similar membership to that which has overseen this review, although some modification may be needed to reflect the somewhat different nature of its work and to make sure that it properly reflects the various national and local stakeholders in implementation. It should meet at least quarterly to oversee implementation, address common issues including policy type issues such as the appropriate treatment of land, ensure that the end products are robust, acceptable to the various stakeholder interests and achieve the objectives of the work programme.

- 8.6 This group of recommendations should be pursued quickly, in order to allow the efficiency benefits from an AMP based approach to be delivered as soon as possible. In particular, items (ii) and (iii) need to be completed for highways by early 2009 to support the development of local asset management and implementation of the interim approach to WGA (see below). Some additional work will also be required to expand the guidance to cover valuation of other (non-highways) transport assets that fall within the scope of the SORP. It is proposed that this should be tackled after highways, so that it can build upon the further guidance developed for highways. However, some preliminary work will be needed to extend the present highways asset categorisation and identify any issues that are unique to non-highways infrastructure in order to ensure the approach adopted for highways does not cause unnecessary problems for other transport asset types at a later date.
- 8.7 Throughout this report we have used the term 'asset valuation' since it has been used in the existing guidance and therefore adopted by those seeking to implement it. However, in some quarters at least, the phrase 'guidance on asset valuation' implies that its prime purpose is to produce the high level values needed for the accounts and on this basis have questioned whether the effort involved in implementing it is really worthwhile. It is important that the guidance and its application is recognised as having a much bigger objective, namely to support the production of robust, consistent, comparable financial information that meets the requirements of asset management, wider financial and policy decision making, and local and national financial reporting. We therefore recommend that the term 'asset valuation' should cease to be used as a shorthand for this wider purpose and that something broader such as 'asset financial management and reporting' would give a better sense of what stakeholders collectively want to achieve.
- 8.8 In the longer term the existing CSS/TAG asset management guidance will need to be revised fully, to provide clarification where required and to promulgate developing best practice. However, a full revision will be a significant piece of work and will take time to deliver. An appropriate timetable will need to be set to allow the results of recommendations (i) (ii) and (iii) above to be taken into account.

#### **Requirements for changing the current SORP accounting treatment**

- 8.9 In Section 5 we concluded that an asset management plan based approach to accounting for transport infrastructure assets has the potential to be consistent with IFRS and to be suitable for WGA purposes. We also concluded that an early change to the current SORP accounting treatment is necessary to ensure that the benefits of an AMP based approach for transport assets are realised quickly and in full. The majority of consultation responses supported this view.
- 8.10 However, the timetable for any SORP change depends on how quickly good quality, consistent auditable information and systems can be put in place; and how much priority — including funding and other resources — stakeholders are

willing to give to the work. The issues of time, cost and quality are inter-related as shown in figure 7.1.



- 8.11 The proposed measures to streamline and standardise aspects of the valuation process are intended to produce more robust and consistent financial information, be cheaper to implement and help those at early stages of implementation to progress more rapidly. However even with a prioritised approach to data collection and systems development, there will be upfront costs that must be incurred to set up the systems, and to collect and input the inventory data required if all local authorities must deliver information of auditable quality to a fixed timetable.

#### **Timetable for changing the SORP**

- 8.12 The consultation draft suggested that, given reasonable notice, and subject to early implementation of the recommendations on funding and further guidance and support, it should be possible for authorities to develop inventories to a level which would allow the SORP to be changed from 2009/10. The consultation responses raised a number of concerns about proceeding this quickly. On the other hand, there is still a need for authorities to make significant early progress to start to deliver useful information to support better asset management and inform resource allocations, as well as to provide information to support WGA, even though the period for the first published accounts has been delayed by a year until 2009/10.
- 8.13 In the light of the fact that it has now been announced that 2010/11 will be the year in which local authorities complete the transition to IFRS, we propose that the first year for which current value information on transport infrastructure assets should be reported should also be 2010/11 but that this should be treated as a 'dry run' year. The main transport infrastructure asset information reported in local authority balance sheets (and elsewhere in their accounts) would continue to be on a historic cost basis, but authorities would also disclose valuation information on a current (AMP based) accounting basis in the notes to their accounts. The change to the SORP treatment could then be implemented in 2011/12. In view of the likely significance of the new data in highways authority accounts, 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.

- 8.14 Once a firm timetable is set for changing the SORP, treatment of transport infrastructure assets progress in implementing transport asset management should, like property asset management, be taken into account in the auditors' assessment of authorities' performance in a way that properly reflects the value of the assets.

#### **Interim WGA approach to highways assets**

- 8.15 In 2010/11 the year before the proposed full adoption of the new AMP based accounting policies, local AMP based information from the 'dry run' disclosures in local authorities' own accounts would be used to inform WGA consolidation returns. However an interim approach to providing data for WGA will be required for 2009/10, which will now be the first year of published WGA data as well as for the 2008/09 dry run. A high level modelling approach to producing auditable data on highways infrastructure for WGA is described in Annex L. The approach would draw on nationally specified unit costs, and national assumptions in respect of road widths, footways etc. This data would be combined with asset inventory and condition information already held by local authorities to produce financial data for the WGA consolidation, which would be materially correct information on highways at the whole of government level. As noted in Section 7, work to develop an approach of this kind has recently started. The approach does not cover non-highways infrastructure assets which would need to remain on a historic cost basis for these two years.

#### **Funding**

- 8.16 Delivery of the timetable, described in 8.13, would need an early decision in principle by CIPFA/LASAAC to change the current SORP accounting treatment. The CIPFA/LASAAC decision would inevitably be influenced by the willingness of stakeholders to commit necessary resources. On the basis of the approach described in Annex M, we estimated possible up-front expenditure of around £15m would be required to support the production of the basic inventory data across Great Britain required as the start point for establishing basic asset management and producing auditable accounts for individual local authorities. The UK administrations will need to consider whether and how to support these up front costs in order to obtain the benefits from having asset management planning and the accounting change implemented to an early fixed timetable. This one off figure of £15m needs to be seen in the context of the £5bn of expenditure made on roads by GB local authorities in 2005/06.
- 8.17 The alternative would be to allow authorities to continue developing AMPs and taking forward asset valuation at their own pace, albeit with continued encouragement from the UK administrations and the Roads Liaison Group and, we hope, with the benefit of the further support and guidance we recommended in paragraphs 8.5-8.8 above. Without appropriate up-front funding support, the timetable for any eventual change to the SORP accounting treatment would depend on the progress of the slower authorities, and the substantial potential benefits from an AMP approach are unlikely to be realised for some years. This view is supported by the findings of the Atkins study referred to in Section 4 and 5.

- 8.18 The funding announcement by the Minister for Transport referred to in paragraph 7.20 is therefore a substantial and welcome development although decisions have yet to be taken on when and how it will be allocated. Also it only applies to England. In addition to inventory collection, there is a need for funding to support development of further guidance, and for training and support. After 2009/10, the cost of further local development work could increasingly be afforded by authorities themselves and funded out of the savings from better asset management, though there would still be a role for Government in supporting research into issues such as techniques to improve condition assessment and whole life cycle modelling

#### **Transport infrastructure assets not covered by the SORP**

- 8.19 The case for any change in accounting approach is probably not strong in respect of non-network transport infrastructure, such as airports, held in local authority companies. In many cases these assets are owned by local authorities for wider reasons — income generation or local economic benefits — rather than because of the contribution they make to local transport. For such assets the present accounting treatment may be the most appropriate one, since it achieves consistency of approach with private firms operating similar businesses.
- 8.20 Nonetheless the authorities, principally the PTEs, who do hold significant non-network transport infrastructure assets, have the same need as highways authorities to develop transport asset management plans and processes, to understand the cost of holding their assets, whether this is being done cost-effectively and so on. And they are competing for funding with highways and other local transport services. The Local Transport Bill currently before Parliament includes various measures, including changes to Local Transport Plan arrangements and to governance arrangements for the PTAs/PTEs which are designed to promote and facilitate more integrated approaches to planning and delivery of local transport services. Common approaches to asset management underpinned by common approaches to financial information should facilitate this and would provide better, more consistent information to support resource allocation decisions both locally and centrally.
- 8.21 In principle therefore it would seem desirable that all local transport assets should be covered by AMPs. Many PTAs/PTEs and TfL are already pursuing asset management, but there is a need for greater consistency, including generating financial information on the same basis and to the same standard as will apply to local authority assets within the SORP. As reported in Section 7, the consultation showed strong support for pursuing this. 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. Much of the existing guidance and the proposed further work in respect of management and valuation of transport assets covered by the SORP will be applicable to assets outside the SORP. However, we recommend that the CSS/TAG guidance on asset valuation should be extended where necessary so that it provides appropriate coverage across the whole spectrum of local transport assets.
- 8.22 In the light of the consultation response reported in Section 7, we recommend that research should be undertaken by the national administrations to look at the scope for applying a consistent AMP based approach to all local authority operational 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. The approach adopted for the local authority housing Major Repairs Allowance, discussed in Section 6 of the

Report, would provide a useful starting point for such research, which should of course also take account of the existing CSS/TAG guidance on transport infrastructure assets and any subsequent revisions to this.

## **Conclusion**

- 8.23 Transport asset management has significant but as yet largely untapped potential. An AMP based approach, supported by an early change to the current SORP accounting treatment for transport-related infrastructure assets would be the best way to ensure that the benefits — better service delivery, efficiency gains, and high quality financial information to support better decision making locally and nationally — are realised as quickly as possible and in full. We have been greatly encouraged by the response to the consultation draft of the report and the steps already being taken to pursue some of our recommendations. We hope that this final report will command widespread support in local government, in the relevant Departments, and with other stakeholders across the UK, and that implementation can now move forward quickly for the benefit of those who use, provide and fund these vitally important assets.