HM TREASURY

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WHOLE OF GOVERNMENT ACCOUNTS

Accounting for Highways Infrastructure Assets in the Local Authority Sector on a Depreciated Replacement Cost Basis

Interim Accounting Arrangements for the Period up to 2012-13

Purpose

1 This paper details HM Treasury data requirements for highways infrastructure assets with respect to WGA. It covers interim arrangements for the collection, auditing and reporting of Local Authority highways infrastructure accounting data in the period up to 2012-13 when these transactions, subject to the confirmation to proceed, will be fully accounted for on a depreciated replacement cost (DRC) basis. The data will provide the basis for accounting disclosures necessary for the Whole of Government Accounts (WGA) in the years from 2009-10. These arrangements do not change the basis of valuation in local authorities' own accounts.

2. The paper describes an incremental approach that seeks, among other things, to maintain and encourage the momentum of work already underway to develop highways asset management planning whilst recognising the size and complexity of the task ahead for many bodies, as well as their varying states of preparedness.

3. The paper does not address the accounting for other local authority infrastructure assets (for example, train, underground or tram passenger services, ports, harbours, etc).

Introduction and Background

4. The Chancellor announced in Budget 2008 that a Whole of Government Account will be published for the first time for 2009-10. This includes the requirement to have a common set of accounting policies for the whole of the public sector.

5. Local Authority infrastructure assets are currently accounted for on a historic cost basis. Whilst this is UK GAAP and IFRS compliant, it is inconsistent with the DRC approach that has been adopted as the accounting policy for WGA. Highways infrastructure assets will transition to a DRC basis in 2012-13, following the implementation of asset management plans for each local authority

and a formal, fully audited dry run of the processes and accounting in 2011-12. The timing of this move reflects the size and complexity of the valuation exercise and the readiness of individual local authorities to implement the change.

6. This divergence of timing between central and local government sectors has consequences for WGA. It will not be possible for the account to be prepared on a fully consistent basis and consequently the accounting policies, statements, notes and disclosures in WGA for 2009-10 to 2012-13 will need to reflect this reality.

7. For several years now authorities have been encouraged to develop highways asset management planning because of its potential to improve services and deliver efficiency savings. Implementation of the new CIPFA *Code of Practice on Transport Infrastructure Assets – Guidance to Support Asset Management, Financial Management and Reporting* will provide consistent, high quality financial information to support this. The same information can also be used to support a valuation of the assets on a DRC basis. While the information currently held is not, for the UK as a whole, sufficient to support a valuation of those assets on a DRC basis, data quality should improve over time.

Timetable and Actions

8. The financial statements and disclosures for the 2009-10 to 2011-12 WGA will reflect that local authority infrastructure assets continue to be valued at historic cost. HM Treasury will want to supplement this information in WGA with a detailed explanation of the plans and progress on the new valuation work including, where relevant and appropriate, any reliable DRC estimates of the network, though with the caveat that this information is part of a step-by-step and dry run process and is not formally audited.

9. The approach calls for an increasing level of reporting and audit assurance throughout the period to full DRC reporting in 2012-13. This approach should be beneficial in a number of ways:

- In the absence of a formal trigger point process, it will help encourage and maintain the momentum of the asset management implementation and, as a result, the financial accounting information derived from this; and

- It will provide the audit community with a basis on which to make their plans during the period. It will enable them to form a view on the readiness of local authorities before 2012-13, and support wider scrutiny and performance assessment of authorities' progress in implementing asset management plans.

The following approach for each year will apply.

2009-10

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*.

11. 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.

12. 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.

13. 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.

14. 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

15. 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.

16. The original timetable required an audit review of GRC data in the 2010-11 Return. However, given the resources and cost involved in auditing the data in this era of substantially tighter public spending, the first audit review has been delayed until the more complete and full dry run year, 2011-12. It is important 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.

17. 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

18. 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.

19. 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

20. 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.

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