

Terms of Reference

Joint CIPFA LASAAC and Accounting and Financial Reporting Forum

Task and Finish Group on the Derecognition of Parts of Infrastructure Assets

Introduction

In early March 2022 CIPFA/LASAAC Secretariat was made aware of the issues relating to the derecognition of parts of Infrastructure Assets through various sources, including a CIPFA LASAAC member. The issue is pressing as the Secretariat understands that without resolution it has potential to result in qualification of significant numbers of authorities' financial statements.

Background to the Need for a Task and Finish Group

The main 'technical issue' relates to subsequent expenditure on infrastructure assets and specifically on whether local authorities should be assessing if there is any residual value remaining in replaced components that needs to be de-recognised when the subsequent expenditure is added. This may also lead to issues relating to the reporting of gross historical cost and accumulated depreciation

While this is standard practice for many fixed assets, it may not generally be being implemented for infrastructure assets because there are a variety of significant practical difficulties in applying the standard approach to such assets.

This is, particularly in relation to highways infrastructure assets, where the engineering records used to maintain, replace and add to the infrastructure assets have not been designed to map against identifiable components. It was recognised during the 2015 consultation looking at the possibility of applying current values to highways assets that it was not possible to typically identify components and information on previous historical repairs is not available in a meaningful or identifiable way particularly for roads. Under the current value approach, it was therefore more meaningful to treat the network as one asset.

There are also information deficits in relation to historical expenditure on assets created before 1994/95. These provide a significant contribution to the capacity of the roads networks and to their value. We understand these assets were brought onto the balance sheet at 'capital undischarged' amounts rather than at historical cost. Though these were treated as historical cost from that point on.

In addition, there may be issues where assets have been transferred to local authorities on local government reorganisation for example.

The 2015 consultation paper on the valuation of the Highways Network Asset included a rebuttable presumption that when parts of the network were being replaced, those parts had been fully depreciated and therefore there was no need to adjust the net book value for that part of the asset, this was because the part of the asset being replaced had been fully consumed. The local authority accounts preparers have explained this approach to their auditors, noting that the accounting requirements for Highways Network Assets which were developed and consulted on by CIPFA/LASAAC did address some of the current issues.

Having been made aware of the issues, CIPFA arranged to follow the discussion of this matter at the NAO's technical network group (LGTN). The Secretariat was keen to provide constructive support on this issue and to alleviate concerns that the reporting is problematic, given that it probably represents the best reporting achievable under the circumstances.

The Secretariat would note that the LGTN appeared to be extremely sympathetic to the positions set out by preparers. However, they felt exposed in providing an audit opinion encompassing these assets and the associated flows given that the accounting does not seem to straightforwardly follow the treatment prescribed in the Code.

CIPFA LASAAC agreed that consideration can be made for emergency changes to the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) and the Accounting and Financial Reporting Forum agreed that associated guidance could be issued to resolve the issue taking into account historical information availability and practical issues. Both will need to be produced at haste.

Membership

Chair

Derek Yule *CIPFA Council Member, CIPFA Public Financial Management Board, Vice Chair of the Accounting Forum*

CIPFA LASAAC Members

Elanor Davies *Scottish Government Observer Member*

Deryck Evans *Audit Wales*

John Farrar *Grant Thornton*

Christine Golding *Essex County Council*

Paul O'Brien *Audit Scotland*

Joseph McLachlan *East Ayrshire Council*

Liz Thomas *Flintshire County Council*

Accounting Forum Members

Stephen Sheen *Independent Consultant*

Peter Worth *Independent Consultant (Also an Observer Member on CIPFA LASAAC)*

Co-optees – Accounts preparers

Pillai Binoy *London Borough of Barking and Dagenham*

Steven Hill *East Ayrshire Council*

George Maczugoowski *Plymouth City Council*

Richard Quayle *Oxfordshire County Council*

Heather Salmon *London Borough of Islington*

Co-optees – Auditors

Sharon Liddle/Jon Leece *Mazars*

David Eagles/Barry Pryke *BDO*

CIPFA Secretariat

Sarah Sheen/Somir Ali *Secretary*

In attendance

Steven Cain *CIPFA*

Objectives

- To make recommendations for changes to the Code which will confirm the historical position for infrastructure assets (including gross historical cost), which will reflect the practical availability of information and its usefulness to local authority users of the financial statements. Where necessary it will confirm which amendments can be retrospectively applied.
 - This may include the reporting of gross historical cost and accumulated depreciation.

(Note that CIPFA LASAAC will make the final decisions on any changes to the Code).

- To produce guidance (by means of a CIPFA Bulletin) which will assist local authorities in presenting and reporting their infrastructure assets. This will ensure that any approach is robust but is produced in such a way that the costs will not outweigh the benefits to the users of the accounts.

Both the above with the intention to assist with the resolution of the issues raised.

Secretariat support

Secretariat support will be provided by the CIPFA Policy and Technical Directorate.

Operation of the meetings

The meetings will operate under the operational procedures included in the [CIPFA/LASAAC Terms of Reference](#) and also the Terms of Reference of the Accounting and Financial Reporting Forum.

The Working Group will meet as often as necessary to resolve the issue using Microsoft Teams.

CIPFA/LASAAC and the Accounting and Financial Reporting Forum will receive feedback at its meetings but where necessary out of meeting papers may be sent to the Board and the Forum.

Notes of actions agreed at meetings will be provided and each meeting and will include relevant specified actions for members.

As the issues are sensitive the meetings will take place in confidence and under Chatham House rules any external communications will be agreed by the Chair.

Recommendations

Any final recommendations to CIPFA/LASAAC will require approval by the majority of the group.

Any final recommendations for Guidance will require approval by the majority of the Group

The Guidance will be approved by CIPFA PFMB.

May 2022