



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Steve Freer
Chief Executive
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26 January 2009

Dear Steve Freer

**LOCAL AUTHORITY TRANSPORT INFRASTRUCTURE ASSETS -
REVIEW OF ACCOUNTING, MANAGEMENT AND FINANCE
MECHANISMS**

In 2006, Treasury and the Department for Transport commissioned CIPFA to evaluate the issues associated with implementing an asset management plan based approach to accounting, managing and financing local authority transport infrastructure assets. Colleagues at DfT and I are most grateful for the informative and challenging report that you have produced in response.

2. As the report points out, our highways and other transport infrastructure is one of the biggest assets that the UK public sector holds. It is vital to the national economy, and how well, or badly it is maintained and operated has a huge impact on our quality of life. It is therefore a matter of concern that, as your report clearly shows, most authorities do not have good quality information about the nature of their transport infrastructure assets, or the true costs of holding and maintaining them.

3. We agree with the report's conclusion that asset management has the potential to address these deficiencies and to deliver improvements in services for users. We also agree that it has the potential to deliver improved long term value for money. While the overall level of progress so far in implementing asset management has been disappointing, we commend those authorities that are making good progress and are encouraged by the benefits they are achieving.



4. We also agree, as did most respondents to your consultation, that the benefits of an AMP based approach would best be realised if development of asset management planning is underpinned by a change to the local authority accounting treatment for transport infrastructure. Both government and local decision makers need the assurance that financial information about this very large and important asset is robust, consistent and of good quality, so that it can be used with confidence to support financial decision making, including the operation of the Prudential Code. The proposed change to accounting should deliver this, as well as providing the consistency of treatment across local authority assets that is desired for Whole of Government Accounts (WGA) purposes.

5. We have, however, noted that some concerns were raised during the consultation, including from the Scottish Government about the accounting change. While we are keen to see a change take place as soon as practicable, we accept the case for the somewhat slower timetable proposed in your final report and agree with your recommendation for a “prepare and decide” approach. We would, however, invite you to press ahead with the early preparation of the proposed further guidance and implementation of the related recommendations in the report. This is both to support the further development of asset management and to ensure that the guidance necessary to support a change in accounting is ready in the event of a favourable decision. Officials will commit appropriate resources for the proposed Implementation Steering Group, which we invite you to set up as soon as possible. This group will need to liaise with the asset management working group that is responsible, on behalf of the UK Roads Liaison Group, for guidance on the wider asset management framework.

6. The direct costs to local authorities of compliance with changes to accounting are for authorities themselves to meet. However, as you will be aware, in the light of CIPFA’s work and the Atkins report, the Department for Transport has announced funding of £32 million to encourage local authorities to build up their asset inventory and analysis capability. This is not intended to cover the full costs of developing asset



management plans but, as your report shows, with sensible prioritisation authorities should be able to achieve some early efficiency gains that can be used to finance further development. We understand that Scottish and Welsh authorities are participating in national asset management projects and are making steady progress. There is now a pressing need to bring together the experience of the different groups working on asset management implementation, and to encourage and support those authorities that have made little or no progress with asset management to catch up. Your report provides a sound foundation on which authorities can build, and the Government hopes that all authorities will seize this opportunity. It is important that learning is shared and contributes to future development. I would encourage you to progress a potential role for Regional Improvement and Efficiency Partnerships in this task as your report suggests.

7. The report proposes arrangements for authorities to contribute to the development of further guidance. We hope that groups will support this by contributing their own experience and by testing out and providing views on draft material, taking account of both transport and finance issues.

8. It is clear from your report that there may be wider benefits, particularly in relation to Passenger Transport Executives. We support this as an area for development. Similarly, the recommendation for research to examine whether AMPs could be applied to other types of local authority assets is one that we support.

9. The government is convinced that there are significant benefits to be gained from adopting an asset management approach to local highways. Implementation of the recommendations in CIPFA's report has the potential to be a major step towards achieving those gains. We look forward to working with you to that end and hope that other stakeholders will be also willing to play their part, so that service users and taxpayers can enjoy better, more cost effective, transport infrastructure. Please accept my thanks for the work that you have done in producing this report.



10. I am copying this letter to Paul Clark MP (Minister of State, Department for Transport), John Healey MP (Minister of State, Communities and Local Government), Ann McKechnin MP (Parliamentary Under Secretary of State, Scotland Office), Wayne David (Parliamentary Under Secretary of State, Wales Office).

A handwritten signature in blue ink, appearing to read 'Yvette Cooper'.

YVETTE COOPER