CIPFA The Chartered Institute of Public Finance & Accountancy

report

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Board	CIPFA/LASAAC Local Authority Accounting Code Board
Venue	CIPFA Scotland, Edinburgh
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Subject	Analysis of Responses to Consultation on 2014/15 Code – Transport Infrastructure Assets

Purpose

To report on the responses to the 2014/15 Code of Practice on Local Authority Accounting consultation exercise as it relates to the measurement of Transport Infrastructure Assets.

1 Introduction

1.1. CIPFA/LASAAC Members will be aware that the CIPFA *Code of Practice on Transport Infrastructure Assets* (the TIA Code) was first published in 2010 and since that time has been used to provide information for the Whole of Government Accounts and increasingly to support asset management. The Code is based on the principle that the same data should be used for asset management, financial management and financial reporting, with the more effective management of assets being the key driver.

1.2 CIPFA/LASAAC's consultation papers included, for the third year, proposals on implementation of the measurement requirements of the TIA Code ie on a Depreciated Replacement Cost (DRC) basis in the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code). Evidence from both the previous years' consultation processes indicated that there were substantial practical difficulties to implementing the proposals.

1.3 The proposals in the Invitation to Comment (ITC) on the Accounting Code update included full adoption for the 2015/16 year (which would require retrospective restatement). The ITC also included proposals for a dry run and a further proposal for phasing ie by means of implementing the requirements for carriageways first. The ITC did indicate, however, that prior to implementation CIPFA/LASAAC would seek assurances from a number of sources (outlined in the consultation paper) that the proposals could be successfully implemented.

1.4 In total there were 53 responses (listed at Appendix A in report CL 09-11-13 (a)) to the consultation. The ITC included four questions on the proposals for the introduction of the DRC measurement requirements. These are set out in Appendix A of this report.

1.5 Five of those responses, the Department for Transport, the National Audit Office, HAMFIG, Atkins and a joint response from the Passenger Transport Executives in England prepared their responses only on the questions of the adoption of the measurement principles of the TIA Code in the Accounting Code. The single issue responses have not been included in the statistics and have therefore been included in full in this report.

1.6 On the whole it would appear from the statistical analysis of the responses that there is overall support for the phased implementation. However, the Secretariat would highlight that this picture needs to be significantly tempered with the comments that accompanied the "agreed" or "disagreed" responses. For example, some indicated that though in favour of a phased or a staggered adoption they were concerned about the timing of the adoption primarily due to the cost in terms of systems and resources and the practical issues that had to be resolved prior to the adoption of the measurement requirements. A number of the respondents indicated that they were very concerned about the resources that would need to be expended in times of severe austerity for local government. In addition, there are a small number of responses that are strongly opposed to the implementation proposals.

1.7 The statistical analysis of responses and direct extracts from the majority of respondents has been included in Appendix A to this report so that CIPFA/LASAAC Board Members can see the tone and emphasis of the responses. Only some of the very minor comments have not been included.

2 Background and Context

2.1 CIPFA/LASAAC has been committed to current value as the measurement basis for non-current assets both in the Code and the predecessor SORP[1]. The benefits of a move to a current valuation basis as a means of measuring property, plant and equipment significantly outweigh the continuation of measurement on a depreciated historical cost basis. This is evidenced by most of the other asset classes being measured on a current valuation basis as well as the conclusions of the 2008 CIPFA review. Additionally, for a number of authorities, the cost information for infrastructure assets is not complete. The benefits of linking the measurement base and financial reporting with highways asset management are also very important for one of the largest asset classes in the public sector in the United Kingdom.

2.2 In its response to the consultations on both of the Codes' updates (see Appendix A), the Department for Transport has indicated its intention to review the way in which funding for highways maintenance is allocated to local authorities over the next spending review period starting 2015-16. The Department also states that it is planning to consult early next year on how it can reward those authorities that have taken up good asset management practices and achieved efficiencies. In order to have audited information covering the full period of the next spending review 2016-17 would be the latest implementation date as this would include 2015-16 comparative data.

2.3 It is also recognised and that without the impetus of requiring this information in the financial statements the information gap may otherwise take some

[1] Code of Practice on Local Authority Accounting in the United Kingdom; A Statement of Recommended Practice (SORP)

considerable time to close. This to a certain degree is evidenced by the consultation responses (including those of previous years) which appear to show that although there has been progress, many of the same issues have been raised each year. CIPFA/LASAAC will therefore need to signal a clear timescale for full adoption in the 2014/15 Code even if this means full adoption is delayed by a further year. This will need to be accompanied by the development with other key stakeholders and partners of the tasks in the virtuous circle (considered by the Board at its last meeting).

2.4 In addition one of the important reasons CIPFA/LASAAC included these changes in its last two consultations on the Code was that this was a qualification in the Whole of Government Accounts (WGA). As was reported previously to CIPFA/LASAAC the WGA was considered by the Public Accounts Committee (PAC) in January 2012. The PAC concluded that the "…WGA needs to be unqualified if it is to be an authoritative resource for accountability and decision-making". It further commented that "Treasury should show how and when it intends to address and resolve each of the reasons for the qualification in future accounts. It should also take a more active role in working with government bodies whose individual accounts have been qualified to resolve the causes of the qualification". As noted at the last meeting of the Board this issue will become more prominent as other qualification issues are resolved.

2.5 *Paragraph deleted as noted in error at the meeting*.

3 Summary of Responses

Question 22 – Phased Approach to adoption including early adoption

3.1 The majority of respondents (with a number of notable exceptions) agreed with the phased approach to adoption.

3.2 A number of the respondents were concerned about the impact of the major change to local authority financial statements, including the achievability of the change in a relatively short period of time with one respondent commenting that the timescale was "*optimistic*". Another did not consider "*the move to measuring transport infrastructure assets at DRC in 2015-16 at all practical in the current period of austerity*". A small number of respondents indicated that the change was either unnecessary and would add additional complexity to the financial statements, not beneficial to the authority or the readers of the accounts or that there was no imperative for such a change as the accounts were compliant with IFRS.

3.3 Most of the respondents did not recommend that early adoption should be permitted in the Code, with only one indicating that it would consider early voluntary adoption.

3.4 A number of authorities were supportive (one being very supportive) of a move to 2015/16 implementation, some citing that the authority was already completing this information for Whole of Government Accounts purposes. The audit bodies and professional firms appeared to support the phased implementation, noting the need to support WGA information. Most, but not all of these bodies supported the dry run. (The dry run will be discussed in more detail in the analysis for question 24.) Most of these respondents indicated that they did not underestimate either the significance of the change or the practicalities that would need to be resolved prior to implementation.

3.5 The Department for Transport was also very supportive of the implementation of the reporting requirements commenting: "*we believe it is important to maintain momentum, we see some justification for being pragmatic and introducing a phased approach to the requirement of the provision of Depreciated Replacement Cost (DRC) data and would support a formal adoption of the DRC measurement in 2015-16, with a 'dry-run' year in 2014-15*". The Highway Asset Management Financial Information Group (HAMFIG) "…*strongly supports the proposal to … change the code on the suggested timetable with the sole caveat that the revised CIPFA TIAC currently under consultation should allow LA s complete the valuation work simply and easily with no additional drain on resources… if C/L are minded not to make this change now, HAMFIG would flag up the risk that all progress to date may be lost and would strongly urge C/L to consider setting a date even if further into the future than the one currently proposed in the consultation*."

3.6 It is clear that any approach to the successful implementation of the measurement requirements of the TIA Code in the Accounting Code would need to include a phased approach to implementation.

Scope of the Proposals

3.7 An important response was provided in relation to the scope of the Accounting (and TIA) Code's proposals. A firm raised the issue of the proposals in the Code limiting the application of the new measurement requirements to "Highways Authorities" because it was considered that these assets are not material for non-highways authorities. It commented that this appeared to be a move in the Accounting Code to a measurement objective being based on the type of authority as opposed the asset type. It noted that a number of non-highways authorities have significant cycleways, footways and bridges and lighting to support them.

3.8 This is an important issue with the firm providing important (albeit anecdotal) evidence for CIPFA/LASAAC. If these assets are material then the Code, as a principles based Code, does not differentiate any of its requirements by authority, unless there are specific statutory prescriptions or rationale to do this. The Secretariat recommends therefore that the Accounting Code stipulates that the TIA Code is aimed at highways authorities but could be applied to any authority with material infrastructure assets.

Question 23 – the Approach to the Dry Run (inclusion of the dry run requirements in Appendix C or the Explanatory Foreword)

3.9 Despite the statistical analysis being supportive of the dry run, the responses to this question were varied. A significant number of the respondents indicated that they would prefer the information to be provided in Appendix C to the Code: the reasons cited for this were that as a change of accounting policy, this would be what would be required under IAS 8 *Accounting Policies, Changes in Estimates and Errors*, some indicating that this would be supported by any relevant commentary in the Explanatory Foreword. Others including the NAO indicated that this would mean that the information was subject to some audit scrutiny. The Audit Commission commented "*This should allow authorities to disclose their progress to achieving DRC by giving their best estimate of the impact of the change to DRC based on their preparations at the balance sheet date. This would also encourage authorities to include DRC as part of their preparations for the 2014/15 financial statements and this disclosure would also be subject to audit review*".

3.10 A smaller number of the respondents raised concerns that the information might not be complete and therefore concluded that it might be best that this information would therefore be provided in the Explanatory Foreword.

3.11 A number of respondents were not supportive of a dry run from different (and opposing) perspectives.

One of the firms commented:

"*We also suspect that, were the Appendix C option to be adopted, the majority of local authorities would seek to argue that they are not able to reasonably estimate the impact of the introduction of the new measurement basis. Given the timeframe involved, our view is that authorities have sufficient time to put in place arrangements to obtain the information required to be disclosed. However there is clearly scope for other auditors to reach a different conclusion leading to significant differences in the quality of disclosures across the country… We are not convinced that the inclusion of such a significant amount of unaudited information on something as fundamental as asset valuations in the Foreword is appropriate*."

Another firm commented that if 80 per cent of the authorities they audited were able to provide information and others made a statement indicating they could not in accordance with Appendix C stipulations this "… may then have a consequence on the auditor's report on the financial statements."

A small number of firms commented that they did not agree with an approach for a dry run, one noting that implementation has already been delayed to 2015/16. One commented that the main reasons for this are that such an approach would still result in the valuations in the balance sheets not reflecting economic reality.

Some authorities did not agree with a dry run approach as this was symptomatic with the authority not agreeing with the implementation of the new measurement requirements.

3.12 The Audit Commission indicated that although agreeing with the approach in Appendix C stated "*Given that authorities will need to be actively preparing for this in 2014/15 and 2015/16 describing the change as a 'dry run' may give the impression that this work is not important and therefore take away from the message that authorities need to be taking steps that will lead to the adoption of DRC in 2015/16*."

3.13 CIPFA/LASAAC had three reasons for proposing a dry-run in the Code:

1. this would be a clear indication to authorities of the intention to implement the new measurement requirements in the Accounting Code;

2. this information would be able to be a building block for the accounting requirements necessary under IAS 8 to introduce a new accounting policy; and

3. requesting the information to be included in the financial statements meant that this would be subject to the audit process and therefore would give CIPFA/LASAAC a clear understanding of where the information gaps might be for local authorities.

3.14 Comments from the firms and one of the audit bodies above seem to indicate in varying degrees that they consider that a significant proportion of local authorities would not be able to complete the information requested by Appendix C (or the Explanatory Foreword). The Secretariat would therefore recommend that when it is reasonably confident that authorities are likely to be able to comply with Appendix C then this option should be used. However, following the Audit Commission's comments in paragraph 2.12, above this approach should be described as a preparatory stage and not a "dry run" in the implementation of the DRC requirements.

Question 24 – Further Phasing Carriageways Only

3.15 The statistical analysis supports the additional phasing of allowing carriageways to be implemented before the remaining groups of transport infrastructure assets. Importantly, the Department for Transport, HAMFIG and Atkins all indicate that they do not consider it appropriate to introduce further phasing to the implementation process in this way. Other respondents that did not support the additional phasing commented that they did not think a hybrid approach would work and this would mean that there would still be inconsistency with WGA.

3.16 The respondents to the consultation that supported the additional phasing indicated that it would allow more time to prepare for the more complex issues that arise for structures and supported the rationale proposed in the consultation papers for this additional phasing, indicating also that not all authorities have complete inventory data.

3.17 The Secretariat would recommend that as some of the key stakeholders do not consider additional phasing useful for the reasons outlined above the approach should instead be to provide a single timetable covering all types of highway infrastructure assets that it is confident can be met by local authorities.

Question 25 - Practical Issues.

3.18 The practical issues provide the Board with an indication of the key issues that need to be resolved before full implementation is attainable. At numerous times across all of the responses to the questions there are mentions of inadequacy of data eg a lack of inventory for highways infrastructure assets and the need to obtain condition and other valuation data. Others noted that the information requirements and estimation procedures able to be used for WGA purposes would not be appropriate for local authority financial statements. It is, however, difficult to assess from the information provided the areas where information is inadequate.

3.19 Other practical issues include:

- **Resources** required by authorities to implement the changes - with a number of responses citing concern over available resources and this issue being proposed during times of austerity. Resource issues include staff time needed to collate information, increasing resources required for the measurement for both accounting and highways management staff and the lack of budgets able to resource the development needs.

- **Systems** – the time required to develop or prepare, including implementation of new systems in some cases. Concerns were raised over the output of the structures toolkit (the system developed to establish the

DRC of structures eg bridges) the authority commenting identified the need to assess the accuracy of outputs.

- **Information requirements** for financial reporting purposes – this is an issue already recognised by the Secretariat but which following this year's consultation on both Codes has been identified by a number of respondents, including the firms. The information is perhaps best listed by one of the respondents ie "… *the need to identify the movements in value for additions, de-recognitions, and depreciation, impairment and revaluation … (including changes due to changes price and in the condition of the asset). Thereafter, recording subsequent amounts for addition and de-recognition by the asset classification could prove difficult*." This is accompanied by the need to establish a revaluation reserve and the movements on the reserve. Others mentioned the need for information on the material components and the more detailed information needed for individual assets.

- Other issues include the need for communication with highways and finance staff within authorities, both groups of staff needing to understand the importance of information for reporting and asset management purposes.

Other issues

3.20 A response was also received from all of the passenger transport executives in England. This response was seeking to understand the further developments anticipated to the TIA Code ie "to cover other local transport network assets i.e. tram, light rail and underground systems, at which point this would impact the basis of preparation of the Passenger Transport Executive Accounts". It commented on the impact of DRC measurement on the accounts and its usefulness to the readers of passenger transport executive financial statements.

4 Conclusion

4.1 The information provided by respondents is significant in indicating that there is a risk that with full adoption for 2015/16 that information might not be complete for a percentage of local authorities. At this point in time it is difficult to identify, how many authorities this might apply to and what the information gaps may be.

4.2 In order to minimise this risk the Secretariat is of the view that there needs to be a detailed project plan to identify and resolve the detailed accounting audit and information requirements to fully implement the measurement requirements of the TIA Code within the Accounting Code. This will need to work back from the final implementation deadlines and will need to clearly set out key milestones and critical events that need to take place. It will also need to include the involvement of other key stakeholders and groups and dovetail into the implementation of the virtuous circle outputs, including in particular the increased use of data for policy purposes.

4.3 Department for Transport support will be critical to the move to full implementation and a clear direction from CIPFA/LASAAC would allow for more detailed discussions with them on the implications of full adoption. Initial feedback from their consultation on use of the data for funding allocations is likely to be known early in the new-year.

4.4 In order to allow for the detailed implementation action planning to commence and to give a clear signal of the intent to move towards full adoption, the Secretariat recommends that a clear statement is made within the 2014/15 Code.

Recommendations

The Board is invited to consider the above issues and how it would like to take forward the adoption of DRC measurement requirements for transport infrastructure assets in the 2014/15 and future Codes.

APPENDIX A

SUMMARY OF CONSULTATION RESPONSES

CIPFA Code of Practice on Transport Infrastructure Assets

Note – a group of interested parties are best described as professional accounting firms that audit local authorities is abbreviated in this Appendix to firm or "firms"

Statistical Analysis of Responses

Question		Agree	Disagree	No Comment
22	Do you agree with CIPFA/LASAAC's proposal to use a phased approach for a move to measuring transport infrastructure assets at DRC (in accordance with the requirements of the Code of Practice on Transport Infrastructure Assets) with formal adoption in the 2015/16 Code? If not, why not? Please give reasons for your answer. What alternatives would you suggest? (CIPFA/LASAAC is also seeking interested parties views on whether it should permit full, early adoption of the measurement requirements of the Transport Infrastructure Code in the 2014/15 Accounting Code in the response to this question).	32 (67%)	7 (14%)	9 (19%)
23	Do you agree with CIPFA/LASAAC's proposal to use a "dry run" approach by means of requiring DRC information to be provided in the Explanatory Foreword or Appendix C of the Code? If not, why not? Please give reasons for your answer. What alternatives for a "dry run" would you suggest? (As a part of your response please also indicate whether you consider the "dry run" provisions should be included in the Explanatory Foreword or Appendix C of the Code).	27 (56%)	9 (19%)	12 (25%)

24	Do you agree with CIPFA/LASAAC's proposal to use an additional approach to phasing in the requirements ie by means of requiring DRC information on carriageways for 2015/16 with the remaining categories of transport infrastructure assets in 2016/17? If not, why not? Please give reasons for your answer. What alternatives would you suggest?	24 (50%)	10 (21%)	14 (29%)

Comments

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Local Authority Responses
For the sake of uniformity, I would not allow early adoption.
We agree with the phased approach to formal adoption. It is the professional opinion of the Council's roads engineer that a full adoption in 2015-2016 is optimistic because the collection of all necessary data is resource intensive and may not be achievable by that time. In order to implement the CODE by the proposed date, some of the data would necessarily be on an estimated
A date must be set for this to ensure that practitioners embrace this and start taking action to implement what is necessary
Whilst we would agree with the proposal to use a phased approach we do not consider the move to measuring transport infrastructure assets at DRC in 2015-16 at all practical in the current period of austerity (please see answer to qu 25 below).
The Council would not support the early adoption in 2014/15 as there would not be sufficient time to complete the significant amounts of work required.
The introduction of the transport infrastructure code is a significant change and a phased approach would aid its adoption. We would be unlikely to take up early adoption.
It is important that the maximum lead in period is obtained so that issues requiring resolution can be solved to ensure full compliance going forward.
Please see comments in response to questions 23 and 24. If an option to early adopt in 2014/15 was included in the Code we do not believe many (if any) local authorities would take the option. As such, we do not believe such an option is necessary.
Due to the practical difficulties which may arise in moving to current value, a phased approach would allow local authorities to develop their approach and experience in

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valuing transport infrastructure assets. Full early adoption in 2014/15 could lead to inconsistencies in the accounts of local authorities.
A District Council - The original code came out in 2010. CIPFA should bite the bullet and implement the code next year as it's dragged on too long. It should be compulsory for Counties and Unitaries, with an exemption for second tier authorities, who should show the information as an appendix to the SoA.
As we have prepared information on infrastructure assets for WGA, we believe that the authority is prepared for the proposed timescales and may choose to take up early adoption
We believe that the change is unnecessary and will add additional complexity to the accounts process with additional revenue pressures. However, if the change goes ahead, it may be worth considering the materiality of transactions concentrating on material items initially. Subsequent answers in respect of the change to transport infrastructure assets valuation in the consultation are based on the assumption that the change goes ahead.
We agree with the phased approach, we feel this is essential for what is quite a significant change to the way we account for Transport Infrastructure assets.
Concern over workforce capacity and base data accuracy. Option to implement early is disagreed: local government must all move together.
While we agree with the phased approach to the introduction of changes for infrastructure assets. It is not clear how the required three year balance sheet (under IAS1) would be implemented if the changes were performed on a phased basis, and what information would be required for the 'dry run' year of 2014/15.
2015/16 would be the earliest feasible date. Ideally the timing should coincide with the conclusions of the body of work being undertaken by the Society of Chief Officers Transportation Scotland (Scots)/County Surveyors Society Wales (CSSW) Asset Management Project 2013-2016/17, which is seeking to develop a common asset management framework between the Welsh And Scottish Authorities. Full early adoption should not be permitted.
The existing measurement basis is compliant with the requirements of IFRS. Consequently there is no imperative to do anything different. The consultation starts from the presumption that because WGA requires DRC, local authority accounts should also be prepared on the same basis. However, the starting point should be what is relevant for the users of local authority financial statements. It is difficult to see any practical benefit to the taxpayer of including transport infrastructure assets on the balance sheet at other than historic cost. Carrying values based on DRC will dominate

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the balance sheet and provide the reader of the accounts with a misleading financial picture of the authority. It can be argued that DRC of the highways structures is irrelevant for balance sheet purposes anyway as potential buyers would only be interested in the underlying land value not the value of a lump of tarmac! Rant continues below.
However we do not feel that early adoption should be allowed. This change is likely to have such a material impact on local authorities' balance sheets that it has the potential to attract media interest, and so consistent implementation across all local authorities is vital. Any other approach could potentially damage the reputation of the sector for financial reporting.
We agree a phased approach to this change is appropriate. Dependant on us receiving adequate notice of what the accounting requirements are Highways should be able to provide a dry run in 14/15 with the formal change in 15/16. The majority of the work will be carried out by an external company who will carry out surveys to feed provide data for the valuation. We should be able to implement if we receive the reporting information in time to instruct the valuers.
The Council in its draft response strongly supports the proposal as above to change the code on the suggested timetable with the sole caveat that the revised CIPFA TIAC currently under consultation should allow LA's complete the valuation work simply and easily with no additional drain on resources. Furthermore, if CIPFA/LASAAC are minded not to make this change now, the Council would flag up the risk that all progress to date may be lost and would strongly urge CIPFA/LASAAC to consider setting a date even if further into the future than the one currently proposed in the consultation.
Audit Body Responses
We agree that a phased approach is required. We are not certain that it is appropriate to permit full, early adoption of the revised measurement requirements. Those authorities that have information available will be required to make disclosures. In our view, consistency of treatment and comparability of costs should prevail in 2014/2015.
We agree with a phased approach. However, in our view, early adoption should not be permitted due to the potential for confusion and inconsistency with WGA returns.
Response to questions 22-24 The Commission welcomes the progress that is being made by CIPFA/LASAAC to introduce DRC into local authority accounts for 2015/16. In our view this will bring local

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government into line with other parts of the public sector and eliminate an inconsistency that is the reason for one of the WGA audit qualifications. If CIPFA/LASAAC wishes to move effectively towards elimination of the inconsistency with other parts of the public sector by 2015/16 it will need to give a clear and firm commitment to the adoption of DRC in 2015/16 when issuing the 2014/15 Code. A consequence of making this commitment would be that authorities will then need to begin work in 2014/15 on preparation for DRC not least to allow for the identification of prior period comparators. Consideration could also be given to a statement in the Code allowing early adoption of DRC in 2014/15. In order to help authorities prepare effectively for the change to DRC there is merit in CIPFA/LASAAC's proposal to make an adaption to the Code to require information to be prepared in accordance with Appendix C of the Code. This should allow authorities to disclose their progress to achieving DRC by giving their best estimate of the impact of the change to DRC based on their preparations at the balance sheet date. This would also encourage authorities to include DRC as part of their preparations for the 2014/15 financial statements and this disclosure would also be subject to audit review. It needs to be recognised that additional audit procedures would be needed in relation to this disclosure but that the procedures would not be designed to provide the level of evidence to auditors that would be needed once a change to the primary statements is made. However, the disclosure would allow auditors to review and report on progress to those charged with governance if required. We do not think that including DRC information in the explanatory foreword would add anything. Authorities already have to disclose in their WGA returns information on a DRC basis so there seems little point in duplicating that within the foreword. If CIPFA/LASAAC were to go down this route then it would have to clearly specify what information relating to DRC would need to be disclosed in the foreword. It needs to be understood that the foreword is outside the scope of the auditors' work on the accounts. It may not be helpful to describe this change as a 'dry run.' Given that authorities will need to be actively preparing for this in 2014/15 and 2015/16 describing the change as a 'dry run' may give the impression that this work is not important and therefore take away from the message that authorities need to be taking steps that will lead to the adoption of DRC in 2015/16. CIPFA needs to give authorities clear guidance to support the change and setting out an example project plan over two years showing practitioners what needs to be done for the 2014/15 and 2015/16 accounts would be helpful.
Responses from the Firms
Our concern with either approach are as follows: Explanatory Foreword: It has been widely acknowledge that there are significant risks associated with moving

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to a DRC basis including completeness of asset records and complexity of valuation. As the Explanatory Foreword is unaudited we believe the risks associated with a move to DRC valuations could translate to misleading inaccurate information presented which is at odds with the objective of changing valuation basis, being to enhance the quality of the statements. Appendix C (note to the accounts): The current draft of Appendix C requires disclosure of information (paragraph C.2.5 a and b) or, 'if that impact is not known or reasonably estimable, a statement to that effect' (paragraph C.2.5c). We believe it is likely that some authorities will be ready to provide information whilst others will not, primarily due to a shortage of resources. Although we are not in a position at this stage to commit to our own view, we believe it is conceivable that if, for example, 80% of local authorities provide information and 20% make a statement in accordance with paragraph c, that the auditors of the 20% making a statement may conclude the statement is not reasonable unless there are mitigating circumstances (such as a particularly complex infrastructure asset). This may then have a consequence on the auditor's report on the financial statements. If this option is taken forward into the final version of the Code we request CIPFA/LASAAC provide clarification of what is meant by 'reasonably estimable' and, in particular, can a shortage of resources (human and/or financial) lead to the information not been 'reasonably estimable'. A lack of clarification risks inconsistencies in practice. Alternative An alternative option is to continue collection information through WGA consolidation packs and for CLG/NAO to scrutinise in greater detail. If this alternative is not considered viable then our preference is with the explanatory foreword option.
We agree with the principle of the "Dry Run" which requires disclosure in 2014/15 of summary information if available or a note indicating that this is not the case which will be covered by Appendix C and not through the Explanatory Foreword. This approach • Allows well prepared authorities to include summary information in the Notes, backed up by the detail that will be required from 2015/16. • Does not impact on the main statements • Allows less well prepared authorities to comply with the Code whilst sorting out any teething problems in this area. • Ensures consistency and comparability of balance sheet valuations across authorities. Given the above, early adoption by some local authorities would lead to inconsistency and a lack of comparability on the balance sheet valuations across authorities. Therefore we would not support early adoption by some authorities in 2014/15.

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The proposal in the Code is to restrict the application of the measurement base to relevant assets held by authorities. The rationale being that these assets are unlikely to be material at non-highways authorities. As set out this moves the valuation basis form one dependent on the asset to one dependent upon the type of authority. There are a number of non-highways authorities that have significant cycleways, footways and bridges and lighting to support them. Given that the move to DRC is expected to significantly increase the carrying value of such assets; for a number of such bodies the asset values would be material. We consider that the valuation basis should reflect the asset not the type of authority. The Code already allows authorities not to apply the Code if the impact is not material. Therefore authorities where this was the case could continue to account as they had done previously and the key link between asset type and valuation basis would be maintained. **(Secretariat note the last three paragraphs provide important evidence from the consultation process and would concur with the firm's views).**
We believe a phased introduction is sensible and will allow authorities greater opportunities to meet the full requirements of the Code by 2016/17. We would be open to the option for authorities to adopt the full requirements of the TIC from 2014/15 as long as the Code accommodated detailed financial reporting implications of early adoption (where required) from 2014/15.
We recognise the challenges that many local authorities will face in measuring transport infrastructure assets in accordance with the Code of Practice on Transport Infrastructure Assets from 2015/16. However we believe that there is no credible alternative to adoption given the impact on WGA and the fact that local authorities are the only public bodies in the UK that continue to recognise these assets at historic cost. We also believe that early adoption in 2014/15 should be permitted for those good practice authorities which are well-advanced in moving to a DRC measurement basis for their road networks.
We think it is important that all authorities adopt at the same time and do not support the option for early adoption by some authorities. We also consider that authorities should account for all infrastructure assets on a DRC basis at the same time and comment on this in more detail in response to Q24 below. We would be happy to participate in any working group to consider the practicalities of when and how authorities should adopt DRC valuations, taking into account resource implications and other priorities for development of capital accounting such as IFRS 13 and auditing implications. We note that local authorities have been aware of WGA requirements for several years and we would expect authorities to have procedures in place to report on these for 2015/16. WGA analysis shows increasing number of authorities are able to provide actual data on

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extent of carriageway networks but further consideration is required on the processes for obtaining robust information on other aspects of local authority infrastructure. Given the scale of changes we agree that it is sensible for authorities to have a dry run to iron out any potential difficulties prior to formal introduction. This form of dry run was found to be very helpful in preparation of WGA and forms an important part of the audit process to ensure that robust comparatives can be reported at the time changes are made. Current recording at depreciated historical cost does not follow the HMT FReM principle that all PPE should be at valuation. As local authority accounts form a significant part of WGA it is important that LG accounts are prepared under the HMT FReM. Whilst introduction of infrastructure at DRC would have a significant impact on local authority accounts this would appear to be necessary to provide context to the local authorities' responsibilities in respect of these assets.
Highways Groups
Yes, the Group strongly supports the proposal to as above to change the code on the suggested timetable with the sole caveat that the revised CIPFA TIAC currently under consultation should allow LA s complete the valuation work simply and easily with no additional drain on resources. Furthermore, if C/L are minded not to make this change now, the Group would flag up the risk that all progress to date may be lost and would strongly urge C/L to consider setting a date even if further into the future than the one currently proposed in the consultation. No strong view but current TIAC changes may make this difficult to implement

Q23 Dry Run (Appendix C or Explanatory Foreword)
Local Authority Responses
Could this best be addressed by treating it as an accounting change not yet adopted, therefore requiring a disclosure note in 14/15 quantifying the effect? This would achieve the same objective as a dry run?
We agree with a dry run approach in 14-15 but for carriageways only. The dry run provisions should be provided in Appendix C of the Code with all the other changes. Why would this change be singled out from the other changes and included in the Explanatory Forward instead?
We consider the 'dry run' requirements should be included in Appendix C.

Q23 Dry Run (Appendix C or Explanatory Foreword)
It is important that the maximum lead in period is obtained so that issues requiring resolution can be solved to ensure full compliance going forward.
The dry run should be included within Appendix C. The Explanatory Foreword covers a concise guide to the most significant aspects of the Council's financial performance, year-end financial position and its cash flows.
The requirement to value at DRC in 2015/16 would mean disclosure of the impact of this in the 2014/15 accounts under Standards Issued but Not Yet Adopted Note. Therefore, a dry run would be required to ensure we have this information.
A District Council - it should be Appendix C. For 2015/16 to be a full implementation, it would require the assets to be valued by December 2014 to enable any capital charges to be incorporated into the budget setting process. For 2014/15, they should be included as an appendix to the SoA.
While it is quite clear what the benefits to HM Treasury are of having local authorities use DRC measurement within the WGA, it is not clear what benefits there are to the authority (or readers of their accounts) in using DRC measurement within their own statement of accounts. What is clear is that implementation of the Code is particularly exhausting on resources of smaller authorities, and costly on a scale that is not proportional to any perceived benefits of implementation of the Code within single entity accounts. Should the decision be that full implementation of the Code goes ahead; we'd suggest an implementation of 2017/18 with a full retrospective restatement for 2016/17. We feel this delay is an adequate reflection of the time required to properly implement a Code that has such a considerable impact on the balance sheet of local authorities (see paragraph 4 for estimated impact). One suggestion would be to retain this as a WGA requirement only, and to reduce what is required as compared to the WGA for 2012/13. It is not clear what benefit there is to HM Treasury in having such a high level of detail, as is required by the PPE section of the WGA, with regards to Infrastructure assets. We would suggest that the PPE section remains as is with a historic cost valuation, as per the authority's single entity accounts, and the highways section remains, but asks only for closing DRC and current year capital expenditure. The balancing figure between opening and closing balance (less current year expenditure) could simply be attributed to revaluations as it's again not clear what benefit there is in having to separate out disposals, revaluations and impairments. We would also suggest that this highways section only has an audit requirement for authorities whose total infrastructure DRC valuation exceeds a set WGA materiality threshold, and that that threshold is higher than the threshold set for audit of the remainder of the WGA. The sections of the Code that ensure better asset management and planning in respect of Infrastructure assets are welcomed and will assist in informing improved management decisions about revenue and capital spend on infrastructure assets. The impact of DRC measurement on the authority's balance sheet is substantial.

Q23 Dry Run (Appendix C or Explanatory Foreword)

Estimates for 2011/12 - calculated using the tools provided by SCOTs - demonstrated a potential increase of 100% on the carrying value of PPE assets, and a 500% increase on Infrastructure assets. In addition, the change in working practices and accounting processes is substantial.

The authority has worked solidly on interpreting the Code and has purchased a new system, but it is not yet clear when this will be fully implemented. It will not be available for the 2014/15 financial year. Policies surrounding accounting methods, in particular componentisation, will not be fully developed until the output capabilities of the new system can be investigated.

In order to produce a set of accounts on a DRC basis the new system would need to be operational for a full financial year. A prior year restatement would not be possible unless the new system had been 'live' for that full financial year also, as the data would not have been captured, nor be capable of adaption, in line with the Code.

With a proposed adoption for 2015/16, and therefore a full retrospective restatement of 2014/15, this would indicate that authorities have less than 6 months before they are required to start producing financial information in line with the new Code AND of a quality that complies with audit standards. That is a huge leap from the WGA 2012/13 requirement to produce a small sample of information of a standard that the authority considers robust enough to meet the high materiality thresholds of WGA, and which also does not require to be audited. At this stage it isn’t known whether the information provided by some authorities for WGA 2012/13 is robust enough even for WGA as that section is not required to be audited. It would be beneficial to ensure that authorities can produce this information at and auditable standard prior to enforcing inclusion of that financial information within the single entity accounts.

The ability to produce such information is also dependent on the SCOTS tools provided for valuation and there have been concerns over reliability for the financial years 2011/12 and 2012/13.

If, and when, it is included we would prefer it to be included in Appendix C. With regards to a dry run the system which will allow us to implement the Code will not be available for the full 2014/15 financial year and therefore it will not be possible to produce "dry run" information in the same way that it wouldn't be possible to produce a full retrospective restatement. Again, any "dry run" information would be auditable and would have to meet audit standards.

Yes, the change in valuation of the infrastructure asset will make a significant change. It would make sense for the dry run provisions to be included in appendix C of the code alongside other changes/new accounting standards.

Allowing early adoption of requirements would distort further any comparisons that can be made between local authorities. Also consider material items initially and smaller valued items later to give time to adapt to the new requirements.

Q23 Dry Run (Appendix C or Explanatory Foreword)
We agree with the proposal to have dry run as we think it will help us understand any issues which need resolution prior to going live and identify any gaps in our information.
Publishing "dry run" provisions as a memorandum increases the reporting burden without benefit to financial statements while also cutting short the time needed for internal preparation. If these provisions are to be implemented however, they would be better in the Explanatory Forward than in Appendix C.
It is unclear how the 'dry run' year fits with the phased implementation. At what level of information would be presented for that year.
Provisions should be in Appendix C, although there should be a short reference to the change in measurement in the Foreword as well. A simple sentence would suffice e.g. 'From 1 April 2015, transport infrastructure assets will be measured using a depreciated replacement cost (DRC) basis rather than at historical cost (including full retrospective restatement for 2014/15.
The efficient and effective management of transport infrastructure assets shouldn't be reliant on their inclusion in the balance sheet at DRC but should be based on robust asset management practices. The level of detailed accounting analysis required for compliance will be at significant cost which cannot be justified in the current financial climate - one of the reasons the Treasury gave for not requiring an audit of the infrastructure section of the 12/13 WGA. Just because the Government wants to increase the value of UKPLC is not justification for changing the basis of measurement in local authority accounts. How does this link with simplifying and streamlining financial statements?
We feel that the changes should simply be treated as any other change in accounting policy, i.e. the requirements should be included in Appendix C and not in the Explanatory Foreword. Authorities would always have the option to refer to it in the Explanatory Foreword as well if they wished.
A dry run approach disclosed in the explanatory forward would help identify any major concerns in the introduction of this move to measure infrastructure at DRC. An explanation of the change and comparison of values in the actual accounts to the change in accounting method will add value to the users of the accounts and provide an opportunity to understand the implications of the change to the financial position. We agree this would be a useful approach over introducing the standard directly in 15/16.
Whilst on the face of it this may be an attractive option, on reflection we consider it is likely to make more work for authorities by trying to create an amalgam of historic costs and DRC for a single year with no perceived benefit.

Q23 Dry Run (Appendix C or Explanatory Foreword)
We agree with a dry run approach in 14-15 but for carriageways only. The dry run provisions should be provided in Appendix C of the Code with all the other changes. Why would this change be singled out from the other changes and included in the Explanatory Forward instead?
Audit Body Responses
From an audit perspective the main difference between inclusion in the explanatory foreword or a disclosure under Appendix C is that in the former case, the information would not be included in the auditors (true and fair) opinion on the financial statements. The auditor's opinion on the explanatory foreword is only respect of whether it is consistent with the financial statements. Material misstatements in the information would therefore not result in a qualification to an audit opinion. Given this is a dry run year, this would perhaps be the preferred position
We agree with CIPFA/LASAAC's proposal to require disclosure, in 2014/2015 that, from 1 April 2015, highway carriageways will be carried at DRC rather than DHC together with an explanation of the estimated impact upon the accounting statements. In our view, the disclosure requirement should be included in Appendix C of the Code.
Responses from the Firms
<u>Appendix C' option</u> We have a number of concerns about including dry-run information in the accounts within the 'future changes in accounting policies' note. If this were to be included as a note to the accounts auditors would need to obtain sufficient appropriate assurance that the information in the note was fairly stated. We also suspect that, were the Appendix C option to be adopted, the majority of local authorities would seek to argue that they are not able to reasonably estimate the impact of the introduction of the new measurement basis. Given the timeframe involved, our view is that authorities have sufficient time to put in place arrangements to obtain the information required to be disclosed. However there is clearly scope for other auditors to reach a different conclusion leading to significant differences in the quality of disclosures across the country. <u>Explanatory Foreword option</u> Although auditors are not required to audit information provided in the Foreword we do have to consider whether information in the Foreword is consistent with the statement of accounts. We are not convinced that the inclusion of such a significant amount of

Q23 Dry Run (Appendix C or Explanatory Foreword)
unaudited information on something as fundamental as asset valuations in the Foreword is appropriate. This is particularly the case in respect of transport infrastructure assets where there is an inherent risk of material misstatement in terms of the completeness and accuracy of data provided.
We do not agree with this proposal and consider the "Dry Run" approach covered in question 22 is appropriate. The main reasons for this are that such an approach would: ▪ Still result in the valuations in the balance sheets not reflecting economic reality ▪ Ensure that the balance sheet included balances that would be consistent with central government accounting, adversely impacting on WGA production ▪ Lead to a focus on carriageway valuation with problems in connection with other infrastructure assets not being identified or addressed until the following year. ▪ Not allow the authorities to benefit from a Dry Run.
Implementation has already been delayed to 2015/16 and whilst comparative information will have to be prepared for 2014/15 we believe that the phased introduction for carriageways (see 24) should allow authorities to introduce these changes without the need for a dry run.
We agree that some form of dry run will be required to ensure that data (including comparatives) is robust when first introduced. This period will be necessary for authorities and their auditors to work together to ensure that figures can be audited. The Code already requires authorities "to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted". This requirement follows the requirements of IAS 8 and consequently once the decision is taken to adopt the changes we consider that authorities should make this disclosure, irrespective of which future year the change is to be introduced. These disclosures form part of the accounts subject to audit. Obviously the extent of information disclosed will depend on the quality of information at the time. There is no current requirement to disclose this information in the Explanatory Foreword; however disclosure is required of "Any significant change in accounting policies, the reason for the change, and the effect on the accounts". It seems sensible for authorities to comment in the Foreword on the impact of future standards with a cross reference to where this is covered in the main statements.
In our view the planned adoption of the new accounting represents a future change in accounting policy driven by a development in the financial reporting framework and therefore in accordance with paragraph 30 of IAS 8 the financial statements should disclose a discussion of the impact that the initial application is expected to have on the financial statements, or if the impact is not known or cannot be estimated on a reasonable basis (for example, if an analysis by management) is still in progress a statement of that fact. Therefore the proposed dry-run represents this disclosure of the estimated impact and

Q23 Dry Run (Appendix C or Explanatory Foreword)
consequently should be included in the financial statements through Appendix C. Authorities should describe any uncertainties in their estimate and where their analysis is complete they should state this fact. Given that this change is likely to have a major impact on the financial statements – particularly the asset values reported in the balance sheet – we would expect authorities also to include some commentary on this in the explanatory foreword, with a cross reference to the note to the accounts where this detail can be found.
We suggest that the "dry run " provisions are included with the detailed guidance in appendix C.
Highways Groups
A: HAMFIG strongly supports this proposal for the reasons given above. We agree with the dry run approach to try and iron out any difficulties. The dry run should be included in the Explanatory Foreword.

Q24 Further phasing - carriageways first
Local Authority Responses
Go for full adoption at the earliest, achievable, convenient date.
We agree with the phased approach but again even by 2016-2017 in the professional opinion of our Council’s roads engineer all the asset management information will not be readily available and some data will still be estimated.
For this authority I would have to either do no assets or all assets due to being unable to disaggregate historic cost over the required categories of infrastructure assets. I would recommend postpone all by one year if unable to stick to the timetable.
This would enable authorities to concentrate on largest (value) asset group, 'carriageways', in the first year.
We are further ahead with the measurement of carriageways than the other classes of infrastructure assets, particularly given the complications around valuations of structures. A phased approach would give us more time to overcome these issues.
This will allow a phased approach of the requirements allowing additional time for preparation of collecting necessary data.

Q24 Further phasing - carriageways first
Potential practical difficulties involved - a phased approach would allow local authorities to develop their approach and experience in valuing transport infrastructure assets. Not sure whether current value accounting adds value to user of accounts.
Disagree with timescales (see Q22 response) but would welcome a phased approach, with carriageways coming last, in order to allow more time to ensure a high quality of information as carriageways assets will have the most significant impact on the balance sheet.
Staggering the categories of infrastructure will mean that local authorities will be preparing two differing valuations for WGA and SOA. Whilst we understand that there may not be the confidence in the information of the minor categories, their accuracy will not lead to significant changes in the values reported.
Implementation should not compromise integrity of valuation by introducing temporary hybridisation. It would be better to implement the change wholesale after sufficient preparation time has been allowed for the new basis to be properly adopted. This should also take account of the necessity to revalue assets in the previous two financial reporting years.
A phased approach would assist with ensuring that all authorities report on the correct basis. Not all authorities currently have the required asset inventory data in order to correctly calculate and report the DRC information.
The carriageway data is one of the main asset groups. Therefore authorities can focus their efforts on ensuring that all the required data is available which enables the calculation of the DRC. Once the information for the carriageway asset group is complete the accurate calculation of the other asset groups can be undertaken.
Audit Body Responses
Requiring all transport infrastructure assets to be carried at DRC in 2015/2016 has the potential to result in a significant number of local authority accounts being qualified on the grounds of uncertainty - auditors may not be able to obtain sufficient appropriate audit evidence on which to base the audit opinion.
In view of the use of a 'dry run' year, it is not also necessary to have this additional phasing. However, if this additional phasing is adopted, an adaptation to IFRS would be necessary as items within the same class of assets (i.e. infrastructure assets) require to be valued on the same basis.
Responses from the Firms

Q24 Further phasing - carriageways first
These seems a reasonable approach to minimising the burden on authorities in respect of the significant challenges that introducing the TIC will provide.
Agree that a phased approach to implementation along these lines could be beneficial.
Local authorities should have information on the length and width of their carriageway assets and valuers should be able to determine the Gross Replacements Cost (GRC). If authorities also have basic information on the condition of their road networks then valuers should be able to calculate the DRC, even if that valuation is based on broad categories of carriageway assets and their component elements. We accept that other categories of transport infrastructure assets such as bridges are much more difficult to value. We therefore support the idea of a phased introduction with the remaining categories of assets being revalued in 2016/17. This will give authorities time to collect additional information on these assets which must ultimately lead to better management of the whole stock of transport infrastructure assets.
Ideally all transport infrastructure assets would be measured at fair value from 2015/16, however, we accept that because (a) the carriageways are expected to comprise the vast majority of the value of the infrastructure assets; and (b) consequently the methodologies for valuing the other assets are not as far advanced as carriageways; the phasing approach seems sensible.
As noted in Q22, we consider that authorities should adopt DRC valuation requirements for all infrastructure assets at the same time. We understand that phased introduction on this basis may create difficulties for authorities whose accounting records do not currently split historic cost between carriageways and other infrastructure assets. The draft Infrastructure Code indicates that collection of data on non carriageways infrastructure assets such as street lighting, traffic management systems and street furniture is relatively straightforward. If this is the case we cannot see any justification for a further delay in valuing all infrastructure assets on DRC basis at the same time. However we recognise that there may be accounting and auditing complexities that should be tested through a detailed working group before any final decision is taken.
Highways Groups
A: Whilst on the face of it this may be an attractive option, on reflection we consider it is likely to make more work for authorities by trying to create an amalgam of historic costs and DRC for a single year with no perceived benefit.

Question 25 Practical Issues
Local Authority Responses
As noted above, resource availability (both financial and staff time) will be a key issue in terms of data collection and analysis. We simply do not agree that over the longer term the approach in the CODE will consolidate a better understanding of the nature and condition of highway assets and assist more meaningful investment decisions over longer time periods to be made. We see no practical barrier to the continuation of the current accounting practice of the inclusion of infrastructure asset at DHC in local authority accounts, with memorandum DRC figures for the WGA. It is highly likely [in our opinion] that wanting it bad will mean getting it bad, with a substantial amount of estimation in DRC figures.
HAMFIG have put these together. Personally I think if engineers and accountants work together and make sufficient system changes and chart of account changes to capture the information then this can work.
This move would require additional staff resources to implement the change, together with large asset registers and complicated accounting. Currently the information for componentisation does not exist for all elements of transport infrastructure which will require 'both expenditure and manpower to develop' (p30 of the Code of Practice on Transport Infrastructure Assets). This is not practical for the Council which as a large authority is currently going through unprecedented change as a result of huge funding reductions. The value of the benefit to the users of the accounts against the amount of work involved is questionable.
On-going costs to the authority which is not supported by any additional external resource. Information would be captured for reporting purposes only in some cases and have limited benefit to the reader of accounts as values cannot be realised. As a result, the initial impact on the balance sheet could be misleading to the account reader. Year on year movements could appear material due to small percentage changes in value.
There are a number of practical issues we may face. Calculating the DRC valuations is time intensive for the engineers involved. This is particularly the case for the structures valuation. The requirement to produce these figures earlier in the year may cause difficulties. In order to produce the data for the WGA, a number of estimations/approximations

Question 25 Practical Issues
have to be utilised, especially around age profiles. Whilst currently permitted by either the infrastructure code or WGA guidance, it will take some time to gather robust data (in some cases, such as verge widths, this would not be cost effective) and so we would need to continue to use these estimations.
Currently all annual expenditure on infrastructure is capitalised as one asset. Any move to DRC would cause difficulties in stripping out elements from our existing assets to avoid double counting.
The measurement of transport infrastructure assets on a DRC basis would involve considerable resources for local authorities. The benefit for non-highways authorities such as district councils would be marginal as the value of their infrastructure assets is insignificant compared to that of highways authorities and government. Non-highways authorities should therefore be exempt and be allowed to continue to measure their infrastructure at historical cost.
We have specific concerns over the outputs from the structures asset management planning toolkit and in particular the size of the annualised depreciation value relative to other asset types. We will need to undertake detailed analysis of local data on service lives and structure performance over time to calibrate and validate the model. We estimate that obtaining a reliable baseline estimate as the basis for a dry run would require a further 2 years of work. Because of these concerns we would prefer this phasing option.
Exemptions should exist in the code for second tier authorities and the figures should be shown as an appendix to the SoA for WGA purposes. For small second tier authorities, the lack of knowledge and the resources and time outweighs the benefits to us. If the government want this implement in all LA's, they should provide a new burdens grant to all LA's, with all second tiers getting the same grant.
Considerable expense on new asset management systems and staff resources. Difficulty in assigning capital expenditure to a particular asset. There is concern that, unless given the necessary time to implement the Code to an appropriate quality standard, the Council's accounts will contain financial information that is not robust enough for single entity accounts, even if it is robust enough to meet WGA requirements. The Code, and indeed the question, acknowledges the need for the information to be 'sufficiently robust … for WGA purposes', but doesn't acknowledge that the standard for an authority's single entity accounts will be considerably higher and places a large burden, particularly on smaller authorities
Highway Land valuation will heavily influence the gross valuation of the highway asset, and having no discernible lifespan have no tangible consumption. It is unlikely that the information in its current form provided by the land measurement will be used by decision-makers managing the highway asset.

Question 25 Practical Issues
It is essential that the highway land assets are treated separate to the infrastructure that sits on it. (IFRS requirement?)
It is recognised that Transport Infrastructure has been accounted for on a historic cost basis. The value of road assets in the balance sheet will not have been accounted for on a road by road basis. To ensure a reliable measurement for the balance sheet is produced, we would require a DRC valuation for each carriageway - initial costs for this exercise would produce additional revenue pressures. In addition, there may be practical problems in determining how the actual replacement cost is going to be calculated (for example, the aspects of replacing a road are linked to commodity prices)
Service practitioners feel that the inclusion of land values skew the asset values. The use of rates for each authority will lead to a marked affect with land values in the south east a lot higher than those in the north of England. We do not believe that the inclusion of land values adds anything positive. The cost of producing and then maintaining the information (re-valuations) is felt to be excessive and onerous in relation to the limited benefits it brings to the service especially when revenue budgets and staffing levels are being reduced because of the significant reductions in government funding. Any guidance on how information requirements could be simplified, streamlined and/or reduced would be welcomed.
We believe that there is presently a lack of quality asset condition data across the majority of our highway's assets which will take time and considerable cost to address. We commit to undertaking a systematic approach to address this in preparation for the code, but it is expected that data on our lower value assets may not be fit for purpose within the timescales required. Also, the County Council is also undertaking a complete review of its highway asset management systems presently and is looking to purchase and implement a new ICT system by April 2015. This will improve local asset management considerably and is fundamental to the implementation of the code, but there will be timing conflicts which mean that implementation may be delayed as staff resources are deployed to meet the requirements of the code.
Obtaining consistent valuation information, justifying additional costs for no appreciable benefit (materiality is insignificant) while services are being cut, credibility issues - promoting simplicity while embracing complexity.
Currently the financial asset register holds infrastructure information on a scheme basis, not on a road basis. Transitioning from one to the other will prove difficult. Also further clarification is sort as to what level of information is needed to produce the depreciation. For example will each level of road need to be depreciated separately or will it be smoothed over the lifetime of the road, and will there be the need for componentisation.

Question 25 Practical Issues
The collection of data required will be onerous. There may be a lack of appropriate technical/financial expertise in the Highways Department. This may impact on the accuracy and timeliness of the Accounts. Would hope there would be a co-ordinated approach that would take account of the results of the Scottish/Welsh exercise currently being undertaken. Also, with already tight resource conditions in local authorities (from both a budgetary and staffing viewpoint), additional and seemingly onerous regular re-valuations may be considered expensive compared to the benefit derived in the accounts.
We are uncertain of the practical issues being faced by local authorities in determining the value of other infrastructure assets. We are however concerned that robust evidence to support the value of infrastructure assets included in the balance sheet may not be available, leading to accounts being qualified as noted in our response to Q24.
Sufficiently robust data could be provided for WGA purposes without requiring complex capital accounting practices to be followed, requiring additional resources for accountants and systems which, in the current economic climate, will not be perceived as a good use of taxpayer’s money. Given that the carrying value of transport infrastructure assets could be the largest figure on local authorities’ balance sheets, the resulting additional scrutiny by external auditors is also likely to have significant cost implications.
The cost of the exercise of producing DRC valuations for each carriageway on already stretched resources within roads' departments. How can these additional costs be mitigated and/or avoided should be considered. The on-going cost of revaluations also needs to be considered in relation to the benefit of having DRC figures in the financial statements.
To move to a DRC basis we will have to base the asset value on sample inventory data. There is the potential for large variations in asset valuations if there are significant variations in your survey data, which can occur when changing valuers. It is unlikely that this would have a material effect to Whole of Government Accounts. Ownership of data will be with the Highways team and the primary function will be the management data. There is a concern that the financial data will not be a priority, and there could be issues in ensuring accurate reliable information that meets the requirements of the code. We would need to know how assets are to be split and the concept of componentisation could be very complicated with impairment of sections of assets and additional works to repair. It is expected there will be large swings in the valuations year on year under this basis and this could cause problems when it comes to validating and explaining the valuation figures to audit.

Question 25 Practical Issues
Local authorities need to have good quality robust data for valuation purposes and this also supports good asset management. This has been known for some years and DfT provided funding in 2008 to assist English LA's in data collection. Many authorities have already demonstrated that they have the data and can deliver the required WGA returns however it is acknowledged that this is by no means universal yet. However, if no firm timetable is set then it is unlikely that the later adopters will reach the necessary level of data robustness any time soon hence it is considered critical that a timetable is set to provide the necessary incentive and impetus to complete the work. In addition to the valuation benefits, the demonstrated efficiencies delivered by good, data-based asset management have the potential to more than offset the up-front costs in data collection and management, as evidenced in the 'virtuous circle' document prepared by Ian Carruthers of CIPFA.
The initial recognition of Infrastructure assets at DRC basis will be challenging because of the need to identify the movements in value for additions, de-recognitions, depreciation, impairment and revaluation changes (including changes due to changes price and in the condition of the asset). Thereafter, recording subsequent amounts for addition and de-recognition by the asset classification (defined in 4.2 Code of Practice on Transport Infrastructure Assets) could prove difficult, especially if the detail required goes to level 2 and 3. It should be feasible to record capital expenditure at the level required at Level 1.
Audit Body Responses
From an audit perspective, the key risk is the availability of accurate and complete information on existence and cost which is relevant to the local authority being audited.
Responses from the Firms

Question 25 Practical Issues
We see the principal practical issues being a lack of information on the length, width and most importantly, condition of transport infrastructure assets. We also believe that there may be practical problems in determining the components of transport assets. Given the important of this information for proper asset management we believe there will be benefits from the valuation exercise, but only if asset management plans are linked to financial management systems at a local level
As noted in our response to the 2013/14 Code consultation, the main practical issue is around authorities having the necessary underlying data to calculate gross and net replacement costs , as described in detail in CIPFA's Code of Practice on Transport Infrastructure Assets. As auditors our concern is whether the date used is adequate to support the fair value presented in the accounts Transport infrastructure assets are likely to be, by far the largest group of property, plant and equipment assets reported in a local authority's balance sheet. Even small percentage changes in the value are therefore likely to be material to the accounts overall and so adequate underlying date is critical.
Practical issues could include: ▪ Whether the authority has identified to an individual asset and component the items that would be required to be contained in the infrastructure asset register? ▪ Lack of core financial information that links Balance Sheet amount to individual items that would populate the infrastructure asset register. Whereas more recent expenditure could be identified to such assets given the pre 1994 basis of recording and in many cases the post 1994 expenditure was identified to summary level rather than individual asset basis. Therefore some form of estimation procedure would be required to allocate to individual assets/components. ▪ The calculation of the Revaluation Reserve is fully dependent upon resolution of the previous point. ▪ Whether the authority has an infrastructure asset register that can cope with the number of items required? Would it be possible to group certain assets to reduce the accounting burden similar to the beacon property approach for housing eg similar lighting assets as a group based on the year of installation rather than individually.
The change from depreciated historic cost to a valuation basis will require the creation of a revaluation reserve, which in some cases could be very significant. The lack of detailed records on the cost of individual assets at some authorities may cause difficulties in allocating the reserve to individual assets. Notwithstanding the difficulties in allocating this reserve between assets we consider this would be necessary to avoid potential difficulties of not recognising a reserve. Whilst it is unlikely that roads or carriageways would be disposed of this will not necessarily be the case for other assets

Question 25 Practical Issues
such as street lighting and other street furniture. In addition to our comments on establishing robust auditable valuations, the impact of the changes will be significant and, in some cases, the figures will be so large as to distort the understandability of accounts. This will require explanation in the Explanatory Foreword. We support the change as a necessary step to development of audited (and hopefully) unqualified Whole of Government Accounts (WGA). The Public Accounts Committee has already reported on the importance of WGA in facilitating decisions at Government level on the use of resources. At a local level this should improve understanding of the overall asset base of local authorities and provide context for levels of maintenance expenditure incurred.
Highways Groups
Local authorities need to have good quality, robust data for valuation purposes this also supports good asset management. This has been known for some years and DfT provided funding in 2008 to assist English LAs in data collection. Many authorities have already demonstrated that they have the data and can deliver the required WGA returns however it is acknowledged that this is by no means universal yet. However, if no firm timetable is set then it is unlikely that the later adopters will reach the necessary level of data robustness any time soon hence it is considered critical that a timetable is set to provide the necessary incentive and impetus to complete the work. An addition to the valuation benefits, the demonstrated efficiencies delivered by good, data-based asset management have the potential to more than offset the up-front costs in data collection and management, as evidenced in the 'virtuous circle' document prepared by Ian Carruthers of CIPFA.