CIPFA The Chartered Institute of Public Finance & Accountancy

Code of Practice on Transport Infrastructure Assets

Invitation to Comment

Introduction

1. The Code of Practice on Transport Infrastructure Assets (the Transport Code) was published in 2010 and since that time has been used to provide information for the Whole of Government Accounts (WGA) and to support asset management. The Transport 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.

2. The Transport Code was developed in line with the recommendations of the CIPFA Review of Accounting, Management and Finance Mechanisms for Local Authority Transport Infrastructure Assets (carried out for HM Treasury and the Department for Transport), published in 2008. The report and the Government's response can be found at: www.cipfa.org/policy-and-guidance/local-authority-transport-infrastructure-assets.

3. Throughout the WGA process Highway Authorities have been asked each year about their readiness for full implementation and a summary report of the 2011-12 WGA submissions can be found at Appendix A. Although these surveys demonstrate definite progress with implementing the Transport Code, there remains a lack of positive drivers for full implementation. As a result, the concepts paper in Appendix B entitled Highway Infrastructure Assets – creating the virtuous circle has been developed. This proposes creating a 'virtuous circle' – a coordinated approach to the adoption of the asset management approach (set out in the Code of Practice on Transport Infrastructure Assets) for Government policy/funding and management information purposes, as well as for financial reporting purposes.

4. The Project Implementation Steering Group (PISG) who were responsible for the development and implementation of the Transport Code have reviewed and updated the Code in the light of experience of practitioners since the original publication. The aim is also to reinforce the links with the Code of Practice on Local Authority Accounting (Accounting Code) and provide more clarity on financial reporting practicalities. This consultation seeks views on the proposed changes, with a view to publishing the revised Transport Code in Autumn 2013, subject to the usual CIPFA approval process.

5. From the financial reporting perspective, the difference between the current value accounting approach adopted by central government and the historical cost approach adopted for the local roads network has become a more visible issue since the publication of Whole of Government Accounts (WGA) in 2011. The inconsistent accounting policies and the size of the potential difference between the valuation bases (at least £200bn) is one of the main WGA qualification issues.

6. In the last two consultations on the Accounting Code CIPFA/LASAAC has sought interested parties views on:

   - options for voluntary adoption of the DRC measurement requirements for transport infrastructure assets in the Accounting Code – in the consultation on the 2012/13 Code and

   - a proposed adoption date for the move to measuring transport infrastructure assets on a DRC basis for the 2014/15 year (with retrospective restatement for the 2013/14 information) – in the consultation on the 2013/14 Accounting Code.

   Both these consultations identified substantial practical difficulties in moving to the adoption of the measurement of transport infrastructure assets at DRC in the (Accounting) Code (albeit there does appear to be increasing progress over the two years).

7. CIPFA/LASAAC considers that, taking into account last year's responses on the practical difficulties that exist in moving to DRC for transport infrastructure assets, it is necessary to propose a phased implementation of this change in the Accounting Code. Therefore it proposes that 2014/15 will be a "dry run" year and that local authorities will be required to provide DRC information in the financial statements under the Accounting Code's requirements to introduce new accounting standards (this will not require retrospective restatement for 2013/14). It also seeks interested parties' views on whether this is the most appropriate form of a "dry run" year. This will then be followed by the formal adoption of the DRC measurement base for transport infrastructure assets in 2015/16 (with the requirement for comparative information to be provided for 2014/15).

8. CIPFA/LASAAC is also considering an additional form of a phased implementation. It is considering proposing that the formal adoption of the DRC measurement base for 2015/16 would be for carriageways only and that remaining classes of infrastructure assets move to a DRC basis from 2016/17. Under this staged process it would also permit earlier voluntary adoption of the DRC basis for the other classes of infrastructure assets. CIPFA/LASAAC is proposing this phased approach as carriageways is the most material category of highways infrastructure assets (thus supporting the information to be provided for WGA) with classes such as structures (eg bridges) being a more complex area. This will also allow authorities to build on the experience of implementing the requirements for carriageways before the more complex areas such as structures are included.

9. CIPFA/LASAAC wishes to allow authorities sufficient time to ensure that their management information and other systems are able to provide the robust data needed to support the carrying value of the assets reported in the financial statements, prior to introducing these changes. CIPFA/LASAAC is therefore interested in evaluating any evidence interested parties can provide regarding the implications of introducing current value as the measurement basis in 2015/16 (with the requirement for comparative information to be provided for 2014/15).

10. The proposals in relation to the Accounting Code are currently being consulted upon and more details can be found at: http://www.cipfa.org/policy-and-guidance/consultations.

11. Before taking a final decision on whether to implement the measurement requirements of the Code in the Accounting Code, CIPFA/LASAAC will need to first gain appropriate assurance from positive outcomes to a number of events and processes, including WGA information, the responses to the consultations on the Accounting and Transport Codes, evidence that decision makers plan to use the information provided by the new measurement requirements and the outcome of the dry-run process.

Consultation on proposed changes

12. The Transport Code has been revised to take into account issues raised during its initial implementation, to update references and to in particular to strengthen the links to the Code of Practice on Local Authority Accounting. In order to ensure that the updated Code is workable and achieves its aims there are number of changes where specific feedback in response to questions is requested. Comments on other proposed changes are also welcome. For ease of reference, the proposed changes as shown as tracked changes to the original Code.

Use of R199b

13. R199b road lengths are agreed with the Department for Transport. The original Transport Code required R199b road lengths, adjusted for dual carriageways, to be used in order to calculate GRC and required an authority's own inventory data to be used for DRC. This was because there was concern at the time that highway authorities would not have adequate inventory data to enable it to be used for GRC. The updated Code proposes that for valuation purposes, own inventory data should be used for both and that the GRC rates are updated to reflect this, see paragraph 6.7.2.1.

Q1. Do you agree that own inventory data rather than adjusted R199b data should be used for the calculation of GRC and DRC for carriageways? If not, why not? Please detail any issues you foresee with this approach.

Relevance

14. The Transport Code is only applicable to Highway Authorities. For other authorities PISG understand that the transactions are not likely to be material, and therefore concurs that these measurement requirements do not apply to non-highway authorities. Paragraph 1.5.3 and 1.5.4 have been added to clarify this.

Q2. Do you agree with the wording in paragraph 1.5.3 and 1.5.4 in relation to the Code's applicability to non-highway authorities? If not, why not? Please detail any issues you foresee with this approach.

Structures valuation methodology

15. For valuation purposes, in order to reflect the usage of the asset, the structures toolkit assumes that components or elements will only be replaced or reinstated when they reach the end of their useful life, i.e. when, materially, all their economic benefits and service potential has been consumed. It also assumes that there will be no residual value at the end of the useful life.

Q3. Do you agree that this approach demonstrates the pattern of the consumption of the economic benefits and service potential within the structures of your authority? If the pattern of consumption differs materially please explain how? Please describe your approach.

Rates

16. The rates used to calculate GRC for street lighting, as required by the Transport Code, assume that the street lighting is constructed at the same time as the remainder of the network. This differs to the renewal or brown field rates which are used for the estimation of deterioration of street lighting for the DRC calculation. These two rates might be materially different. In order to ensure that depreciation reflects the economic benefits and service potential consumed by an authority for the assets in question, and given that most street lighting was not installed as part of the network, it is proposed that the updated Code requires the same renewal or brown field rates to be used for GRC and the calculation of deterioration, see paragraph 11.2.2.4a. PISG is also considering making this change for other asset types and is seeking views on this.

Q4. Do you agree that the same rates should be used for the calculation of GRC and for the estimation of deterioration to arrive at DRC for street lighting? If not, why not? Do you foresee any problems with this approach?

Q5. Do you agree that the approach in Q4 where the same rates are used for GRC and deterioration to arrive at DRC should be extended to other infrastructure assets? If not, why not? Please detail any issues you foresee with this approach.

Links to the Code of Practice on Local Authority Accounting

17. It is proposed that the links to the Accounting Code are strengthened in Chapter Three of the Transport Code *How the Code fits with other guidance.* The proposed additional text is included in the accompanying document entitled Proposed Additions to Chapter Three. In particular more details are given in relation to the disclosure requirements and how these should be derived in accordance with the Code of Practice on Local Authority Accounting. PISG are especially interested in the practical implications of the requirements and whether highways authorities will have the sufficient data to produce the information required for financial reporting purposes and the disclosures for transport infrastructure assets.

Q6. Do you agree with the proposed approach to augment the Code with appropriate accounting guidance to assist with the financial reporting requirements and the information necessary to produce the required disclosures in the additional text proposed for Chapter Three? If not, why not? Please detail any issues you foresee with this approach.

Land Valuation

18. The Code requires highways land to be valued using centrally provided rates, which are based on those used for the trunk road agencies.

Q7. Whilst there are no current proposals to change the current basis of land valuation, are there any alternative approaches which you believe should be considered? If so, please expand.

Virtuous Circle

19. PISG are keen that DRC information on transport infrastructure assets is used by stakeholders and would therefore like to ensure that the virtuous circle model fully reflects the work undertaken already on developing the use of infrastructure assets models. PISG would like to strengthen the references to the Highways Maintenance Efficiency Programme and the Asset Management Guidance in the Virtuous Circle document. They would also like views on any additional areas which may also need strengthening and would like to gather best practice examples of benefits derived from the process so far.

Q8. Are there any additional areas which you believe should be strengthened in the Virtuous Circle document? If so, please detail them. Please provide details of best practice examples of benefits derived so far.

Responding to the Consultation

Responses are required by **13 September** and should be sent to:

E-mail: mandy.bretherton@cipfa.org

For ease of handling, e-mailed copies of this Response Form are preferred.