CIPFA The Chartered Institute of Public Finance & Accountancy

report

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Committee	CIPFA/LASAAC
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Subject	Approach to Transport Infrastructure Assets in the 2013/14 Code

The purpose of this report is to seek CIPFA/LASAAC's views on options for reporting information on Transport Infrastructure Assets in the 2013/14 Code.

1 Introduction

1.1 CIPFA/LASAAC Members will be aware that the Invitation to Comment on the 2012/13 Code sought interested parties' views on the possible future adoption of the Code of Practice on Transport Infrastructure Assets as the basis of measurement for transport infrastructure in the Accounting Code. Two models of voluntary adoption were put forward in the Invitation to Comment:

1) Voluntary early adoption: CIPFA/LASAAC indicated that it was considering permitting local authorities to measure transport infrastructure on a Depreciated Replacement Cost basis.

2) A voluntary disclosure note for transport infrastructure assets, presented on a DRC basis as opposed to full recognition in the financial statements.

1.2 However, the consultation responses reported substantial practical difficulties in implementing the Code of Practice on Transport Infrastructure Assets. CIPFA/LASAAC therefore considered that it would not be appropriate at that juncture to include either of the voluntary options in the Code, a view expressed at its November 2011 meeting. A copy of the Appendix considered by CIPFA/LASAAC with summaries of the consultation responses is attached to this report for information – this information was presented at CIPFA/LASAAC's November meeting.

1.3 This report sets out developments that have taken place since its November 2011 meeting. It also sets out the options available for CIPFA/LASAAC for its approach in the Invitation to Comment on the Code to possible future adoption.

2 Recent Developments in Whole of Government Accounts

2.1 CIPFA/LASAAC will be aware that the *Whole of Government Accounts, year ended 31 March 2010* was published on 29 November 2011. Members will be aware that part of one of the five qualifications refers to the measurement base for local authority infrastructure assets. This is extracted below for information.

"Qualification arising from disagreement relating to inconsistent application of accounting policies

"HM Treasury's accounting policies state that the Accounts are prepared on an International Financial Reporting Standards (IFRS) basis, as adapted or interpreted for the public sector context*. A number of bodies consolidated in these Accounts do not adopt the same framework under which these Accounts are prepared. These bodies fall under the following categories:

- Bodies in the local government sector follow the Local Government Statement of Recommended Practice (SORP) for 2009-10, which is based on UK Generally Accepted Accounting Practice (UK GAAP); and

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"An example of the use of different accounting policies is where infrastructure assets included in the Accounts are not valued on a consistent basis. Assets held by local government bodies are valued at historical cost, whereas those held by central government bodies are valued at depreciated replacement cost. HM Treasury's estimate of the understatement of assets due to the differences in valuation between historical cost and depreciated replacement cost for local government assets could be at least £200 billion (Note 14.1 to the Accounts)[1]."

* This framework is set out in the Government Financial reporting Manual (FReM) – edited for presentation purposes

2.2 The Whole of Government Accounts were 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".

2.3 As reported previously to CIPFA/LASAAC, HM Treasury has set a timetable for gradual transition to reporting on a current cost basis for transport infrastructure assets based on the requirements of the Transport Infrastructure Code for Whole of Government Accounts (WGA) purposes. The remainder of this timetable will require the withdrawal of historical cost based reporting from 2012/13 in the Whole of Government Accounts. The Secretariat understands that HM Treasury is likely to want to move to a current valuation for local authority roads following the above timetable even if this means continued qualification in the short term.

2.4 CIPFA/LASAAC has previously considered both under the SORP and the IFRS-based Code that a measurement at current value is likely to be a better measure of the value of local authorities' transport infrastructure assets (whilst recognising that the current measurement basis for transport infrastructure assets in the Code ie at historical cost is consistent with IFRS). Such a move would also mean that local authorities would no longer be required to run dual reporting systems for WGA and the financial statements for this class of assets.

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[1] Extract from the Certificate and Report of the Comptroller and Auditor General: Whole of Government Accounts 2009-10

2.5 However, it remains the case that it is vital that any changes to the measurement bases in the Code are made only when authorities are able to provide the robust data (ie good quality, consistent information that is capable of withstanding audit scrutiny) needed to support the carrying value of the assets in question in local authority balance sheets. This is particularly important when considering the significance of these figures to the local authority financial statements; avoiding large-scale qualifications on this issue is essential. The audit opinions on the Whole of Government Accounts 2012/13 are expected to be received in mid-2014 at the earliest. It would be difficult for the Secretariat to make firm recommendations to CIPFA/LASAAC regarding changes to the measurement bases before this information has been received and the potential impact on local authority financial statements fully evaluated. Taking into account the Code approval and publication timetables this evaluation will not be completed in time for the 2013/14 Code.

2.6 As has been reported previously the Secretariat also considers it important that, in the current financial climate, requirements additional to those required to satisfy accounting standards or legislation take into account authorities' need to minimise Council Tax. Any material additional burdens on local authorities would need to be considered.

3 The Way Forward in the Invitation to Comment on the Code

3.1 Taking into account the current climate and the progression of Whole of Government Accounts CIPFA/LASAAC's views are sought on a way forward in the Invitation to Comment on possible approaches to the adoption of the Code of Practice on Transport Infrastructure Assets which will support local authorities in their provision of information for the Whole of Government Accounts. It is also recognised that any approach will need to ensure that information reported in the financial statements is robust.

3.2 There are a number of options for CIPFA/LASAAC to facilitate this and both advantages and disadvantages to these options:

1) To maintain the status quo in the Code until CIPFA/LASAAC has appropriate evidence from the Whole of Government Accounts submissions to ensure that information is provided to the appropriate level of detail and accuracy for inclusion in local authority financial statements. This has the advantage of being a solid foundation for information provided in the financial statements. However, it is arguable that until the Accounting Code makes formal moves for adoption it will do little to support the WGA. It also risks criticism from the PAC.

2) To include in the 2013/14 Code a recommendation that the Explanatory Foreword includes a report of the movements in transport infrastructure assets measured on a Depreciated Replacement Cost Basis (as required by the Code of Practice on Transport Infrastructure Assets). This will have the benefit of moving forward relatively quickly and supporting the WGA process as soon as possible whilst also doing so in a way in which local authorities can manage their approach to the disclosure depending on the availability of information.

3) To include in the 2013/14 Code a requirement that the Explanatory Foreword includes a report of the movements in transport infrastructure assets measured on a Depreciated Replacement Cost Basis (as required by the Code of Practice on Transport Infrastructure Assets). This would have the positive advantages cited above with the additional benefit of more certainty in the production of the information. The disadvantages are that from the evidence

base provided in last year's consultation process authorities may still not be able to meet this requirement.

4) To permit local authorities to include a voluntary disclosure prospectively in the financial statements for 2013/14 based on model 2 of last year. This has the advantages of inclusion in the financial statements. However, it runs the significant risk that information might not be robust enough for inclusion in the financial statements – in line with CIPFA/LASAAC's concerns last year.

5) Mandate option 4 in the Code – see option 4.

6) Mandate option 4 on a normal financial reporting basis ie with comparative information – see option 4.

In addition to the options above, CIPFA/LASAAC might wish to consider using the options as progressions from the early options to the latter options under appropriate timescales and on the basis of auditor feedback.

recommendation

CIPFA/LASAAC is asked to consider the above report and set out its preferred option for inclusion in the Invitation to Comment.