

LAAP BULLETIN 100

Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17

July 2014

The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting, SeRCOP and Prudential Code, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice, but are not prescriptive and do not have the formal status of the Code, SeRCOP or Prudential Code.

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INTRODUCTION

1. This Bulletin is relevant to all local authorities required to account under the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code). It will be of particular interest to Highways authorities, although there may also be some non-highways authorities who have material transport infrastructure assets.
2. CIPFA/LASAAC has agreed that the 2016/17 edition of the Accounting Code will adopt the measurement requirements of the *CIPFA Code of Practice on Transport Infrastructure Assets* (the Transport Code), ie measurement on a Depreciated Replacement Cost basis. This was confirmed in a new Appendix D to the 2014/15 Code.

STRATEGIC CONTEXT

3. The Transport 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 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.
4. 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), which was published in 2008. The review recognised that the roads network and other transport infrastructure assets together represent by far the biggest capital asset that the UK public sector holds, are worth many billions of pounds and are vital to national economic prosperity. It recognised that comprehensive transport asset management had the potential to deliver significant value for money benefits and improvements in the services delivered to users.
5. Having looked at the available approaches, the review concluded that an Asset Management based approach was the only one capable of fully supporting sound financial management decisions and effective long term stewardship of the asset base. The approach was intended to help authorities to take better informed decisions about spending priorities, by demonstrating the long term consequences of particular levels of investment, and helping them to maximise the output that can be achieved for the given level of expenditure.
6. After the CIPFA review the Department for Transport made £32m available for English local authority asset management in 2009/10. Of this, £28m was invested with authorities to improve on their databases and associated tasks and £8 million was passed to a selection of authorities to carry out innovative work and advise others.
7. Following from the earlier discussion document and roadshows this year on local highways maintenance funding from 2015/16 to 2020/21, the Department for Transport will now be undertaking a formal consultation on how funding for highways maintenance is allocated to English local authorities over the next spending review period starting 2015-16. As part of this they will be consulting on how they can reward those authorities that have taken up good asset management practices and have achieved efficiencies.
8. From the financial reporting perspective, the difference between the current value accounting approach adopted by central government and the existing 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 (estimated to have an impact of at least £200bn) is one of the main WGA qualification issues.

ACCOUNTING IMPLICATIONS

9. The decision by CIPFA/LASAAC that the 2016/17 edition of the Accounting Code will adopt the measurement requirements of the Transport Code will represent a change in accounting policy from 1 April 2016. This will require full retrospective restatement in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 1 *Presentation of Financial Statements* as adopted by the Accounting Code.
10. CIPFA/LASAAC considers that this change in accounting policy is equivalent to a change in IFRS and therefore has indicated that the Accounting Code will require the disclosures necessary for a change required by a new standard that has been issued but not yet adopted in the 2015/16 financial statements.
11. This Bulletin seeks to identify the key areas and milestones which bodies should take into consideration in developing their implementation plans.

KEY STAKEHOLDERS

12. It is essential that finance, asset management practitioners and engineering professionals work together to develop and action their project plan as soon as possible in order to achieve successful implementation, although it is likely that the finance professionals will take the lead on the accounting issues.
13. Authorities should therefore engage with the following key stakeholders in preparing their plan:
 - Those responsible for governance, e.g. Cabinet, Audit Committee etc.
 - Senior Finance professionals
 - Corporate accountants responsible for preparing their authority's Statement of Accounts
 - Highways Infrastructure Engineers, responsible for all asset types covered by the Transport Code
 - External Auditors
14. Authorities are strongly advised to discuss their project plan with their external auditors. Auditors may wish to consider undertaking work at various stages in the process and authorities are advised to discuss the timetable with their auditors.
15. Benefits that may arise from early engagement with external auditors are as follows:
 - Timely identification of any difficulties or problems with the valuations and measurement processes will allow for an early resolution of issues. This in turn may help to avoid errors occurring and prevent abortive work being undertaken.
 - This may provide authorities with reassurance that their project plan is appropriate, or alternatively may allow for the plan to be amended in a timely manner; an inappropriate plan could lead to abortive work, or alternatively could result in a number of key tasks requiring completion in a short timescale.

IMPACT ASSESSMENT

16. A robust project plan should be built on authority specific information provided through an impact assessment which is designed to identify gaps in current data, systems and processes.

17. The impact assessment should cover the following stages (described in more detail in Appendix A):
1. Identification of transport infrastructure assets
 2. Initial consideration of materiality
 3. Review of asset data
 4. Complete systems audit
 5. Gap Analysis

PROJECT PLAN

18. The following outline project plan is intended to provide a starting point for authorities looking to develop their own project plans. More detailed steps, specific to each authority, will be required to support each step in the outline project plan. Similarly, whilst the outline project plan identifies major milestones (in bold), authorities will need to supplement these with their own interim milestones. The dates outlined in the plan should enable an authority to achieve successful valuation of their transport infrastructure assets for the 2016-17 financial statements. The dates are based on the statutory deadlines in place at the time of publication.
19. The outline project plan is as follows (key milestones in **bold**):

	Step	Dependency	Timing	Areas for discussion with external auditors
1.	Carry out impact assessment		As soon as possible; completion of this stage by December 2014 recommended	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues/difficulties etc.
2.	Identify changes required to accounting policies	In parallel with Step 1	As soon as possible; completion of this stage by December 2014 recommended	
3.	Identify key staff (finance & highways) Assess adequacy of resources Allocate responsibilities Develop detailed project plan	Based on impact assessment in Step 1	As soon as possible; completion of this stage by December 2014 recommended	
4	Brief / train key stakeholders & staff (see step 3 & para. 13)	Step 1 & step 3	At an early opportunity then ongoing throughout the project	
5	Identify asset data requirements for Statements of Account in accordance with the Accounting and Transport Codes.	Based on impact assessment in Step 1	As soon as possible; completion of this stage by December 2014 recommended	

	Step	Dependency	Timing	Areas for discussion with external auditors
6	Identify systems changes (both finance and highways)	Based on impact assessment in Step 1	As soon as possible; completion of this stage by December 2014 recommended	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues/difficulties etc.
7	Implement required changes to asset data and systems	Identified in Step 5 & 6	Sept 14 to June 2015	
8	Undertake 2014/15 “Dry Run”	Step 7	June 2015*	
9	Review and implement any changes identified in the 2014/15 Dry Run	Step 8	July 2015	Discuss outcome of dry run with auditors
10	Restate 1 April 2015 Balance sheet	Step 9	July 2015 – December 2015*	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues/difficulties etc.
11	Produce disclosures for 2015/16 Statements of Account	Accounting policies Step 2	April 2016 (see Appendix D of the 2014/15 Accounting Code)*	
12	Submit 2015/16 WGA submission		June 2016	
13	Draft amendments for 2016/17 Statements of Account (ie draft accounting policies, and draft disclosure for transport infrastructure assets for 2015/16 under new measurement requirements)	Accounting policies Step 2	July 2016	
14	Restate 2015/16 Statement of Accounts	Step 2, Step 13 & based on requirements identified in Step 5	July 2016 -December 2016*	Auditors will wish to consider the implications for their work
15	Identify and implement any procedure or data omissions following review of 13 and 14.	Based on Steps 13 and 14	December 2016 – February 2017	

	Step	Dependency	Timing	Areas for discussion with external auditors
16	Produce 2016/17 Statement of Accounts	Step 2 & based on requirement in Step 5	March 2017 - June 2017	Normal audit procedures – unaudited accounts 30 June, accounts signed by 30 September 2017
17	Submit 2016/17 WGA information	Step 16	June 2017	
18	Audit of 2016/17 Statements of Account	Step 16	July – September 2017	Normal audit procedures – accounts signed by 30 September 2017

*Indicative timescale; absolute deadline is given in step 16

The timeline for the outline project plan is shown in Appendix C with milestones highlighted in bold and with marked with a star.

Stages for Impact Assessment

Stage 1 Identification of transport infrastructure assets

- 1.1. The impact assessment process should commence with identifying the authority's transport infrastructure assets as defined by section 1.4 in the CIPFA Code of Practice on Transport Infrastructure Assets (the Transport Code).

Stage 2 Initial consideration of materiality

- 2.1. An authority should then consider whether the estimated depreciated replacement cost of their transport infrastructure assets in accordance with the Transport Code is materially different to that based on historical cost. For a Highways Authority this will almost certainly be the case. Paragraph 2.1.2.9 of 2014/15 Accounting Code considers information as material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority. In other words, materiality is an authority-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual authority's financial statements.
- 2.2. Consequently, the Accounting Code does not specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation and each authority will need to consider its own particular circumstances. Local authorities will need to evidence their materiality decision for the external audit process and it would be good practice to discuss their intended approach with their auditor at an early stage.
- 2.3. If transport infrastructure assets are material for the authority then an initial review should be undertaken to establish each authority's starting point.
- 2.4. Materiality will continue to be of relevance throughout the planning process, influencing the degree of precision that needs to be applied to the accuracy of data collected and the design of the systems for collecting it in order to secure materially correct figures for the Statement of Accounts.

Stage 3 Review of Asset Data¹

- 3.1. What inventory data does the authority have in relation to each of the transport infrastructure asset categories?
- 3.2. How is this inventory data maintained and kept up to date?
- 3.3. What information does the authority have in relation to the condition of the assets?
- 3.4. How is the condition data maintained and kept up to date?
- 3.5. What transport infrastructure asset information has previously been submitted as part of the Whole of Government Accounts process?

Stage 4 Complete Systems Audit²

- 4.1. What systems does the authority use to manage inventory and condition data?
- 4.2. What are the systems used for?
- 4.3. What data is stored on the system?
- 4.4. Is it able to store information on transport infrastructure assets in accordance with the classifications specified in the Transport Code?
- 4.5. Is the system able to store the relevant data on condition in accordance with the requirements of the Transport Code? How does the authority ensure that the data in the system is up to date and fit for purpose?
- 4.6. What links are there between highways and finance systems?

¹ See also Chapter 8 of Highway Infrastructure Asset Management Guidance Document, HMEP

² See also Chapter 14 of Highway Infrastructure Asset Management Guidance Document, HMEP

- 4.7. Is the data able to provide the appropriate interface with the authority's asset management systems and/or the financial ledger or will a process be required to convert the information?

Stage 5 Gap Analysis

- 5.1. The output from the initial review should be compared to the minimum data requirements in Appendix B in order to identify the key steps required for the project plan.

Minimum Data requirements for valuation purposes:

All Assets

Asset Type, Group and Components (See Section 4 of the Transport Code)

Carriageways

Length

Width

Road Classification

Urban or rural

Condition

Survey Type

Renewal rates

Total useful life

Deterioration initiation

Footways and Cycletracks

Surface type

Length

Width

Footway hierarchy

Urban or rural

Condition

Treatment types and costs

Structures

Name of structure

Structure Type (as defined in the structures toolkit)

Dimensions (e.g. number, length, width, headroom)

Number of spans

Location (Marine/Estuarial, Rural or Urban)

Type of Route supported (as defined in the Structures Toolkit)

Type of obstacle crossed (as defined in the Structures Toolkit)

Are the routes supported or the obstacle crossed salted?

Factors impacting on replacement cost (e.g. heritage, conservation area, environmentally sensitive, river or coastal wall, substandard structure)

Element types for each structure (as defined in the Structures Toolkit)

Material types (as defined in the Structures Toolkit)

Condition at element level

Proximity to Traffic Spray Zone (within 3 meters or not)

Street Lighting

Type

Number

Replacement rate per unit

Estimate of age

Useful life

Street Furniture

Type

Number

Replacement cost per unit

Estimate of age

Useful life

Traffic Management Systems

Type

Number

Replacement cost

Estimate of age

Useful life

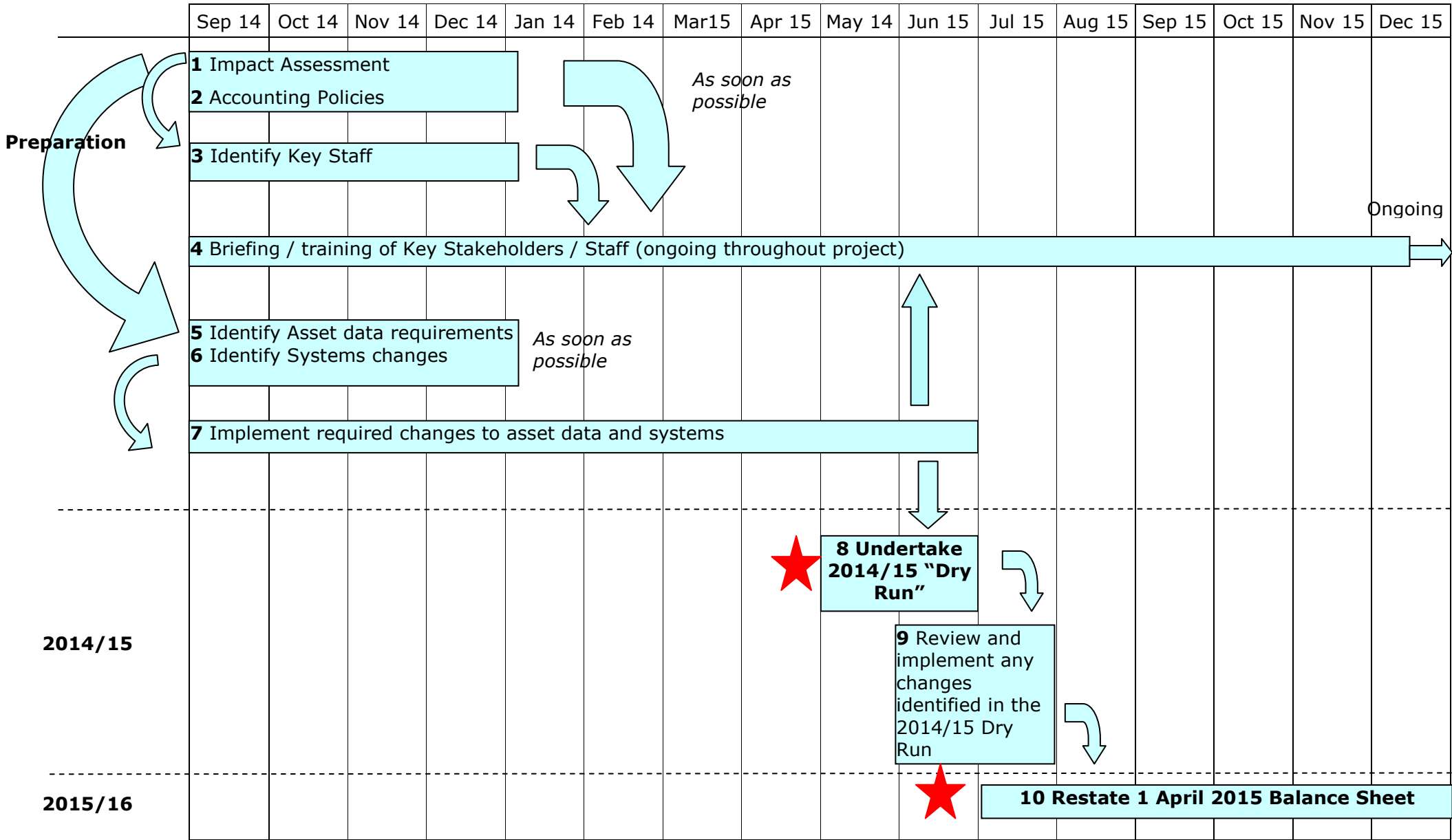
Land

Area of carriageways, split urban / rural

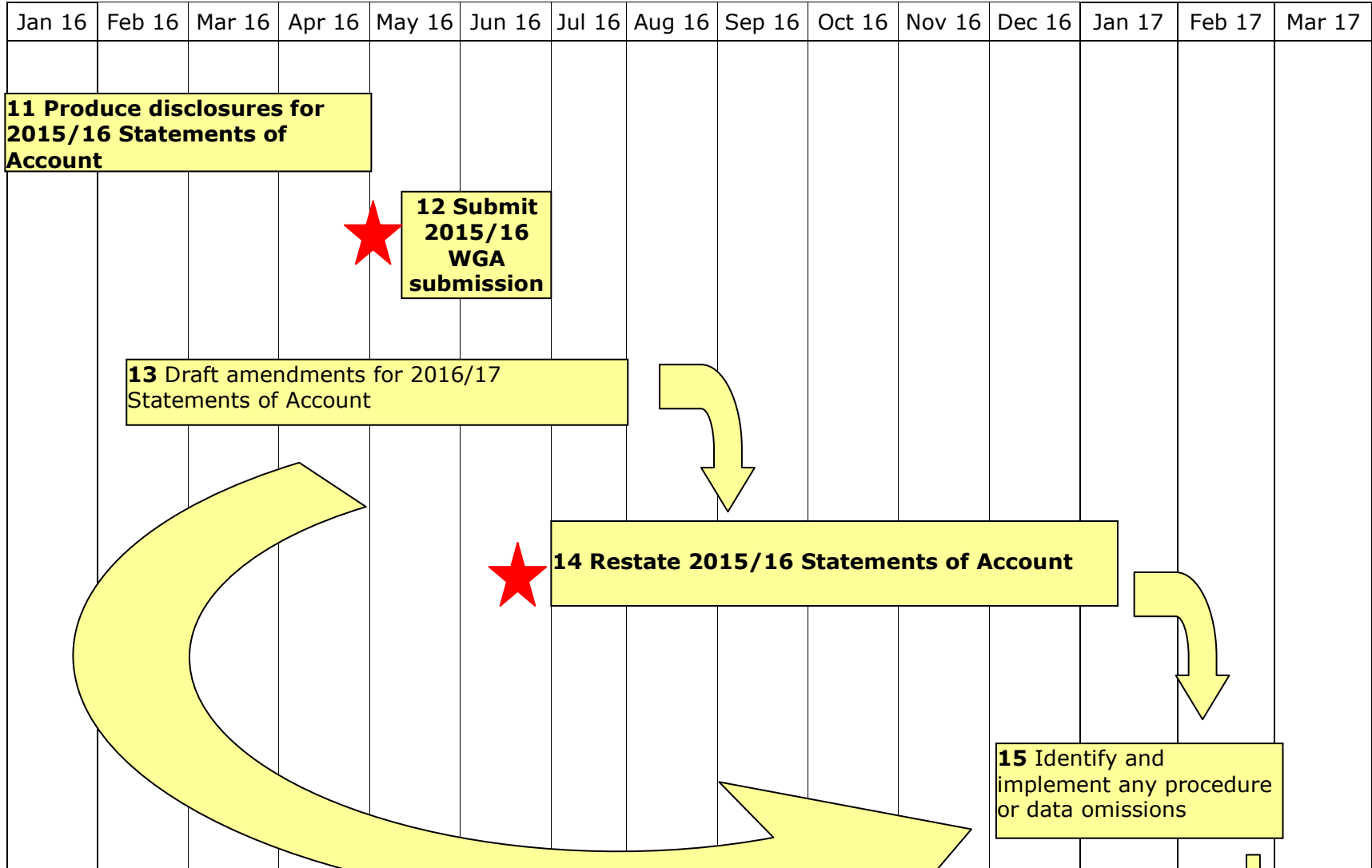
Area of footways, split urban / rural

Average verge width, split urban / rural

Outline Project Plan Sep 2014 – Dec 2015






Outline Project Plan Jan 2016 - March 2017



2015/16

Outline Project Plan Apr 2017 – Sep 2017

2016/17

Apr 17	May 17	Jun 17	July 17	Aug 17	Sep 17
 16 Produce 2016/17 accounts					
 17 Submit 2016/17 WGA information					
			18 Audit of 2016/17 Statements of Account		