

# **UPDATE ON ASSET VALUATION**

## **THE CIPFA REVIEW OF ACCOUNTING, MANAGEMENT AND FINANCE MECHANISMS**

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# Asset valuation

- Getting better numbers for the accounts etc is important. Present numbers seriously under-value highways. And we need a proper measure of year on year change.
- But main benefit lies in all the detailed values that make up the headline numbers in accounts – supporting day to day asset management.
- Links to other information needs – inventory and condition data, all within consistent frameworks.

# Objectives of the CIPFA review

- To evaluate the issues associated with implementing an asset management plan based approach to accounting, managing and financing local authority transport infrastructure assets
- In particular :-

# Objectives of the review

The best way to use AMP based information to:

- Support good financial management locally;
- Support policy development and resource allocations;
- Provide financial accounts complying with relevant IFRS requirements;
- Deliver consistent high quality information for WGA and National Accounts purposes.

# State of play

- Review commissioned by DfT/HMT – covers all UK.
- Draft report published July. Consultation closed end September.
- Now working on final report.

# Findings in the consultation report

## - Information

- Information about nature of the asset base and its condition is very patchy.
- More work needed on long term performance of assets (eg to support proper life cycle planning).
- Nationally we lack robust, consistent information about cost of holding assets, backlogs and future spending needs.

# Findings on LA Transport Asset Management Planning

- Comprehensive transport asset management has the potential to deliver substantial efficiency gains, and service improvements .
- But overall transport infrastructure AM is still not generally well understood or supported except amongst those directly involved in trying to implement it. Needs more corporate/political support and more finance input.

## Findings on valuation

- An AMP based approach is the only one capable of supporting all the review objectives.
- CSS/TAG guidance is sound basis for valuation, but some more work needed.
- Local authority accounting (the SORP) should be changed. Would set a consistent timetable for everyone, raise AM profile and ensure data is robust and consistent between authorities.

## Findings on implementing accounting change

Timing of any change depends on how quickly good quality, consistent, auditable systems and info can be put in place; and how much priority, including funding, stakeholders are willing to give.

How implementation is handled will also affect how quickly start to achieve benefits. Need to prioritise work, concentrating first on high value/high spend assets, then extend coverage and detail over time.

## Timing of any change?

- Data development must be driven by asset management planning considerations rather than just what will support the accounts. However, report suggested should be possible by 2009/10 to develop inventories to level which deliver sound info for accounts and start to deliver useful info for AM and other requirements.

# Conditions for an early change to the SORP

- Implementation/funding of review recommendations on further guidance and development work on valuation;
- Funding of LA work in 2008/09 to develop inventories to appropriate level (est. £15m) Further development costs thereafter should be funded from savings from better AM.

# Recommendations for further guidance and development work

Report endorses CSS/TAG guidance as basis for asset valuation. Recommended:-

- Further work to develop consistent approaches to valuation/depreciation, Quickstart guidance to be produced;
- More training and support, including raising awareness among members/top management of benefits of AMPs.

# Consultation responses

- 63 responses received.
- Overwhelming support for taking forward transport asset management.
- Most support change to the SORP, though a minority opposed or want change implemented administratively first.

## Other points from consultation

- Strong support for proposals on further guidance and training – and for those to be progressed quickly;
- Most respondents felt that an AMP based approach should also be applied to transport assets outside the SORP – others who responded thought the issue should at least be examined.
- Strong support for further work to see whether an AMP based accounting approach could work for non-transport LA assets.

## Issues that need further consideration – timing of SORP change

- Will recommend a SORP change but need to address concerns that 09/10 is too soon, particularly for authorities who are just getting started on valuation.
- Looking at whether a slightly longer timetable would be desirable.

NB actual timetable depends on whether/when Govt provides funding.

# Guidance and handling

- Support for proposals for further guidance/training and that those should be progressed quickly regardless of timing of SORP change
- But concerns about fit with valuation work being done in the various local authority groups in England, Wales and Scotland.
- Working to address these, in discussion with CSS/TAG AM Working Group and DfT .

## Fit with what's happening in central government?

- The 4 national roads agencies need to change their approach to valuation to meet IFRS requirements.
- Concern that outcome might be inconsistent/require further changes to LA approach.
- CIPFA final report delayed until key decisions taken. Working closely with HMT/national agencies on this.

## Next steps?

- Conclude discussions on way forward, and confirm that no clashes with national roads proposals.
- Aim to publish final CIPFA report end-February. Hope for early response from Government.
- In the meantime authorities should continue to develop own inventories and valuations, participating in the various regional groups.