

	Audit and Standards Advisory Committee 7th June 2022
	Report of the Director of Finance
CIPFA consultation on temporary changes to infrastructure assets accounting	

Wards Affected:	ALL
Key or Non-Key Decision:	Not applicable
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	OPEN
No. of Appendices:	n/a
Background Papers:	
Contact Officer(s): (Name, Title, Contact Details)	Minesh Patel, Director of Finance 020 8937 4043 minesh.patel@brent.gov.uk Ben Ainsworth, Head of Finance 020 8937 1731 Benjamin.ainsworth@brent.gov.uk

1.0 Summary

- 1.1. There is an issue at other local authorities who have not had their 2020-21 accounts signed off with how local authorities account for Infrastructure assets, such as highways.
- 1.2. In essence, the core of the issue is that most local authorities do not hold enough data to meet some of the specific requirements of the code. For instance, most local authorities do not hold the detailed historic cost of their highways infrastructure, so if they replace a traffic light, they cannot remove cost of the old traffic light to replace it with a new one. The CIPFA Code of Practice currently requires such costs to be removed.
- 1.3. CIPFA is consulting on an urgent set of changes to the code to address these issues. This is so that the other authorities' 2020-21 accounts can be signed off, and so that this will not cause a problem for 2021-22.

2.0 Recommendation

- 2.1 The Director of Finance responds to the consultation from CIPFA on changes to the Code of Practice to address this issue

2.2 The committee notes the risk that if for some reason these changes cannot be made that auditors may be unable to finalise their opinion of the council's accounts for 2021-22.

2.3 Note that the council's draft Statement of Accounts will be prepared on the basis that the proposed changes are adopted.

3.0 Background

3.1 Local authorities are required to complete their Statement of Accounts in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code of Practice). This document is prepared, maintained developed and devised by the CIPFA LASAAC Local Authority Code Board. The board is a partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

3.2 The Code of Practice requires that Property, Plant and Equipment Assets are componentised into components that depreciate at different rates. For instance, a house might be broken down into four components: the main structure, windows, roof, and fixtures and fittings. When one of these components is replaced, e.g. new windows are fitted, the remaining carrying value of the old windows has to be removed before the cost of the new windows is added.

3.3 Similarly, the Code of Practice requires Highways Infrastructure to be broken down into its component parts. There was a national initiative to devise a scheme to do this consistently across local authorities, detailed in the CIPFA Code of Practice on the Highways Network Assets. This would have required valuation of the council's entire highways infrastructure, breaking it down into separate items such as number of traffic lights and valuation of the depreciated replacement cost for each of these components.

3.4 The core problem is that local authorities do not hold enough historic information to componentise Highways Infrastructure Assets, such as traffic lights, in line with the CIPFA Code of Practice. The CIPFA Code of Practice on the Highways Network Assets addressed this by setting out a valuation methodology that did not require this historic information.

3.5 CIPFA LASAAC Local Authority Code Board stopped the incorporation of these standards into the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom in 2017, as a lack of central support for the valuations meant that the perceived costs of adoption outweighed the benefits.

3.6 This has left an issue with the Code of Practice, which has gone largely unremarked until the audit of the 2021-22 accounts, when one of the auditors focused in on this issue, and was unwilling to sign off accounts of the local authorities it audited for this reason.

- 3.7 As a result of this issue CIPFA LASAAC started a process to review the Code of Practice. This review resulted in a consultation on proposed changes. These changes include:
- confirming the accounting consequences of derecognition, e.g. that the effect on the carrying amount is nil (on a presumption that the replaced parts are fully depreciated);
 - temporarily adapting the code to remove the reporting requirements for gross historical cost and accumulated depreciation; and
 - providing extra guidance on how depreciation may be applied for infrastructure assets.
- 3.8 This consultation runs from the 12th May to 14th June. The timing of this means that the final response may not be ready in time for the council's draft accounts. The draft accounts will therefore be prepared on the assumption that the proposals are adopted. This may necessitate changes to the council's Statement of Accounts during audit if CIPFA LASAAC significantly modifies its proposals.
- 3.9 This will also need a longer term solution, which will presumably be developed by CAPFA LASAAC, with a subsequent consultation.
- 3.10 It is worth noting that from Brent's perspective the impact of any possible inaccuracy within these figures is minimal: the council does not use these figures to inform its maintenance or capital works programmes for highways, it has separate condition surveys to inform these. Also, central government is well aware of the limitations of these figures (central government was a key player in the development of the Code of Practice on the Highways Network Assets).

4.0 Financial Implications

- 4.1 The principal risks are that either:
- the changes do not proceed and therefore this issue is unresolved, or
 - that the changes do not fully resolve the issue.
- If either of these risks come to pass then the auditors may be unable to issue their final opinion on the council's 2021-22 Statement of Accounts, and the council will be unable to issue its final accounts.
- 4.2 A more minor risk is that the proposals are changed when finalised after the council publishes its draft Statement of Accounts to the extent that these require the draft Statement of Accounts to be revised before final publication.

5.0 Legal Implications

- 5.1 The Code of Practice is specified by Regulation 31 of the Local Authorities (Capital Finance and Accounting) (England) Regulations, as amended as one of the Codes setting out proper practices Local Authorities are required to follow under section 21(2) of the Local Government Act 2003. Local Authorities are therefore required to produce their Statement of Accounts in line with the Code of Practice.

6.0 Equality Implications

6.1 There are no direct equality implications in agreeing the report.

Report sign off:

Minesh Patel
Director of Finance