

Consultation response: HMT Thematic Review of Non-investment Asset Valuations for Financial Reporting Purposes

Purpose of Report

For decision.

Is this report confidential? No

Summary

The report outlines a draft response to a consultation from HM Treasury following the thematic review of non-investment assets for financial reporting purposes, to be cleared by the Board. The report proposes that the response broadly supports much of the approach suggested in the consultation and the review, but suggests improvements that could be made to the proposals for valuing infrastructure assets. Members are asked to clear the response for submission to HM Treasury, subject to any amendments agreed at the meeting.

LGA Plan Theme: A sustainable financial future

Recommendation(s)

That the Resources Board approve the draft response to the consultation appended to this report, subject to any amendments agreed at the meeting.

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Background

1. The valuation of non-investment assets, and the particularly the time spent on it by auditors, has long been identified as a contributing factor to the problems being experienced with local audit. In 2022 the problems associated with accounting for infrastructure assets made a significant additional contribution to the delays in finalising the audit of local authority accounts and made a significant contribution to the current crisis in local audit. (Infrastructure assets, primarily roads, are just one class of “non-investment asset” held by local authorities).
2. In 2022 HM Treasury commissioned a thematic review of the valuation of non-investment assets. This review looked across the whole of the public sector, not just local authorities. The full outcome of the review has not yet been published. However, HM Treasury has published a [consultation](#) on proposals for changes in the way non-investment assets are valued that draws on the results of the review.
3. It is clear from the narrative of the consultation that although the review has looked at the whole public sector, it is local authorities, and particularly English local authorities, where the most significant problems are being experienced. For example, para 3.9 of the consultation document references the annual cost of undertaking valuations as £50 million (of which 15% is audit costs) and that “the cost burden was felt most acutely in English local authorities”.
4. It is also clear that the proposals have been arrived at with a view to being sympathetic to the problems being suffered by local authorities and to seek to improve the position, while taking account of the rest of the public sector and of relevant accounting and reporting standards. That said, it is also apparent that the HM Treasury is willing to consider options that go against accounting standards, as can be seen by the preferred option that recommends different valuation approaches for different types of assets that would currently all be valued on the same basis.
5. The consultation includes 30 individual questions, many of which are quite technical, and are more properly aimed at preparers of accounts. The proposals are outlined in “option 3” of the consultation; this in itself includes a number of different proposals. It is proposed that the LGA response does not answer the 30 questions individually, but instead comments on the proposals in HM Treasury’s preferred option (option 3), including suggestions for improvement in the area of valuing infrastructure assets.

Proposed response to the consultation

6. The proposed response to the consultation is attached as an appendix to this report.
7. In outline, the proposed response is to be supportive of the overall approach being made in the proposals. In particular it is suggested that the response highlights:
 - That the review acknowledges the particular problems being experienced by local authorities;
 - That the proposal for a different approach for each different class of assets is welcome and sets a precedent that should allow a sensible and individual approach to be taken where particular types of asset are causing problems;
 - Support for the no change option for certain specified classes of assets (heritage assets, social housing assets and surplus assets) where these are not currently causing problems and also supports the change proposed for intangible assets (eg intellectual property) as making the valuation easier to make and less open to dispute;
 - Comments in detail on the proposals for property plant and equipment (PPE). This is an area that local authorities have long reported as being a burden, particularly in terms of audit. It is expected that the proposals in the consultation should help address this so the proposed response supports them (see below);
8. It is suggested that the response comments in detail on the proposals for the valuation of networked assets. This area includes local authority infrastructure assets (primarily roads). Here the proposals do not appear to address the fundamental problem being experienced, so an alternative suggestion is made.
9. The proposals for PPE are to separate PPE into two categories – specialised and non-specialised – and have a different approach to the valuation for each.
10. Specialised PPE assets are those assets where the component parts of the assets have an intrinsic value (eg the value of the land and buildings in use) and so could have a resale value, but in reality the asset has little or no chance of being resold for its current use, so it is unlikely to ever be sold unless the service has been discontinued. Examples quoted in the document include schools and prisons; local authorities might also suggest their town halls. The proposed valuation method recognises that there is no need to spend time obtaining a specialised valuation and instead the accounts should report the historic cost of the asset – the cost that has already been incurred. The proposed response supports this proposal.
11. Non-specialised PPE is PPE where the asset could potentially be sold for another use but is more likely to be retained as an ongoing operational asset and maintained and

replaced if necessary. The example given in the consultation document is office buildings. The proposal is for this to be valued on depreciated replacement cost (DRC) which would involve obtaining a valuation. Since the value of the asset could play a part in decision making, this seems to be a reasonable approach and the proposed response supports this.

12. Networked assets. The consultation document gives the following as examples of networked assets: road networks, sewer systems, water and power supply systems and communication networks. For local authorities the important class will be roads, and this is the area known as “infrastructure assets” which have been a source of difficulty in local audit over the past year.
13. The consultation document acknowledges the limitations with providing a value for these assets. However, the proposal is to change the way local authorities value such assets and to adopt the DRC valuation (as recommended for non-specialised PPE). Currently local authorities have been using historic replacement costs but it is acknowledged that this has not been without problems (due to the age of many roads); it has also led to a qualification of the Whole of Government accounts, which is likely to be a factor influencing HM Treasury. It should also be noted that CIPFA has recently launched a [survey](#) on infrastructure assets that proposes a move to DRC in the long term.
14. The move to DRC for roads is likely to cause problems for local authorities. Firstly they will have to obtain valuations that will then be audited. Secondly the resulting figures that will be reported in the accounts are likely to significantly skew the published accounts of local authorities as the value to be placed on the infrastructure assets may significantly exceed values of other assets in the accounts. The proposed response therefore suggests that HM Treasury should acknowledge that the figures to be reported in local authorities’ accounts for roads are virtually meaningless in terms of financial decision making and that instead the approach should be to provide a simple valuation that bears some relation to size of the asset but is recognised as not directly impacting on the local authority’s finances. The proposed response suggests that such a measurement could be based on a standard cost per mile of road.

Implications for Wales

15. The proposals in the consultation apply across the whole public sector and so apply to Welsh local authorities as well. We are in frequent contact with the Welsh Local Government Association. Welsh local authorities have not suffered the same crisis affecting local audit that has affected English local authorities.

Financial Implications

16. The work covered in this paper is included in the LGA's core budget.

Equalities implications

17. It is difficult to assess whether proposed changes to the approach to valuing non-investment assets will have any specific impacts affecting equalities. These issues affect councils and their residents as a whole and it is therefore difficult to assess what individual impacts there might be on people with protected characteristics.

Next steps

18. That officers make any amendments to the draft response and arrange submission to HM Treasury.