Recap on first meeting

1. The Group agreed the following recommendations at the first meeting:
   a) That the indicative maintenance block allocations for 2013/14 and 2014/15 are confirmed.
   b) That work is undertaken to assess the appropriateness and feasibility of moving to a new formula for allocating highways maintenance from 2015/16 based on an asset-value approach.

Asset value and Whole of Government Accounts (WGA)

2. Asset valuation is the calculation of the current monetary value of an authority’s assets. Asset valuation has, for some years, been promoted as way of encouraging proper stewardship of public assets. Linked to this is the Whole of Government Accounts – a set of consolidated financial accounts for the entire public sector on commercial accounting principles. It is part of the Code for Fiscal Stability and is given statutory backing by the Government Resources & Accounts Act 2000.

3. WGA requirements are being phased in for different sectors. Highways infrastructure information will be mandatory from 2012-13. However, a fully audited dry run is to be undertaken for the 2011-12 accounting period.

4. A move to an asset value-based formula would be a significant departure from the way this grant is currently calculated. The proposed asset value approach would use data submitted by local highway authorities to HM Treasury as part of their Whole of Government Accounts (WGA).

5. The requirement for local highway authorities is to submit accounting data annually on a depreciated replacement cost (DRC) basis, split by the following asset types:
   - Carriageway;
   - Footways and cycle tracks;
   - Lighting;
   - Structures;
   - Traffic management;
   - Street furniture; and
   - Land.

6. This information should be based on authorities’ actual inventory data and utilise lifecycle planning techniques to calculate depreciation. Various tools and guidance

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1 Principally road length and bridges in need of strengthening or major maintenance, but also the number of lighting columns aged over 40 years and length of de-trunked roads. See: [http://assets.dft.gov.uk/publications/local-transport-capital-block-funding/maintenance-block-formula-explanatory-note.pdf](http://assets.dft.gov.uk/publications/local-transport-capital-block-funding/maintenance-block-formula-explanatory-note.pdf)
have been developed to support this work. In addition, £32million funding was provided in 2008-9 and 2009-10 to help local authorities establish asset inventories.

Emerging issues of taking an asset value approach

7. There are clear potential benefits:
   - Data is mandatory for local highway authorities through the WGA and therefore would not result in additional data burdens;
   - It is provided on consistent (annual) basis;
   - Data is fully audited (and therefore not open to manipulation);
   - Sends a strong message to local authorities on the importance of effective asset management; and
   - Provides a closer correlation to local highway authority maintenance needs, rather than proxies.

8. However, before we can begin to consider how a formula might look in practice, it is evident that there are issues around local authority readiness for the WGA and the practical implementation of the formula that must first be addressed.

9. Firstly, the intention is that the asset value approach would take effect from the start of the next Spending Review period, i.e. from 2015/16. In practice, this means using data from the 2012/13 WGA to inform allocations. As there is a requirement for highway authorities to provide full information for the 2012-13 account this should not be an issue; however it is understood that some local authorities may be some way this position.

Figure 1: Source of WGA 2010-11 GRC data for local authorities (England)²

² Based on information provided by local authorities as part of their WGA return. Not all authorities provided information, hence coverage is not complete.
10. Secondly, analysis of 2010/11 WGA data indicates local authorities have assessed that, on average, they have completed between 38 and 74% of the work needed\(^3\) to provide the required highways information for their WGA return. Similarly, figure 1 below indicates that the use of actual inventory data is currently not commonplace.

11. With this in mind, there are questions that remain around both **data availability** and **data robustness**.

**Steering Group consideration**

12. Some issues to consider in terms of **asset valuation**, **WGA** and **data availability**:

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- Will we have a complete return for the 2012/13 WGA?
- How would we deal with any nil data returns from local authorities?
- What data quality would be acceptable? For example, do we need local authorities to use actual inventory or would a sample suffice?
- Is there a need for transitional arrangements and what would these look like?
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13. Some issues to consider in terms of how a **new formula** might look:

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- **Type of data.** Which data should be used – GRC, DRC or annual depreciation? What are the benefits and limitations to each?
- **Capturing efficiencies.** Can we introduce variables to measure local authority take-up of efficiencies (i.e. linking with HMEP agenda)?
- **Variables.** Should the formula include data for all highway assets or could some be excluded?
- **Formula.** How should allocations be calculated? A possible (simple) option is to distribute funding by calculating the value of each local authority’s highway asset (DRC) as proportion of the total asset for England.
- **Frequency of updates.** Consideration should be given to whether local authorities value certainty of funding or the use of the most up-to-date data?
- **Any other ideas?**
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\(^3\) Depending on the asset type