Asset Management Strategy

1. Introduction

1.1 The purpose of this report is to present to the Partnership Board, SEStran's draft Asset Management Strategy for approval.

1.2 Effective asset management plays a critical role in achieving SEStran's business objectives and ensuring the organisations long-term sustainability. This strategy outlines SEStran's approach to managing assets throughout their lifecycle, from acquisition to disposal, in alignment with our organisational goals and regulatory requirements.

2. Main Report

2.1 Public bodies are required to prepare an annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

2.2 The Partnership Board approved the Partnership's audited accounts for 2023/24 at its meeting on 6 December 2024.

2.3 In its External Audit of SEStran's accounts for financial year 2023/24, Audit Scotland recommended that SEStran should undertake a full review of its asset management procedures, ensuring that the asset register fully reflects the assets in use.

2.4 For reference, the External Audit recommendations are re-stated at Appendix 1.

2.5 SEStran committed to devise an Asset Management Strategy addressing all of the External Auditor's recommendations and to submit it for approval at the Partnership's Board meeting on 14 March 2025. The strategy is attached as Appendix 2.

2.6 The Partnership's audited Annual Accounts for 2023/24 record Partnership assets with a net book value of £0.189m. The assets include:

- Bus passenger transport information system (RTPI) computer equipment and screens
- Cycling equipment and infrastructure, including electric bicycles (eBikes)
- Bus 'Ticketer' equipment
- Office computer equipment.

2.7 The table below provides a summary of the Partnership's assets included in the audited Annual Accounts 2023/24.

			Net Book Value at:	
	Number of Assets	Total Cost	31 March 2024	31 March 2025
RTPi system	183	£394,497	£89,740	£64,451
e-bike	99	£166,951	£89,073	£66,989
Ticketer	122	£256,495	£2,702	Nil
Office Equipment	35	£32,002	£7,521	£4,941
Total	**439**	**£849,945**	**£189,036**	**£136,381**

2.8 Based on the Partnership's existing asset accounting policy, the assets are forecast to have a net book value of £0.136m at 31st March 2025.

3. Accounting Policy

3.1 The draft Asset Management Strategy includes a revised Accounting Policy.

3.2 The Partnership's existing Accounting Policy for Non-Current Assets is stated in paragraphs 3.2.1 to 3.2.3 below:

3.2.1 **Plant and Equipment** is categorised into the following classes:

- Vehicles, plant and equipment;
- Assets under construction.

3.2.2 **Depreciation** is provided on all Property, Plant and Equipment:

- The Partnership provides depreciation on its Plant and Equipment from the month when it comes into use. Thereafter depreciation is provided on a straight-line basis over the expected life of the asset.
- No depreciation is provided on Assets Under Construction.

3.2.3 **Measurement:** Plant and Equipment is included in the Balance Sheet at:

- The lower of net current replacement cost or
- Net realisable value in existing use, net of depreciation.

3.2.4 The Partnership's Accounting Policy for Non-Current Assets has existed largely unchanged since the Partnership was established as a statutory body.

3.2.5 It is proposed to update the Accounting Policy to reflect the Partnership's investment in assets to deliver region-wide objectives of the Regional Transport Strategy including investment in:

- RTPi system infrastructure
- E bike assets and infrastructure.

3.4 The proposed Accounting Policy for Non-Current Assets is presented in the table at paragraph 3.5. New elements of the Policy are highlighted in colour. New elements of the Policy reflect:

3.3.1 A minimum value of £10,000 for recognition of project expenditure on non-current assets. Where individual assets do not exceed £10,000 in value, but which collectively form part of a programme of expenditure on delivery of a service, which meets the definition of an asset, the asset will be included as part of that programme e.g. RTPi system.

3.3.2 Plant and Equipment to be measured at fair value. Fair value is defined as the amount equivalent to depreciated historical cost. As the Partnership's non-current assets have a useful life of five years or less and have relatively low value, there is likely to be limited change to the valuation currently applied.

3.3.3 A policy on de-recognition for non-current assets which are either disposed of or where no future economic benefits or service potential are expected from its use or disposal.

3.3.4 An accounting policy for intangible assets.

3.4 The Partnership is required to adopt International Financial Reporting Standard 16 Leases (IFRS 16), when preparing the Annual Accounts for 2024/25. Any further update to Accounting Policies required for adoption of IFRS16 will be reported to the Partnership when the unaudited Annual Accounts are presented in June 2025.

3.5 **Proposed Revised Accounting Policy**

Tangible Assets

Plant and equipment is categorised into the following classes:

- Vehicles, plant, furniture and equipment;
- Assets under construction.

Recognition

- Expenditure lower than £10,000 on individual assets is charged to revenue.

Measurement

- Assets under construction are initially measured at historic cost, comprising their purchase price and any costs attributable to bringing the assets into use for their intended purpose.

- All other classes of property, plant and equipment are measured at fair value.
- Vehicles, plant, furniture and equipment - fair value is the amount equivalent to depreciated historical cost for short life and/or low value assets. For assets with longer lives and/or high values, fair value is the amount that would be paid for the asset in its existing use or depreciated replacement cost for specialised /rarely sold assets where insufficient market-based evidence exists.
- Surplus assets - fair value is the price that would be paid for an asset in its highest and best use.

Depreciation

- Depreciation is provided on all property, plant and equipment, other than assets under construction.
- The Partnership depreciates its non-current assets in the year of acquisition. The Partnership will operate a five-year rolling revaluation programme for assets and provides for depreciation on a straight-line basis on the opening book value plus the cost of acquisitions and enhancements during the year over the remaining useful life of the asset.
- The charge to the Comprehensive Income and Expenditure Statement for the year is impacted by changes in asset value during the year arising from enhancements but not revaluation.

De-recognition

- An asset is de-recognised either on its disposal, or where no future economic benefits or service potential are expected from its use or disposal.

Intangible Assets

Recognition

- Intangible assets are non-current assets that have no physical substance but are identifiable and controlled by the Partnership and it can be established that there is an economic benefit or service potential associated with the item which will flow to the Partnership. This expenditure is mainly in relation to the purchase of software licenses. Expenditure on the acquisition, creation or enhancement of intangible assets is capitalised on an accruals basis.

Measurement

- Intangible assets are initially measured at cost and included in the Balance Sheet at net historical cost.

Depreciation

- In most cases intangible assets are depreciated over the period of the licence. Where the period of the licence is deemed 'infinite' the software is depreciated based on an assessment of expected useful life.
- Depreciation is calculated using the straight-line basis on the opening book value over the remaining useful life of the asset.

4. Recommendations

4.1 The Partnership Board is recommended to:

4.1.1 Approve the Asset Management Strategy,

4.1.2 Approve the proposed Revised Asset Accounting Policy detailed at paragraph 3.5.

4.1.3 Note that any further update to Accounting Policies required for adoption of IFRS16 will be reported to the Partnership Board when the unaudited Annual Accounts are presented in June 2025

Brian Butler
Partnership Director
11 March 2025

Appendix
1. External Audit Recommendations
2. Draft Asset Management Strategy

Contact brian.butler@sestran.gov.uk

Policy Implications	SEStran's Asset Accounting Policy will be revised to reflect the changes recommended in this report.
Financial Implications	There are no financial implications arising as a result of this report
Equalities Implications	There are no equality implications arising as a result of this report
Climate Change Implications	There are no climate change implications arising due to this report

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
1. Management and recording of non-current assets SEStran holds a large number of relatively low-value individual assets which include bikes, screens and technology related to real-time transport information. Our review of the asset register and corresponding entries in the accounts found a number of material findings: • The asset register and balance sheet presented for audit included £198,000 of assets which were impaired in previous years and should have been removed from the disclosures in the accounts. • Not all assets disclosed on the register are allocated a unique reference or serial number, meaning there is often no direct link between the asset register and the physical item. • The asset register has been cumulatively modified over several years, and no longer provided a clear audit trail to the disclosures in the accounts. This included duplication of information and complex formulas.	The non-current asset register was extensively revised to provide a clearer link to the disclosures in the accounts. This resulted in a prior year correction to remove £198,000 of impaired assets from 2015/16 which had been included in error. SEStran should undertake a full review of its asset management procedures, ensuring that the asset register fully reflects the assets in use. The partnership should: • Review and update the accounting policy for non-current assets in line with Code requirements, including information on useful lives, the approach to impairment and the basis of capitalisation. • Improve the asset register to provide a direct link to the disclosures in the accounts, including sufficient detail to ensure that physical items are individually identifiable • Ensure that that physical items are appropriately tagged to create a direct link between the register and the asset. • Ensure that impairment reviews are carried out on a regular basis, including physical inspection of assets. This should be documented in a systematic and methodical way which allows the asset register to be reflective of asset condition. It is important that the partnership works closely with their finance colleagues at City of Edinburgh Council to ensure that disclosures in the accounts are reflective of the assets in operation.

APPENDIX 2

ASSET MANAGEMENT STRATEGY

Document Version Control

Date	Author	Version	Status	Reason for Change
March 2025	SEStran	0.1	DRAFT	For approval by Partnership Board.

1. Introduction

1.1 Effective asset management plays a critical role in achieving SEStran's business objectives and ensuring the organisation's long-term sustainability. This strategy outlines SEStran's approach to managing assets throughout their lifecycle, from acquisition to disposal, in alignment with our organisational goals and regulatory requirements.

2. Definition of an Asset

2.1 An asset is a resource with economic value that is owned or controlled by an organisation with the expectation that it will provide a future benefit. SEStran's assets fall into three broad categories.

2.1.1 **Property, plant and equipment** – tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one (accounting) period. The Partnership currently holds electronic bicycles and Ticketer equipment, ICT equipment and electronic screens, which support the real time bus passenger information (RTPi) system.

2.1.2 **Leases** – a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for the lease term.

2.1.3 **Intangible asset** – an identifiable non-monetary asset without physical substance, which is controlled by the Partnership as a result of past events, and from which future economic benefits or service potential are expected to flow. The most common class of intangible assets in local authorities is computer software.

3. Asset Register

3.1 Any asset that is procured must immediately be added to the Asset Register. This is a detailed record that lists all of the assets held by SEStran. It serves as a comprehensive inventory of the assets, providing essential information about each asset to help manage and track them effectively. It includes the following details:

3.1.1 **Asset Number:** Every asset on the Asset Register should be assigned a unique identification number, in sequence from the most recent previously procured asset. Where practical, a sticker showing the Asset Number should be securely attached to the asset. In cases where this is not practical, a note should be added to the Asset Register detailing why this is the case.

3.1.2 **Serial Number:** The manufacturer's serial number for an individual asset should be recorded on the Asset Register to aid identification.

3.1.3 **Asset Category:** Each asset should be assigned to a general category in order that assets can be grouped with those of a similar type e.g. eBikes, RTPI screens. In order to prevent a proliferation of Asset Categories, new categories must be agreed by the Partnership Director.

3.1.4 **Asset Location:** The location of the asset should be clearly recorded. For example, a general location such as railway station is unlikely to be specific enough to allow it to be identified quickly in an asset check undertaken by a new member of staff. In cases like this, a more specific direction such as 'above concourse on platform 14' may be more appropriate.

3.1.5 **Date of Addition:** This should be the date when ownership of the asset is passed to SEStran, usually the date on which a supplier's invoice is paid.

3.1.6 **Cost:** This is the financial cost to SEStran when the asset is procured.

3.1.7 **Useful Life:** For accounting purposes, the useful life of an asset must be estimated when it is procured. This is essential in order to determine depreciation and net book value.

3.1.8 **Estimated to be Fully Written Down:** This is a function of 'Date of Addition' and 'Useful Life' and, for asset management planning purposes, can be used as a guide for when an asset may require to be replaced.

3.1.9 **Net Book Value:** This is the value of the asset after application of depreciation and any impairment adjustment. It will also reflect any revaluation of the asset.

4 Accounting Policy

4.1 The Accounting Policy is presented in the table in paragraph 4.3 below.

4.2 The Partnership is required to adopt International Financial Reporting Standard 16 Leases (IFRS 16), when preparing the Annual Accounts for 2024/25. Any further update to Accounting Policies required for adoption of IFRS16 will be reported to the Partnership when the unaudited Annual Accounts are presented in June 2025.

4.3 **Accounting Policy**

Tangible Assets

Plant and equipment is categorised into the following classes:

- Vehicles, plant, furniture and equipment;
- Assets under construction.

Recognition

- Expenditure lower than £10,000 on individual assets is charged to revenue.

Measurement

- Assets under construction are initially measured at historic cost, comprising their purchase price and any costs attributable to bringing the assets into use for their intended purpose.
- All other classes of property, plant and equipment are measured at fair value.
- Vehicles, plant, furniture and equipment - fair value is the amount equivalent to depreciated historical cost for short life and/or low value assets. For assets with longer lives and/or high values, fair value is the amount that would be paid for the asset in its existing use or depreciated replacement cost for specialised /rarely sold assets where insufficient market-based evidence exists.
- Surplus assets - fair value is the price that would be paid for an asset in its highest and best use.

Depreciation

- Depreciation is provided on all property, plant and equipment, other than assets under construction.
- The Partnership depreciates its non-current assets in the year of acquisition. The Partnership will operate a five-year rolling revaluation programme for assets and provides for depreciation on a straight-line basis on the opening book value plus the cost of acquisitions and enhancements during the year over the remaining useful life of the asset.
- The charge to the Comprehensive Income and Expenditure Statement for the year is impacted by changes in asset value during the year arising from enhancements but not revaluation.

De-recognition

- An asset is de-recognised either on its disposal, or where no future economic benefits or service potential are expected from its use or disposal.

Intangible Assets

Recognition

- Intangible assets are non-current assets that have no physical substance but are identifiable and controlled by the Partnership and it can be established that there is an economic benefit or service potential associated with the item which will flow to the Partnership. This expenditure is mainly in relation to the purchase of software licenses. Expenditure on the acquisition, creation or enhancement of intangible assets is capitalised on an accruals basis.

Measurement

- Intangible assets are initially measured at cost and included in the Balance Sheet at net historical cost.

Depreciation

- In most cases intangible assets are depreciated over the period of the licence. Where the period of the licence is deemed 'infinite' the software is depreciated based on an assessment of expected useful life.

- Depreciation is calculated using the straight-line basis on the opening book value over the remaining useful life of the asset.

5 Annual Asset Review

5.1 **Annual Asset Impairment Review**: As part of the annual, end-of-financial-year asset review process, SEStran will undertake an impairment review to establish the condition and value of all assets, and whether the remaining useful life and / or book value require to be adjusted.

This does not necessarily mean that each individual asset will be inspected. It may be that the value of assets in a given asset category is reducing more quickly than originally assumed, so adjustments may have to be made to remaining useful life and / or net book value.

5.2 **Asset Impairment at other times**: the Asset Register should be updated immediately to reflect changes to the condition or operation of an asset e.g. if an asset is no longer operable and cannot be repaired, the Asset Register should be updated.

5.3 Assets must be physically (or otherwise) checked prior to the end of each financial year, in order to ensure that the asset values reported in the financial statements are accurate and provide a true and fair view of the Partnership's financial position.

5.4 A snapshot should be taken of the Asset Register on the final day of a financial year, and columns added to show the date on which the asset was checked, the member of staff who checked the asset, and any relevant notes regarding its condition, operation etc.

5.5 For many assets, such as eBikes, this will require each individual asset to be checked by locating the asset and taking any photographs necessary to show its unique Asset Number.

5.6 For other Asset Categories, such as RTPI PCs and screens, it may be possible to remotely check whether the equipment is in operation.

5.7 It should be remembered at all times that evidence that the asset was checked and was operable at that time must be good enough to satisfy an audit at a later date.

6 Strategy Review

6.1 This document requires to be reviewed within a three-year period of previous approval by the Partnership Director and Principal Accountant.