

By: Acting Chief Accountant, Joe McKay
To: Governance & Audit Committee
Subject: Timetable for the 2025-26 Statement of Accounts and update on accounting policies
Classification: Unrestricted

Recommendations

The report asks Members to:

1 – note the timetable for the 2025-26 Statement of Accounts and external audit

2 – note the change to accounting policies for the introduction of indexation of Property, Plant & Equipment assets

1 2025/26 Statement of Accounts and external audit timetable

1.1 The publication deadline for the draft (unaudited) Statement of Accounts is 30 June 2026.

1.2 The audit backstop dates implemented by MHCLG require the external audit to be completed by 31 January 2027.

1.3 To achieve the deadlines above, we intend to publish the draft Statement of Accounts by 30 June 2026, with the external audit commencing in mid-June. Interim work with the auditors has already begun including interim samples of operating expenditure, income from fees, sales and charges and payroll.

2 Changes to accounting policies

2.1 The CIPFA Code of Practice requires authorities to follow International Accounting Standard 8 (IAS 8) – Accounting Policies, Changes in Accounting Estimates and Errors. Accounting policies are identified as “...the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

2.2 For 2025-26, there is one change to report. Indexation of Property, Plant & Equipment has been mandated for local authorities in 2025/26. The draft accounting policy, to be included in the 2025-26 Statement of Accounts in Note 17, starts in paragraph 3.1 with changes shown in italics .

2.3 More detail on the introduction of indexation and the work undertaken to date is also provided in paragraphs 2.7-2.11.

- 2.4 Local government accounts are prepared in accordance with the CIPFA Code of Practice (the code). The 2025-26 Code includes a revaluation expedient for Property, Plant and Equipment (PPE), requiring valuations once every five years or on a five-year rolling basis, supported by indexation in the intervening years. This report sets out how we will implement this expedient.
- 2.5 Indexation is a tool used to apply an inflationary increase to assets in the years between professional valuations. The purpose of applying indexation to asset values is to ensure the value of an asset is kept materially up to date for movements in variables e.g. build costs or rental income. It is important to note that indexation is an approximation of market change and is not a valuation of a specific asset.
- 2.6 The main changes introduced to the 2025-26 Code are as follows:
- A revaluation expedient for PPE requiring valuations once every five years or on a five-year rolling basis and supported by indexation in intervening years. Alternatively, a desktop valuation in year three in rare cases where no appropriate index is available.
 - Transitional arrangements allow these changes to be applied prospectively, with no restatement of prior year figures required.
 - To assist local authorities, an existing adaptation has been removed to allow both options permitted by IAS 16 for the treatment of accumulated depreciation when assets are revalued. This aligns with existing arrangements in the financial reporting manual (FReM).
 - A clarification to ensure that undertaking a full revaluation should not be a default process to demonstrate there has not been a material impairment of an asset and to comply with IAS 36.
- 2.7 The Code has not mandated the use of a specific index. We have therefore sought advice from our independent, external valuers, Wilks Head & Eve (WHE) to determine the most appropriate index for each class of asset.

Property, Plant and Equipment (PPE) & Surplus Assets

- 2.8 All operational PPE and Surplus Assets will be revalued on a 5 year rolling programme. We have worked with our expert valuers to identify the most appropriate index for each type of asset. We have sense checked and challenged where appropriate to ensure we understand the rationale for each index applied. The table below details which index will be used for each type of asset:

Asset Type	Index
Specialised Property	All-In TPI published by BCIS (National)
Offices	Percentage movement from Co Star and MSCI data (Regional)
Retail	Percentage movement from Co Star and MSCI data (Regional)
Industrial	Percentage movement from Co Star and MSCI data (Regional)
Residential	Percentage movement from Co Star and MSCI data (Regional)
Land	Percentage movement informed from published reports provided by Knight Frank (KF) / Lambert Smith Hampton (LSH) / Savills etc (National) covering: <ul style="list-style-type: none"> ▪ Agricultural Land ▪ Residential Land ▪ Commercial Land ▪ Amenity Land

2.9 MSCI stands for Morgan Stanley Capital International. MSCI provides a variety of indices that cover stock markets worldwide and are widely used as benchmarks. CoStar provides industry-leading commercial real estate information, analytics and news platform that delivers insights to commercial property professionals and other industries. TPI stands for Tender Price Index, which is an estimate of Tender Price Inflation. BCIS stands for Building Cost Information Service and is a UK-based provider of cost, price, and carbon data for the construction industry.

Right of Use (ROU) Assets

2.10 We will not be applying indexation to right of use assets as we have been advised there are not suitable indices that reflect the Council's continuously evolving interest in the asset. There will be a desktop valuation every three years. The carrying amount of ROU assets at 31 March 2025 was £36.7m so the risk of material misstatement is very low.

Investment Property

2.11 There is no change to the existing policy and Investment Property will continue to be revalued at fair value annually. Properties are not depreciated but are revalued annually according to market conditions at the year-end.

3 Draft Accounting Policy

- 3.1 Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.
- 3.2 All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment above our de minimis of £10k (£2k in schools) is capitalised on an accruals basis. In this context, enhancement means work that has substantially increased the value or use of the assets. Work that has not been completed by the end of the year is carried forward as "assets under construction".

Measurement

- 3.3 Assets are initially measured at cost, comprising:
- the purchase price,
 - any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management,
 - the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
- 3.4 Assets are then carried in the Balance Sheet using the following measurement bases:
- infrastructure, community assets and assets under construction – depreciated historical cost,
 - surplus assets – fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date,
 - all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- 3.5 Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.
- 3.6 Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.
- 3.7 The Council has a policy in place to revalue its assets on a rolling programme basis. All assets will be revalued at least every ~~four~~ five years, *supported by indexation in the intervening years*. Assets will also be revalued following significant works occurring on that asset or some event that may impact on the value of that asset, such as a significant downturn in economic conditions. Revaluation gains are written to the Revaluation Reserve, after reversing any revaluation losses on that asset previously posted to the Comprehensive Income and Expenditure Statement. Revaluation losses will be written off against any balance on the Revaluation Reserve for that asset or to the

Comprehensive Income and Expenditure Statement where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Movement in Reserves Statement so that there is no impact on Council Tax.

Indexation

3.8 Indexation is a tool used to apply an inflationary increase to assets in the years between professional valuations. The purpose of applying indexation to asset values is to ensure the value of an asset is kept materially up to date for movements in variables e.g. build costs or rental income. It is important to note that indexation is an approximation of market change and is not a valuation of a specific asset. Advice is sought from our independent, external valuers to determine the most appropriate index for each class of asset.

Impairment

3.9 Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

3.10 Where impairment losses are identified, they are accounted for by:

- writing down the balance on the Revaluation Reserve for that asset up to the accumulated gains
- writing down the relevant service line in the Comprehensive Income and Expenditure Statement where there is no balance or insufficient balance on the Revaluation Reserve.

3.11 Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

3.12 Depreciation is calculated on a straight-line basis over each asset's useful economic life and is charged to the relevant service revenue account in the year following completion of the asset.

3.13 The periods over which assets are depreciated are as follows:

Land	- nil
Buildings	- 3-60 years (as determined by the valuer)
Vehicles, plant and equipment	- 3-25 years
Roads & other highways infrastructure	- 5-120 years
Community assets	- nil
Assets under construction	- nil

Investment properties, Assets Held for Sale - nil

Heritage Assets - nil

- 3.14 Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Property will be split into five components:

Land
Structure
Mechanical and Electrical
Fixtures and Furnishings
Temporary Buildings.

- 3.15 These components are a significant value of the asset as a whole and have significantly different useful lives.
- 3.16 Under component accounting, the Authority applies a de minimis threshold of £2m per asset except Secondary Schools which have a threshold for componentisation of £8m.
- 3.17 Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

- 3.18 Assets are generally defined as 'held for sale' if their carrying amount is going to be recovered principally through a sale transaction rather than through continued use. This excludes from consideration any assets that are going to be abandoned or scrapped at the end of their useful lives. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value, less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.
- 3.19 If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Gains and Losses on Disposal of Non-Current Assets

- 3.20 When an asset is disposed of or decommissioned, the difference between the capital receipt from the sale and the carrying amount of the asset in the Balance Sheet, after identified costs have been removed, is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.
- 3.21 Schools transferring to academy status within the financial year are derecognised. On transfer the full carrying value is derecognised as an asset disposal for nil consideration. The net loss on disposal of non-current assets of £58.2m includes a loss of £61.3m which relates to schools transferring to academy status.

Capital receipts

- 3.22 Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then normally only be used for new capital investment. There are certain circumstances that allow revenue expenditure to be funded from capital receipts, for example the revenue costs associated with transformation. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. Conditional receipts are not included in these figures until it is prudent to do so.

Charges to Revenue for Non-Current Assets

- 3.23 Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:
- depreciation attributable to the assets used by the relevant service,
 - revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off,
 - amortisation of intangible fixed assets attributable to the service.
- 3.24 The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.