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# NORTH AYRSHIRE COUNCIL

4 June 2026

## Audit and Scrutiny Committee

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**Title:** Accounting Policies 2025/26

**Purpose:** To seek the Audit and Scrutiny Committee's approval of the accounting policies which will be adopted in the preparation of the Council's annual accounts for the year to 31 March 2026.

**Recommendation:** That the Audit and Scrutiny Committee approves the accounting policies as detailed in Appendix 1.

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### 1. Executive Summary

- 1.1 The annual accounts for the 2025/26 financial year summarise the Council transactions during the year and its position at the year end of 31 March 2026. Under the Local Authority Accounts (Scotland) Regulations 2014, the Council is required to prepare an annual Statement of Accounts and Section 12 of the Local Government in Scotland Act 2003 requires that these accounts are prepared in accordance with the proper accounting practices.
- 1.2 These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 ("the Code"), supported by International Financial Reporting Standards (IFRS). These are issued jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) and are designed to give a "true and fair view" of the financial performance of the Council.
- 1.3 The accounting policies to be adopted by North Ayrshire Council are reviewed on an annual basis in line with the CIPFA Code and submitted to the Audit and Scrutiny Committee for approval in advance of the financial statements being prepared.
- 1.4 The proposed accounting policies for 2025/26 have been updated to reflect changes in the guidance received from CIPFA during 2025/26.
- 1.5 The accounting policies have been updated for the adoption of indexation with effect from the year ended 31 March 2026.

## **2. Background**

- 2.1 Accounting policies are defined in paragraph 3.3.2.1 of the Code as ‘the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements’.
- 2.2 Councils are required to select accounting policies and apply changes to accounting policies in accordance with International Accounting Standard 8 - Accounting Policies.
- 2.3 The Council is required to adopt the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view. The accounting policies adopted should be reviewed regularly to ensure that they remain appropriate and consider the required treatment of any new policies relevant to the Council’s particular circumstances. Sufficient information should be disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.
- 2.4 The draft accounting policies proposed for adoption are detailed in Appendix 1 and include the following revisions identified during 2025/26:
- (i) Indexation addition – ‘North Ayrshire Council conducts rolling five-year valuations for their operational property assets, these valuations are conducted by our internal valuation team who are all members of the Royal Institute of Chartered Surveyors. In addition to these professional valuations, the 2025/26 Code brings in a requirement to apply annual indexation to these assets in the years between formal valuations, to ensure the value of an asset is kept materially up to date as an approximation of market changes. From 2025/26 annual indexation will be applied in each of the intervening years in accordance with the Code, using published indices identified by our internal valuers.’
  - (ii) Impairment addition – ‘For assets not formally valued in year, a wider review is completed to identify any changes which require a valuation. This review takes account of obsolescence, market conditions and changes in the specific physical condition of the asset.’
  - (iii) Intangible Assets deletion as option withdrawn in the 25/26 code - Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market’.

## **3. Proposals**

- 3.1 It is proposed that the Audit and Scrutiny Committee approves the accounting policies as detailed in Appendix 1.

## **4. Implications/Socio-economic Duty**

### **Financial**

- 4.1 None.

## **Human Resources**

4.2 None.

## **Legal**

4.3 None.

## **Equality/Socio-economic**

4.4 None.

## **Climate Change and Carbon**

4.5 None.

## **Key Priorities**

4.6 This report directly supports the Council Plan 2023 to 2028 by maximising financial flexibility to support the delivery of our priorities and focussing our investment on priorities.

## **Community Wealth Building**

4.7 None.

## **Islands Communities Impact Assessment (ICIA)**

4.8 None.

## **United Nations Rights of the Child (UNCRC)**

4.9 None.

## **Consumer Duty**

4.10 None.

## **5. Consultation**

5.1 The council's appointed external auditors for 2025/26, Audit Scotland, were consulted on the changes detailed in this report.

**Mark Boyd**  
**Head of Service (Finance)**

For further information please contact **Natalie Graham, Senior Manager (Corporate Finance), Financial Management**, on **01294 324533**.

**Background Papers**

None

## Accounting Policies

### General Principles

The Accounts summarise the Council's transactions for the 2025/26 financial year and its position at the year-end of 31 March 2026. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014 and Section 12 of the Local Government in Scotland Act 2003 requires that they are prepared in accordance with proper accounting practices.

These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26, supported by International Financial Reporting Standards (IFRS) and statutory guidance under Section 12 of the 2003 Act.

The accounting convention adopted in the financial statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts have been prepared on a going concern basis.

### Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Suppliers' invoices paid in the two weeks following the year-end have been included together with specific accruals in respect of further material items, provided the goods and services were received prior to 31 March.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. The de minimis level for recognition of such transactions has been agreed at £5,000, therefore all known transactions of £5,000 or above have been included.
- Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### Allocation of Central Support Costs

A proportion of net central support services is allocated to services outwith the general fund. The balance of the net central support services is reported on the basis of how the services are structured and how the Council operates, monitors and manages financial performance.

### Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### **Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or performance. When a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior years are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **Charges to Revenue for Non-Current Assets**

Services are charged with the following amounts to record the cost of holding non-current 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.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Council in accordance with the Statutory Repayment of Loans Fund Advances. This is known as the Loans Fund Principal Repayment. Depreciation, revaluation and impairment losses and amortisation are replaced by the Loans Fund Principal Repayments in the General Fund Balance by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **Employee Benefits**

#### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled wholly within 12 months of the year end. They include such benefits as salaries, wages, overtime and paid annual leave for current employees and are recognised as an expense in the year in which employees render service to the Council. All salaries and wages earned up to 31 March are included in the financial statements irrespective of when the payment was made. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following year, being the period in which the benefits will be taken. Such accruals are required, under statute, to be reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account in the Movement in Reserves Statement.

### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant services line in the Comprehensive Income and Expenditure Statement at the point when the offer of termination can no longer be withdrawn by the Council. Where termination benefits include the enhancement of pensions, the General Fund balance is charged with the amount payable by the Council to the pension fund or pensioner in the year.

### **Post-Employment Benefits**

The Council participates in two separate pension schemes:

- The Scottish Teachers' Pension Scheme administered by the Scottish Government.
- The Local Government (Scotland) Pension Scheme administered by the Strathclyde Pension Fund.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned while employees work for the Council. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme. No liability for future payments of benefits is recognised in the Balance Sheet and the Education line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers' Pension Scheme in the year.

### **The Local Government Pension Scheme**

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

The assets and liabilities of Strathclyde Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the 'projected credit unit method', i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.

Assets and liabilities are discounted to their value at current prices, as advised by the actuaries, Hymans Robertson, using an appropriate discount rate.

The assets and liabilities of Strathclyde Pension Fund attributable to North Ayrshire Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price.
- Unquoted securities – professional estimate.
- Unitised securities – current bid price.
- Property – market value.

The change in the net pension asset or liability is analysed into the following components:

### **Service Costs:**

- Current service cost – the increase in liabilities as a result of service earned by employees this year. This is allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost (including curtailments) – the increase in liabilities as a result changes to the scheme, including amendments or curtailments, where the changes impact on the service earned by employees in previous years. These costs are charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability or asset that arises from the passage of time. This is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period – taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments.

#### **Remeasurements:**

- Return on plan assets – excludes amounts included in net interest on the net defined liability (asset). This is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Strathclyde Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities. This is not accounted for as an expense.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement or pension enhancement termination benefits and replace them with charges for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The balance that arises on the Pensions Reserve thereby measures the impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

#### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards to retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff, including teachers, are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### **Events After the Reporting Period**

These are events, both favourable and unfavourable, that occur between the end of the reporting period (31 March) and the date when the financial statements are authorised for issue.

The Statement of Accounts are adjusted to reflect events where they provide evidence of conditions that existed at the end of the reporting period.

Where events indicate conditions, which arose after the reporting period, which would have had a material effect, the Statement of Accounts are not adjusted but a disclosure is made in the notes of the nature of the event and the estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the balance sheet when the Council becomes party to the contractual provisions of a financial liability. Liabilities are initially measured at fair value and then carried at amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate of the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Costs associated with debt restructuring (premiums and discounts) are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repayment of the original debt in accordance with accounting regulations.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations permit the costs of restructuring to be released to revenue over the period of the replacement loan. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### Financial Assets

Financial assets are classified and measured based on the reasons, or business model, for holding the financial assets and the characteristics of the anticipated cash flows. There are three main classes of financial assets measured at:

- Amortised cost.
- Fair value through profit or loss.
- Fair value through other comprehensive income.

The Council's business model is to hold assets to collect contractual cash flows and our financial assets are therefore classified as amortised cost.

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised costs are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial asset and are initially measured at fair value and then carried at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains or losses which arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Expected Credit Loss Model**

Potential impairment losses on Financial Assets Measured at Amortised Cost are determined using the Expected Credit Loss Model. The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors).

Impairment losses are calculated to reflect the expectation that the future cash flows may not take place because the borrower may default on their obligations. Credit risk plays a crucial part in assessing the potential losses. Where risk has increased significantly since an asset was recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

For any identified impairment losses, a charge is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments.
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant have been satisfied.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (for revenue grants) or Taxation and Non-Specific Grant Income (for non-ring-fenced revenue grants and all capital grants).

Capital grants are then reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account within the Capital Fund.

Capital grants which are used and amounts previously posted to the Capital Grants Unapplied Account which have now been applied, are transferred to the Capital Adjustment Account.

### **Heritage Assets**

A heritage asset is defined as a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

The Council holds heritage assets consisting of civic regalia and silverware, historical artefacts, fine art and public artworks. The assets are held at valuation and no depreciation is charged on the assets. Expenditure to maintain the assets is written off to the Comprehensive Income and Expenditure Statement in the year of expenditure. Donated heritage assets are reflected in the balance sheet at valuation with a gain equivalent to the value of the asset reported in the Comprehensive Income and Expenditure Statement in the year of donation.

**Measurement**

The Council's heritage assets are recognised on the Balance Sheet at values determined by specialist external valuers and by experienced officers within the Connected Communities service. Valuations have been largely undertaken on an insurance basis at retail level. Only items deemed to have a value of £10,000 and above have been disclosed in the Balance Sheet.

**Disclosure**

Not all of the Council's identified heritage assets will be disclosed in the Balance Sheet. It is not deemed practicable to obtain external valuations for all items defined as heritage assets. These include: Museum and Gallery items with a value of less than £10,000, Castles, Monuments and War Memorials.

**Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that it will bring benefits to the Council for more than twelve months. Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is amortised over its useful life (generally between 5 and 10 years) to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

**Interest in Companies and Other Entities**

The Council has interests in companies and other entities which have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's single entity accounts, these interests are recorded as financial assets at cost, less any provision for losses.

**Internal Transactions**

Internal transactions between operational segments of the Council are included within the management accounts for budgetary control purposes only. All internal transactions between services have been excluded from the service expenditure analysis within the Comprehensive Income and Expenditure Statement resulting in reductions in both the gross expenditure and gross income reported, with no overall net impact.

**Inventories**

Inventories include consumable stock and work-in-progress and are recognised in the Balance Sheet at the lower of cost and net realisable value. The valuation of work-in-progress has been made at cost plus an appropriate proportion of overheads, together with attributable profits and allowances for foreseeable losses.

**Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but reviewed annually and revalued regularly to ensure their carrying value reflects market conditions at the year-end.

**Leases**

The Council adopted IFRS16 (Leases) with effect from 1 April 2024. The main impact of the requirements of IFRS16 is that, for arrangements previously accounted for as operating leases (i.e. without recognising the leased vehicles, plant, equipment, property and land as an asset, and future rents as a liability), a right-of-use asset and a lease liability are now included on the balance sheet from 1 April 2024.

As noted under Public Private Partnership, Non Profit Distributing and similar contracts, with effect from 1 April 2024 IFRS16 also applies to Service Concession Agreements and recognition of the resultant remeasurement of the lease liability.

### **The Council as Lessee**

The Council classifies contracts as leases based on their substance. Contracts and parts of contracts, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The scope of IFRS16 Leases has been expanded to include arrangements with nil consideration, peppercorn or nominal payments.

### **Initial measurement**

Leases are recognised as right-of-use assets with a corresponding liability at the date from which the leased asset is available for use (or from 1 April 2024, if later). The leases are typically for fixed periods in excess of one year but may have extension options. The Council initially recognises lease liabilities measured at the present value of lease payments, discounting by applying the Council's incremental borrowing rate wherever the interest rate implicit in the lease cannot be determined.

Lease payments included in the measurement of the lease liability include:

- Fixed payments, including in-substance fixed payments.
- Variable lease payments that depend on an index or rate, initially measured using the prevailing index or rate as at the adoption date.
- Amounts expected to be payable under a residual value guarantee.
- The exercise price under a purchase option that the Council is reasonably certain to exercise.
- Lease payments in an optional renewal period if the Council is reasonably certain to exercise an extension option.
- penalties for early termination of a lease, unless the Council is reasonably certain not to terminate early.

The right-of-use asset is measured at the amount of the lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received.

However, for peppercorn, nominal payments or nil consideration leases, the asset is measured at fair value.

### **Subsequent measurement**

The right-of-use asset is subsequently measured using the fair value model. The Council considers the cost model to be a reasonable proxy except for:

- Assets held under non-commercial leases.
- Leases where rent reviews do not necessarily reflect market conditions.
- Leases with terms of more than five years that do not have any provision for rent reviews.
- Leases where rent reviews will be at periods of more than five years.

For these leases, the asset is carried at a revalued amount. In these financial statements, right-of-use assets held under index-linked leases have been adjusted for changes in the relevant index, while assets held under peppercorn or nil consideration leases have been valued using market prices or rentals for equivalent land and properties.

The right-of-use asset is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption.

The lease liability is subsequently measured at amortised cost, using the effective interest method.

The liability is remeasured when:

- There is a change in future lease payments arising from a change in index or rate.
- There is a change in the group's estimate of the amount expected to be payable under a residual value guarantee.
- The Council changes its assessment of whether it will exercise a purchase, extension or termination option.
- There is a revised in-substance fixed lease payment.

When such a remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any further adjustment required from remeasurement being recorded in the income statement.

### **Low value and short lease exemption**

The Council has elected to apply recognition exemptions to low value assets (below £10,000 when new) and to short term leases i.e. existing leases that expire on or before 31 March 2026, and new leases with a duration of less than 12 months.

### **Lease expenditure**

Expenditure in the Comprehensive Income and Expenditure Statement includes interest, straight line depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability during the period in which the triggering event occurred. Lease payments are debited against the liability. Rentals for leases of low-value items or shorter than 12 months are expensed.

Depreciation and impairments are not charges against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

Rentals paid under operating leases for vehicles, plant and equipment are charged to the appropriate service account in the Comprehensive Income and Expenditure Statement as an expense of the services benefiting for use of the leased assets.

### **The Council as Lessor**

North Ayrshire Council has no finance leases where the Council is the lessor.

The Council leases out property under non-cancellable leases. Income received is recognised in the Comprehensive Income and Expenditure Statement against the services managing the leases. Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet.

### **Property, Plant and Equipment**

Assets that have physical substance and are held for use in the supply of 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.

All valuations of land and buildings are carried out by Royal Institution of Chartered Surveyors qualified valuers, with the exception of valuations of council dwellings which are based on beacon values calculated by the District Valuer. Both valuations are in accordance with the methodologies and bases of estimation as set out in the professional standards of Royal Institution of Chartered Surveyors.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis. Expenditure that merely maintains the condition of an asset (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council has a de minimis level of £10,000 for expenditure to be classed as capital. Land and Buildings with a valuation below £10,000 are not recognised on the Council Balance Sheet.

### **Measurement**

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.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of any asset acquired other than by purchase is deemed to be its fair value.

Assets are carried on the Balance Sheet using the following measurement bases:

- Council Dwellings - Fair value, determined using the basis of existing use value for social housing.
- Other Land and Buildings - Fair value, determined by the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.
- Other Land and Buildings (Schools) - Fair value, because of the specialist nature of the asset, depreciated replacement cost is used as an estimate of fair value.
- Vehicles, Plant and Equipment - depreciated historical cost.
- Infrastructure Assets - depreciated historical cost.
- Community Assets - depreciated historical cost.
- Surplus Assets - fair value based on market value in highest and best use.
- Assets Under Construction - historical cost.
- Investment Properties (Common Good and Trusts only) - fair value based on market value in highest and best use.

North Ayrshire Council conducts rolling five-year valuations for their operational property assets, these valuations are conducted by our internal valuation team who are all members of the Royal Institution of Chartered Surveyors. In addition to these professional valuations, the 2025/26 Code brings in a requirement to apply annual indexation to these assets in the years between formal valuations, to ensure the value of an asset is kept materially up to date as an approximation of market changes. From 2025/26 annual indexation will be applied in each of the intervening years in accordance with the Code, using published indices identified by our internal valuers.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified, the revaluation loss is accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **Impairment**

Assets are assessed at each year-end to establish whether there is any indication that an asset may be impaired. For assets not formally valued in year, a wider review is completed to identify any changes which require a valuation. This review takes account of obsolescence, market conditions and changes in the specific physical condition of the asset. Where indications exist, and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, 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**

Depreciation is provided for on all Property, Plant and Equipment assets. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). Investment Properties and Assets Held for Sale are not subject to depreciation.

Depreciation is charged on a straight-line basis over the useful life of the assets (as advised by a suitably qualified officer). Depreciation is charged in the year of acquisition but not in the year of sale.

Where a 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. For the purposes of component accounting the Council considers significant components being those with a cost that is at least 20% of the overall cost of the asset. Individual assets shall be disregarded for component accounting where their carrying value is below £2 million.

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 General Fund.

## Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

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 previously recognised losses.

Property, land and buildings are classified as 'held for sale' when the following criteria are met:

- The property is available for sale in its present condition.
- The sale is highly probable.
- The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale is expected to qualify for recognition as a completed sale within one year.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the CIES 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.

To comply with statutory guidance, this gain or loss is excluded when determining the General Fund balance within the Movement in Reserves Statement.

The Council has determined, in accordance with Local Government Circular 09/2022 Statutory Override Accounting for Infrastructure Assets for Scottish Local Authorities, that the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be, and accounted for, as a nil amount. In accordance with the circular the Council is not required to make subsequent adjustments to the carrying amount of the asset with respect to that part.

## Public Private Partnership, Non Profit Distributing and similar contracts

Public Private Partnership, Non Profit Distributing and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the Public Private Partnership or Non Profit Distributing contractor. As the Council is deemed to control the services that are provided under its Public Private Partnership and Non Profit Distributing schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For North Ayrshire Council Schools Public Private Partnership contract, the liability was written down by an initial capital contribution of £1.743 million.

The amounts payable to the Public Private Partnership and Non Profit Distributing operators each year are analysed into four elements:

- Service charges and lifecycle replacement costs – value of services including cleaning and janitorial services, repairs and maintenance, energy, non domestic rates and insurances debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Interest payments – the interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Liability repayment – repayment of the principal owed to the Public Private Partnership operator, applied to write down the Balance Sheet liability.

With effect from 1 April 2024, IFRS16 (Leases) also applies to service concession arrangements. Under IFRS16, where indexation affects future service concession payments, the lease liability requires to be remeasured. Instead of expensing the increased payment, the net present value of future payments that comprise the liability is recalculated based on the revised level of payments.

In accordance with Scottish Local Government Finance Circular 10/2022, the Council has applied a statutory accounting flexibility to the Public Private Partnership and Non Profit Distributing contracts to realign the value of the Liability Repayment element of the unitary charge to reflect a prudent charge for the repayment of the Liability across the useful economic life of the assets.

## Provisions, Contingent Liabilities and Contingent Assets

### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate, at the balance sheet date, of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not definite that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **Reserves**

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and do not represent usable resources for the Council. These reserves are explained in the relevant notes.

### **Revenue Expenditure Funded from Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### **Value Added Tax**

All income and expenditure excludes amounts relating to Value Added Tax, as all Value Added Tax collected is payable to His Majesty's Revenue and Customs and net Value Added Tax paid is fully recoverable by the Council.

### **Fair Value Measurement**

The Council values some of its non-financial assets, such as Surplus Assets and Investment Properties (Common Good Funds and Trusts only), and some of its financial instruments at Fair Value. Fair Value is the price that would be received either on the sale of an asset or to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fair Value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset.
- In the absence of a principal market, in the most advantageous market for the asset.

The Council measures the Fair Value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the Fair Value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which Fair Value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.