

Audit Committee

24 March 2022



Title	Componentisation of fixed assets- briefing note
Purpose of the report	To note the updated methodology for dealing with high value, multi component property assets.
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Financial Sustainability
Recommendations	Committee is asked to note the changes to the methodology for our property, plant and equipment, including municipal buildings, but excluding investment properties, as these will continue to be valued at 'fair value', in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code.
Reason for Recommendation	To reflect the multi component make up of our high value properties within the Council portfolio.

1. Key issues

- 1.1 As the Council develops its property portfolio, particularly the housing assets that are transferred from Spelthorne Borough Council (SBC) to its wholly owned subsidiary Knowle Green Estates Ltd (KGE) a standard approach of applying 2% depreciation for land and buildings does not reflect the reality of the makeup of the Council's land and building portfolio. Therefore, officers have begun the process of developing a new approach to reflect a more considered approach for dealing with this issue and to ensure consistency across the consolidated Spelthorne Group Accounts.
- 1.2 Our new methodology applies initially to all buildings over £5m in value.
- 1.3 The land and buildings will be split between its component parts, which could include:
 - (a) Land costs
 - (b) Roof costs
 - i) Flat
 - ii) Pitched
 - (c) Heating control systems
 - (d) Lifts

- (e) Windows
- (f) Kitchens
- (g) Bathroom
- (h) Other

This list is not exhaustive, and the significant items only will be componentised.

- 1.4 From the list above, a flat roof would have a life expectancy of say, 10 years and therefore, a 10% straight line depreciation methodology would be applied, whereas we would expect a pitched roof to have an estimate useful life of approximate 40 years, so applying a depreciation rate of 2.5% per annum, would be appropriate.
- 1.5 Windows and bathrooms would need replacing, as part of a considered and measure capital replacement programme every
- 1.6 By applying this methodology our depreciation charge would be more realistic and reflect the estimate useful lives of each component.

2. Other options

- 2.1 The current process does not account for the individual components of land and buildings over £5m.
- 2.2 The Council is required to provide evidence to our external auditors that we have considered this matter, and what action, if any, was taken.

3. Financial implications

- 3.1 There will be no financial impact on the residents or council taxpayer of the borough, as, in accordance with Government regulations, depreciation is not a factor when calculating the Council Tax charge.
- 3.2 There will be a small increase in the valuers fees, as they provide a more detailed assessment of the Council's larger non-investment properties.

4. Other considerations

- 4.1 A parallel report will go to the KGE Board.

5. Equality and Diversity

- 5.1 No impact.

6. Sustainability/Climate Change Implications

- 6.1 None.

7. Timetable for implementation

- 7.1 Implemented for the accounting period beginning 1 April 2021

Background papers: None

Appendices - None