Appendix 2 – Summary of 2025/26 primary financial statements

This appendix is intended to support members of the Governance and Audit Committee in reviewing the Statement of Accounts by explaining the primary financial statements, highlighting the most significant movements in the year, and signposting areas where governance oversight is most relevant. It should be read as an explanatory guide to the accounts, rather than as a substitute for the audited financial statements themselves.

Key governance messages

- The accounting surplus or deficit reported in the Comprehensive Income and Expenditure Statement (CIES) is not the same as the Council's revenue outturn, as it includes technical accounting adjustments required by the Code and statutory regulations.
- Usable reserves remain the key measure of financial resilience, as these are the balances potentially available to support service delivery, subject to statutory and prudential constraints.
- The main areas requiring continued governance oversight are schools' balances, debt recovery, borrowing levels and pension accounting movements.
- Several large movements in the accounts are technical accounting entries, particularly asset valuations, pension remeasurements and unusable reserves, and do not create immediate cash-backed resources or pressures.
- The paper supports members in considering whether the accounts are understandable, internally consistent and supported by appropriate explanations for material movements.

Comprehensive Income & Expenditure Statement (Sections 6 & 11)

1 The **Comprehensive Income and Expenditure Statement (CIES)** presents the full accounting cost of delivering services, following generally accepted accounting principles. This differs significantly from the **budget monitoring reports** provided to Cabinet during the year, which focus only on actual spending funded by Council income.

2 To reflect the true accounting cost, the CIES includes several additional items not shown in budget reports:

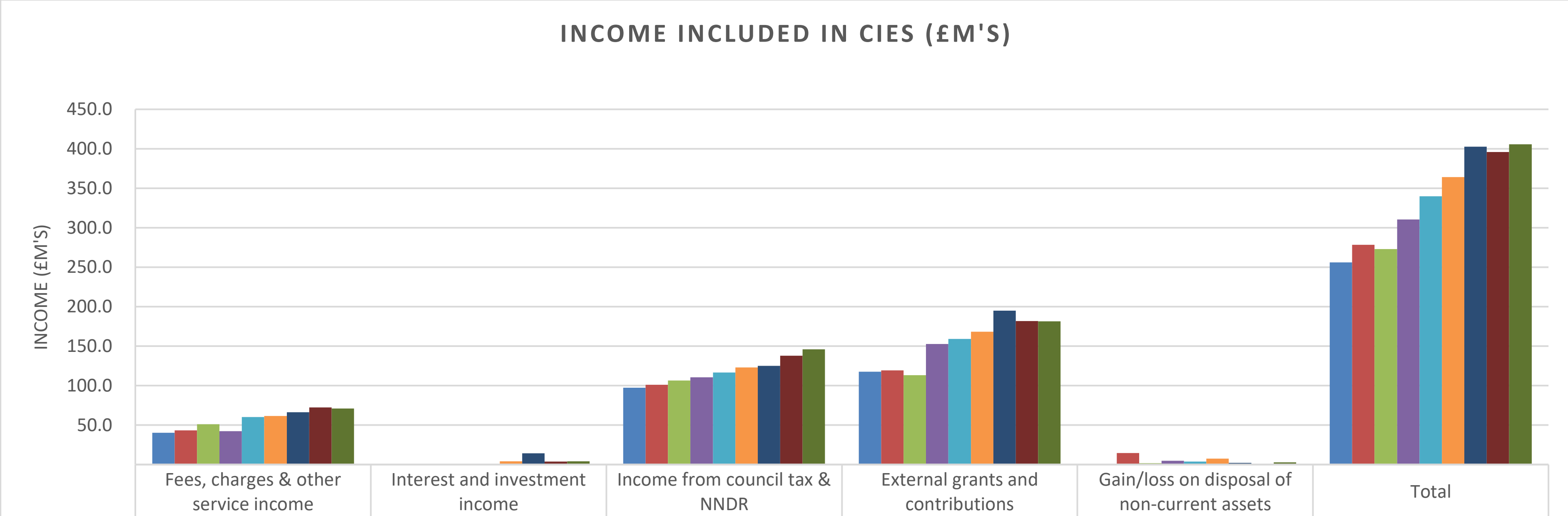
- **Capital Charges**: These include depreciation, amortisation, impairment losses, revaluation changes, and the application of capital grants.
- **Pension Service Costs**: Instead of showing only the pension contributions paid during the year, the CIES reflects the long-term cost of pension liabilities earned by employees, and the value of assets set aside to meet those liabilities.

- **Accumulated Absence**: The CIES accounts for the cost of employee holiday entitlements that have been earned but not yet taken, ensuring costs are recorded in the year the entitlement arises.
- **Other Differences**: The format of the CIES is governed by statutory regulations, which may require income and expenditure to be classified differently than in internal monitoring reports.

3 The following charts illustrate the movement in the accounting income and expenditure which make up the surplus or deficit on the provision of services within the CIES. Further information can be found in notes 11.1 and 11.2 of the accounts.

Governance relevance: members should focus on whether the explanations for material movements are clear, consistent with the detailed notes, and distinguish properly between budget performance and accounting adjustments.

Income & Expenditure analysed by nature (note 11.2)



	Fees, charges & other service income	Interest and investment income	Income from council tax & NNDR	External grants and contributions	Gain/loss on disposal of non-current assets	Total
2017/18	40.2	0.2	97.4	117.6	0.7	256.1
2018/19	43.2	0.3	100.9	119.3	14.7	278.4
2019/20	51.1	0.4	106.3	113.2	1.8	272.9
2020/21	42.3	0.3	110.6	152.6	4.6	310.3
2021/22	60.1	0.3	116.5	159.1	3.7	339.7
2022/23	61.4	4.1	123.0	168.3	7.5	364.2
2023/24	66.3	14.1	125.1	194.8	2.2	402.6
2024/25	72.4	3.7	138.0	181.7	0.1	395.9
2025/26	71.1	4.2	146.0	181.5	2.8	405.6

4 ***Fees, charges & other service income*** reduced by £1.3m, or 2.0%, year on year. This is a relatively modest movement overall, but the underlying position will depend on the mix of service income, joint financing contributions and other one-off income recognised in the year.

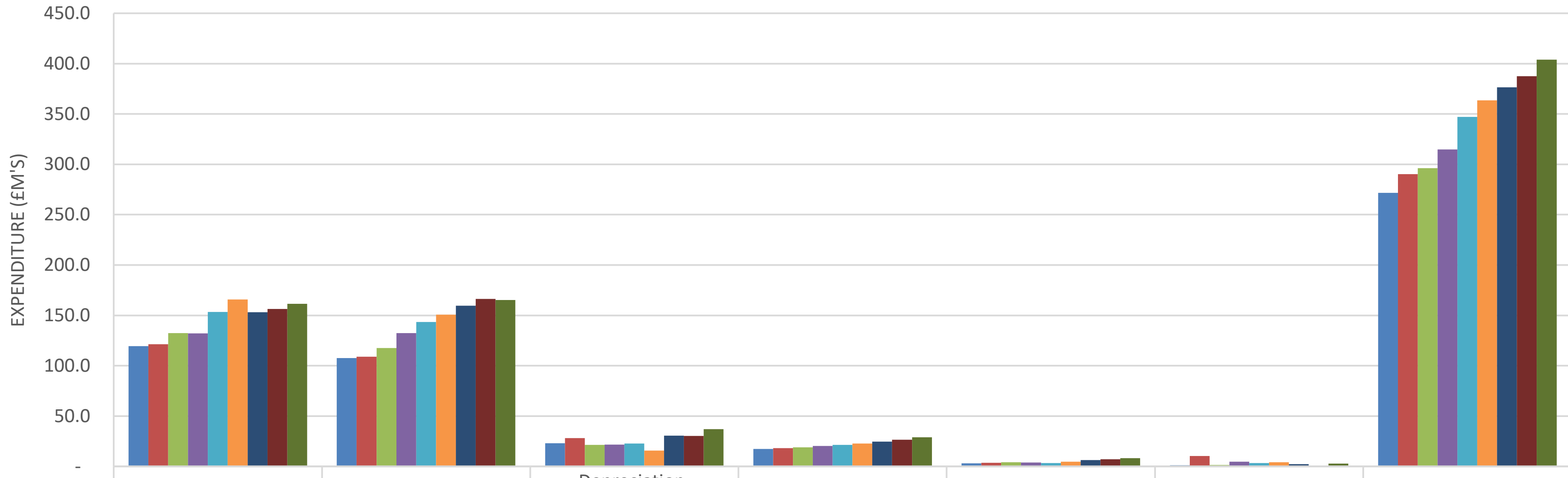
5 Interest and investment income increased by £0.5m year on year. This reflects treasury investment returns and accounting movements relating to investment property valuations. These movements are recognised within the CIES and do not directly affect the Council’s usable reserves.

6 External grants and contributions remained broadly stable year on year, reducing by £0.2m, or 0.1%. This reflects moderate increases in Revenue Support Grant and specific revenue grants being offset by a reduction in the value of capital grants applied in the year.

7 Income from Council Tax and National Non-Domestic Rates increased by £8.0m, or 6.4%, reflecting the approved Council Tax increase, movements in the tax base and the wider funding position for the year.

8 Gain or loss on disposal of non-current assets increased by £2.7m year on year, principally reflecting the Mounton House disposal.

EXPENDITURE INCLUDED IN CIES (£M)



	Employee benefits expenses	Other services expenses	Depreciation, amortisation and impairment	Precepts & levies	Interest payments	Gain/loss on disposal of non-current assets	Total
2017/18	119.6	107.6	22.9	17.4	3.0	1.2	271.7
2018/19	121.4	108.9	28.1	18.1	3.5	10.3	290.3
2019/20	132.5	117.6	21.5	19.1	4.1	1.3	296.1
2020/21	132.0	132.4	21.6	20.4	3.7	4.6	314.7
2021/22	153.3	143.3	22.6	21.4	3.3	3.2	347.1
2022/23	165.7	150.7	15.7	22.6	4.6	4.1	363.4
2023/24	153.2	159.5	30.6	24.6	6.4	2.3	376.6
2024/25	156.4	166.4	30.2	26.6	7.1	0.7	387.4
2025/26	161.5	165.3	37.1	29.0	8.1	2.9	403.9

9 ***Employee benefit expenses*** increased by £5.1m, or 3.3%, year on year. This reflects expected increases in staffing costs, including pay awards and service operating levels.

10 Other service expenses reduced by £1.1m, or 0.7%, year on year. This is partly affected by the implementation of IFRS 16, as some lease costs that would previously have been reported within other service expenses are now reflected through depreciation and interest.

11 Depreciation, amortisation and impairment increased by £6.9m, or 22.5%, year on year. This is also affected by IFRS 16, as right-of-use assets are depreciated over their useful lives, with part of the former lease cost now presented as depreciation rather than service expenditure.

12 Interest payments increased by £1.0m, or 15.6%, year on year, reflecting borrowing costs and the interest element of lease liabilities recognised under IFRS 16.

13 ***Precepts and levies*** increased by £2.4m, or 9.8%, year on year, reflecting expected increases in the rates applied by levying bodies.

Movement in Reserves (Sections 5 & 10)

14 This statement shows the movement in the year on the different reserves held by the authority, analysed into usable and unusable reserves.

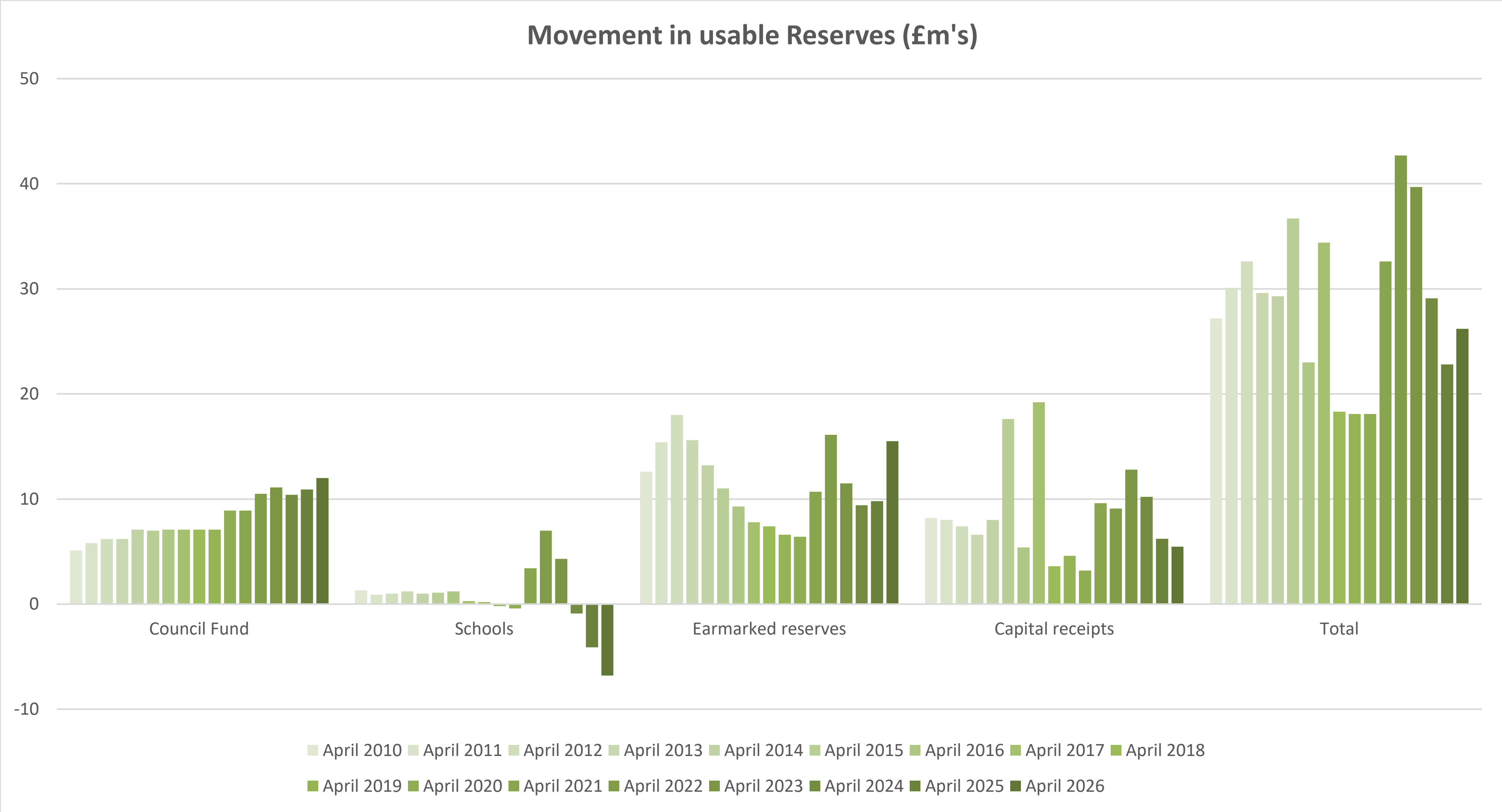
15 ***Usable reserves*** are those that represent resources which the authority might use to support service delivery subject to prudence and statutory limitations on use and include:

- Council fund balance
- Schools' balances
- Earmarked reserves
- Capital receipts reserve

16 ***Unusable reserves*** are not available to use to support service delivery at the reporting date. They include reserves that hold unrealised gains and losses, such as the Revaluation Reserve, where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences.

17 The chart below shows the movement in ***Usable reserves*** over time. The capital receipts reserve is by far the most variable usable reserve, which can be expected given varying levels of receipts received over time, and that it has supported significant investment in the Authority's capital programme and transformation over the period.

Governance relevance: usable reserves, school balances and the planned use of earmarked reserves are central to assessing the Council's financial resilience and should be considered alongside the medium-term financial strategy.



18 ***Earmarked reserves*** saw a sustained period of decline from 2013 as reserves were used to invest in redesign and modernisation of services during a period of funding pressures and wider financial challenges for Local Government.

19 The agreed budget framework for 2025/26 continued to avoid the use of earmarked reserves to support recurrent expenditure. Earmarked reserves increased by £5.7m during the year to £15.5m, reflecting planned transfers and the holding of specific resources to meet identified commitments and future service risks.

20 The ***Council fund balance excluding delegated school balances*** increased by £1.1m to £12.0m at 31 March 2026. This remains an important component of the Council's financial resilience and should be considered alongside the minimum sustainable level of cover outlined in the Council's medium-term financial strategy. The statutory Balance Sheet nets this position against the schools deficit, so the figure shown here is presented separately to aid member understanding.

21 The 2025/26 financial year resulted in a further £2.788m deterioration in ***schools' balances***, increasing the cumulative deficit balance from £4.092m to £6.880m. Nineteen schools were in deficit at outturn, with recovery plans in place and subject to ongoing monitoring, support and challenge.

22 Schools continue to face significant budget pressures, particularly in respect of attendance, behaviour-related pressures and increased additional learning needs. This has required increased staff and specialist resources to tackle the issues presenting and increased the overall costs of provision. Higher than budgeted pay awards have also impacted upon budgets.

23 The Authority continues to work closely with all schools of concern to aid in the return to more sustainable budget plans over the medium term without impacting on educational standards. This will continue to be informed by the ongoing review of schools' budgets as part of the periodic update of the medium-term financial plan.

24 The capital receipts reserve reduced by £0.7m to £5.5m, reflecting capital receipts generated in year, including the Mounton House disposal, offset by the use of receipts to finance the capital programme, and to support the revenue budget through capitalisation direction.

Balance Sheet (Sections 7, 12, 13 & 14)

31st March 2025		31st March 2026	Change	Change
£m		£m	£m	%
	What we own and are owed (Assets):			
571.5	Non-current assets	577.8	6.3	1.1%

14.2	Investments	15.0	0.8	5.5%
9.5	Cash & Cash equivalents	11.4	1.9	19.9%
56.0	Debtors	59.0	3.0	5.4%
1.3	Assets held for sale	0.0	(1.3)	-100.0%
0.5	Inventories & other assets	0.5	0.1	12.9%
652.9	**Total Assets**	**663.7**	**10.8**	**1.7%**
	What we owe (Liabilities):			
(139.1)	Long term Borrowing – to finance capital expenditure	(139.3)	(0.2)	-0.2%
(68.4)	Short term borrowing – to support day to day cash flow & finance capital expenditure	(63.2)	5.2	7.7%
(48.9)	Creditors & provisions	(58.1)	(9.1)	-18.7%
(58.1)	Liability for meeting future pension costs	(53.1)	5.0	8.5%
(10.1)	Other liabilities	(11.7)	(1.6)	-16.3%
(324.6)	**Total Liabilities**	**(325.4)**	**(0.8)**	**-0.3%**
328.3	**Net assets / accounting net worth**	**338.3**	**10.0**	**3.0%**
	Usable Reserves (available to support service delivery)			
10.9	Council Fund Balance	12.0	1.1	10.1%
(4.1)	Schools Balances	(6.8)	(2.7)	-65.9%
9.8	Earmarked Reserves	15.5	5.7	58.4%
6.2	Capital Receipts Reserve	5.5	(0.7)	-11.8%
1.2	Joint Arrangements	1.9	0.7	59.8%
24.0	**Total Usable Reserves**	**27.9**	**4.0**	**16.5%**
	Unusable Reserves (not available to support service delivery)			
100.4	Revaluation Reserve	102.1	1.7	1.7%
(58.1)	Pensions Reserve	(53.1)	5.0	8.5%
263.3	Capital Adjustment Account	263.1	(0.1)	-0.1%
2.3	Deferred Capital Receipts Reserve	2.2	(0.1)	-4.7%
(0.4)	Financial Instrument Adjustment Account	(0.4)	0.0	5.5%
(0.3)	Financial Instrument Revaluation Reserve	(0.2)	0.2	46.8%
(3.6)	Accumulating Absence Adjustment Account	(4.1)	(0.5)	-13.8%
0.8	Other unusable reserves	0.7	(0.1)	-12.2%
304.3	**Total Unusable Reserves**	**310.4**	**6.0**	**2.0%**
328.3	**Total Reserves**	**338.3**	**10.0**	**3.0%**

25 The Balance Sheet shows the value of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.

26 There is a difference of £338.3m between the Council's assets (things it owns or is owed, such as property, investments, stocks and debtors) and its liabilities (amounts owed to others). This represents the Council's accounting net worth under the Code, rather than a cash-backed amount or a sum available to support services. Many of the assets recognised in the Balance Sheet are operational assets used to deliver services and are not readily disposable.

27 The overall net worth position has improved by £10.0m year on year. Total assets increased by £10.8m to £663.7m, while total liabilities increased only marginally by £0.8m to £325.4m. The corresponding movement is reflected in increases in both usable reserves and unusable reserves.

Debtors

28 Debtor balances have increased by £3.0m, or 5.4%, year on year. Note 13.5 to the accounts analyses the amounts owing to the Council by debt type and should be used to distinguish between public sector debt, amounts due from individuals, and other recoverable sums.

29 The age profile and recoverability of debt remain important areas for monitoring. While in-year Council Tax and Non-Domestic Rates collection rates remained strong, the Balance Sheet includes material arrears and care-related debtor balances. The Council continues to monitor older debt closely given the impact on cash flow and recoverability.

Investments and Cash & cash equivalents

30 Investments and cash balances have increased by £2.7m year on year. This reflects the timing of cash flows at year end, including funding received in advance of related expenditure and the management of short-term liquidity through the Council's treasury management arrangements.

Non-current assets (Land, buildings, infrastructure, vehicles & plant)

31 The carrying value of long-term assets reported in the Balance Sheet increased from £571.5m to £577.8m. The movement reflects the net impact of capital expenditure, asset revaluations, depreciation, impairments, right-of-use assets and disposals recognised during the year.

32 Revaluations continue to be undertaken in line with the Council's rolling programme, with asset values also reviewed for indications that carrying values may have moved materially since the last formal valuation. The resulting accounting movements are reflected through the Revaluation Reserve or the CIES depending on the nature of the movement.

Pension liability

33 **What changed:** the reported pension liability reduced from £58.1m to £53.1m, an improvement of £5.0m year on year.

34 **Why it changed:** before the IFRIC 14 adjustment, the Council's share of the Greater Gwent Pension Fund was in an underlying surplus position. This reflected positive investment performance, partially offset by changes in pension liabilities and actuarial assumptions, including discount rates, inflation and longevity.

35 **How this is accounted for:** accounting standards require limits to be applied before a pension surplus can be recognised as an asset. Under IFRIC 14 and IAS 19, the surplus is assessed against the economic benefit available to the Council through reduced future contributions. For 2025/26, an asset ceiling adjustment of £184.2m has been applied.

36 **Reported position:** after applying the relevant accounting requirements, the accounts report a net pension liability of £53.1m at 31 March 2026. Detailed pension disclosures are included in note 14 to the accounts.

37 **Why this does not create an immediate cash pressure:** pension accounting is long-term in nature and annual actuarial movements can significantly affect the presentation of the Balance Sheet. Any funding implications are considered over the longer term through the pension fund valuation process and contribution-setting arrangements, rather than crystallising as an immediate one-year call on Council resources.

Borrowing

38 Short and long-term borrowing reduced by £4.6m during the year, from £205.1m to £200.5m. Within this, long-term borrowing remained broadly stable while short-term borrowing reduced by £5.2m, reflecting the Council's management of debt maturity, cash flow and capital financing requirements through its treasury management strategy.

39 Further information can be found in the 2025/26 treasury outturn report for the Authority, which should be considered alongside the capital financing requirement and treasury management indicators.

Governance relevance: members should consider borrowing trends alongside the capital financing requirement, treasury management indicators and the affordability of future financing costs.

Creditors & Provisions

40 Creditors and provisions have increased by £9.1m, or 18.7%, year on year. Note 13.6 to the accounts provides additional detail on the composition of this balance.

41 The movement reflects the timing of amounts owed at year end and the recognition of provisions where the Council has a present obligation. Payment performance and the age profile of creditors remain important areas for monitoring as part of overall cash flow management.

Governance relevance: the level and age profile of debtors and creditors should be monitored to ensure cash flow, recovery action and payment performance remain appropriately managed.