Lancashire Combined Fire Authority
Audit Committee
Meeting to be held on Tuesday 30 June 2026

Accounting Estimates 2025-26

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Executive Summary
The requirements of International Standard on Auditing (UK) 540, Auditing Accounting Estimates and Related Disclosures, place particular emphasis on management's approach to identifying, measuring and disclosing accounting estimates, and on the Audit Committee's role in understanding the significant judgements applied in preparing the Statement of Accounts.

The estimates set out in this report have been reflected in the unaudited Statement of Accounts for 2025-26. They represent the areas where management judgement, specialist input or estimation uncertainty could have a material impact on the reported financial position.

Recommendation
The Committee is asked to note the significant accounting estimates and related judgements used in preparing the 2025-26 Statement of Accounts, and to take assurance from the management review, professional advice and governance arrangements described in this report.

Background
International Standard on Auditing (UK) 540, Auditing Accounting Estimates and Related Disclosures, was revised in December 2018 and applies to audits of financial statements for periods commencing on or after 15 December 2019. The revised standard strengthened the focus on estimation uncertainty, complexity, subjectivity, management bias and the adequacy of related disclosures.

The standard is relevant because a number of balances in the Authority's Statement of Accounts cannot be measured with absolute certainty and therefore require management judgement, specialist advice and the use of assumptions. Auditors are required to understand and evaluate the nature and extent of the oversight and governance arrangements in place over management's financial reporting process for accounting estimates.

Requirements
Those charged with governance, namely the Audit Committee, should understand which significant estimates are included within the Statement of Accounts. Significant estimates are those that:

- Require significant judgement by management to address subjectivity;
- Have high estimation uncertainty;
- Are complex to make;
- Had, or ought to have had, a change in method, assumptions or data compared to previous periods; or
- Involve significant assumptions.

The Statement of Accounts includes balances that are based on assumptions about future events or other matters that are inherently uncertain. Estimates are made having regard to historical experience, current trends and other relevant factors. As a result, actual outcomes may differ materially from those estimates.

The Statement of Accounts is prepared in accordance with the most recent edition of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Significant Underlying Assumption for 2025-26
The Statement of Accounts is prepared on a going concern basis. This reflects the Authority's assessment that its financial position remains sustainable for the foreseeable future, having regard to the 2026-27 budget-setting process approved in February 2026, the Medium Term Financial Strategy, the reserves position and the statutory framework within which fire and rescue authorities operate.

Accounting standards require management to undertake an annual assessment of going concern. Although the Code recognises that local authorities can only be created or dissolved through statutory provision, the accounts must nevertheless be prepared on a going concern basis. Management has completed this assessment and is not aware of any material uncertainty that would prevent the Authority from continuing to provide services for the foreseeable future.

Significant Accounting Estimates for 2025-26

Nature of the estimate	Estimate value; degree of uncertainty; methodology
Valuation of land and buildings	2025-26 carrying value £113 million (2024-25: £116 million) The valuation basis applied to Lancashire Fire and Rescue Service (LFRS) assets is prescribed by the Code. Most property assets are valued using depreciated replacement cost (DRC) because they are specialised operational assets for which there is little or no directly comparable market evidence. DRC estimates the current cost

	of replacing the asset in its existing use and then adjusts this for age, condition and obsolescence. Land and buildings are valued by a Royal Institution of Chartered Surveyors (RICS) qualified valuer employed by Amcat Ltd. Physical inspections are undertaken on a rolling five-year basis, or sooner where significant capital works have been completed, with interim desktop valuations supported by appropriate indices for the remaining assets. Valuation uncertainty has reduced from the levels seen immediately following the pandemic, but market conditions remain influenced by inflationary pressures, construction cost movements and wider geopolitical factors affecting energy and materials prices. Management reviews the key assumptions underpinning the valuation process, considers significant movements in asset values year on year, and challenges the valuer where appropriate in order to satisfy itself that the reported valuations are reasonable. The gross property valuation gain for 2025-26 was £3.0 million (2024-25: £5.6 million). It is estimated that a 1% increase in DRC values will increase asset values by £1.1 million (2024-25: £1.2 million). Property assets are also assessed annually for impairment, taking account of asset condition, local market factors and changes in construction and labour costs relevant to DRC valuations. The gross downward revaluation recognised in 2025-26 was £4.4 million (2024-25: £2.0 million).
Depreciation of Property and Equipment	2025-26 carrying value £128 million (2024-25: £129 million) Assets are depreciated over their estimated useful lives. These estimates depend on assumptions about expected service life, usage patterns, condition and the level of repairs and maintenance required to keep assets in operational use.

	Useful lives for property assets are determined by the Royal Institution of Chartered Surveyors (RICS) valuer, while useful lives for vehicles and equipment are determined by the relevant professional officers within Fleet Services. Management compares changes in useful lives with prior years to assess reasonableness. There have been no significant changes in asset lives during 2025-26. Property asset lives are generally assessed in ten-year bands up to a maximum of 50 years, while vehicle lives vary by type and are typically between four and 15 years. Useful life is an accounting estimate that reflects the period over which the asset's service potential is expected to be consumed. Assets may still have a residual disposal value at the end of that period; for example, a 12-year-old pumping appliance may still generate sale proceeds on disposal. If the useful life of an asset is reduced, the annual depreciation charge increases and the carrying value of the asset falls more quickly. This does not, in itself, create an immediate cash pressure, but it affects the accounting value reported in the balance sheet and the charges recognised in the Comprehensive Income and Expenditure Statement. The depreciation charge for 2025-26 is £6.6 million (2024-25: £6.6 million). It is estimated that the annual depreciation charge for property assets would increase by approximately £0.7 million for each one-year reduction in average asset life. Management has reviewed useful lives for reasonableness and no significant changes have been identified during 2025-26.
Valuation of both Firefighters' Pension Scheme and Local Government Pension Scheme (LGPS) pension liability	2025-26 gross liability value £577 million (2024-25: £588 million) The scheme liabilities are calculated by qualified actuaries using detailed membership data at a point in time, adjusted for known changes since the last full valuation. For the Local Government Pension Scheme (LGPS), this work is undertaken by Mercer; for firefighters' pensions it is undertaken by the Government Actuary's Department (GAD). The calculations rely on complex judgements, including discount rates,

	salary growth, pension increase assumptions and mortality assumptions. The principal actuarial assumptions are provided to management in advance of the year-end calculations, enabling review, scrutiny and challenge before the final valuations are reflected in the accounts. Management reviews both the assumptions and the year-on-year movement in liabilities for reasonableness, with any queries referred back to the actuaries for explanation or confirmation. It is estimated that, for both pension schemes combined, a 0.5% increase in the discount rate would decrease the liability by £40 million (2024-25: £42 million), a 1% increase in pay growth would increase the liability by £9 million (2024-25: £11 million), and a one-year increase in assumed life expectancy would increase the liability by £16 million (2024-25: £15 million). These sensitivities demonstrate the scale of estimation uncertainty in pension valuations. The assumptions are updated annually by the actuaries and are subject to management review before being incorporated into the accounts.
Valuation of Local Government Pension Scheme (LGPS) pension asset	2025-26 LGPS gross asset value £82.4 million (2024-25: £81.6 million). The value of LGPS scheme assets attributable to the Authority is calculated by Mercer. Asset values are derived from the fair value of the underlying pension fund investments at the year end, based on information provided through the pension fund valuation process. The Authority is attributed a proportionate share of the assets of the Lancashire County Pension Fund, consistent with other participating employers. Estimation uncertainty arises from the valuation of the underlying investments, particularly in relation to property and other less liquid asset classes, and from the allocation of the Authority's share of those assets at the year end. Management reviews the assumptions and movements in asset values for reasonableness and follows up any significant matters with the actuary where further explanation is required.

Holiday pay expenditure accrual	2025-26 expenditure accrual £0.7 million (2024-25: £0.7 million) At each year end, the Authority is required to estimate the value of employee benefits accrued but not taken, including annual leave, time off in lieu and flexitime. A range of systems and records is used to determine the underlying data, including payroll records for annual leave and support staff flexitime, together with the on-call availability system where relevant. The appropriate rates of pay are then applied to the outstanding balances to calculate the year-end accrual. This balance is not expected to result in additional cash payments to employees. It is an accounting adjustment to recognise the value of benefits earned but not taken at the balance sheet date, in accordance with the Code.

Table 1 – nature and value of estimates

Note: the values set out above relate to Lancashire Fire and Rescue Service (LFRS) only and exclude North West Fire Control (NWFC).

As an additional control, Executive Board is asked each year to consider whether there are any transactions, events, conditions or changes in circumstances that may require either the recognition of a further significant accounting estimate or disclosure as a contingent liability. This provides a formal management check that the estimates and disclosures remain complete and up to date.

Based on the confirmations received from Executive Board, the contingent liabilities note has been updated to reflect the current position. One additional contingent liability has been identified in 2025-26 in respect of on-call sick pay, with an estimated potential exposure of £300,000. This matter is disclosed as a contingent liability rather than recognised as a provision because the timing, likelihood and final value of any obligation remain uncertain.

Financial Implications
The accounting estimates set out in this report affect the values reported in the 2025-26 Statement of Accounts, including property valuations, depreciation charges, pension liabilities and employee benefit accruals. Most of these entries are accounting adjustments rather than immediate cash transactions, but they are material to the reported financial position and are therefore subject to external audit review.

Legal Implications
There are no specific legal implications arising directly from this report. The report supports the Authority's statutory and governance responsibilities in relation to the

preparation, scrutiny and approval of the Statement of Accounts in accordance with proper accounting practices.

Business Risk Implications
If the Authority's significant estimates and judgements are not appropriately identified, supported, challenged and disclosed, there is a risk of material misstatement in the Statement of Accounts, additional external audit challenge, delay to the audit opinion and reduced confidence in the Authority's financial reporting arrangements.

Environmental Impact
None.

Equality and Diversity Implications
None.

Human Resource Implications
None.

Local Government (Access to Information) Act 1985

List of background papers
None.