

ANNEX 1 (CIRCULAR 03/2026)

1. Summary of Directive 1/2017 Requirements

As from 1st January 2018, Local Councils were required to revise their accounting treatment of government grants in accordance with **IAS 20 Accounting for Government Grants**, transitioning from the income approach to the capital approach, whereby grants are deducted from the carrying value of non-current assets. This change in accounting policy was applied retrospectively in line with **IAS 8 Accounting Policies Changes and Errors**, affecting only the Statement of Financial Position without impacting retained reserves.

Consequently, Local Councils were required to:

- Restate their 2017 financial position,
- Adjust deferred income against relevant asset categories,
- Recalculate depreciation accordingly, and
- Include appropriate disclosures in the 2018 financial statements.

Additionally, Councils were granted a one-time opportunity to regularise incomplete Fixed Asset Registers by:

- Recording opening balances based on adjusted net book values as at 1st January 2018, and
- Ensuring that all non-current assets are recorded individually and maintained accurately thereafter.

Furthermore, councils transitioned from the reducing balance method to the **straight-line method of depreciation**, applied prospectively.

2. Definition of Urban Improvements

In accordance with the revised Chart of Accounts issued through Circular 1/2026, the *Urban Improvements* category has been assigned a **restricted and clearly defined scope**, limited exclusively to the following subcategories:

- Parks, Playgrounds, Open Areas & Gardens
- New Street Signs
- Street Paving
- Street Lighting
- Road Re-surfacing
- Sidewalks & Pedestrian Pathways
- Gym Equipment
- Photovoltaic (PV) Panels
- Stormwater & Drainage Systems
- Public Seating, Benches & Street Furniture
- Public Toilets & Amenities Blocks
- Plants and Trees

- Public Fountains & Water Features
- Bus Shelters
- CCTV & Public Safety Infrastructure
- Monuments & Statues
- Traffic Monitoring & Control Systems
- Public Wi-Fi Infrastructure

The use of a general or undefined “Urban Improvements” category is no longer permitted.

3. Instructions relevant to Councils with Existing Discrepancies in Urban Improvements

Notwithstanding the above requirements, the Division acknowledges that a limited number of Local Councils may still retain unidentified balances under a **general Urban Improvements category**, arising from instructions set out in Directive 1/2017, especially consequent to Section 1.5B.

Extract of Directive 1/2017 - Section 1.5B

b. Analyse the total deferred income to identify the relevant category of non-current asset to which it relates. If this is not possible, allocate the whole amount to ‘Urban Improvements’.

As from 2018 onwards, all Urban Improvement assets **should have been identified**, and Councils should have all the necessary data to account for individual subcategories.

To account for unidentified balances, the revised Chart of Accounts issued through Circular 1/2026 shall include a new nominal account:

- **[7220] – Urban Improvements Adjustment Account (Pre-2018)**

This account shall be used **exclusively** for balances originating before 1st January 2018 that have not yet been allocated to the appropriate subcategory.

4. Mandatory Actions and Responsibilities

Executive Secretaries are hereby instructed to ensure that:

- **All assets acquired after 31st December 2017** are correctly classified under the appropriate Urban Improvements subcategory.
- These assets are fully recorded and reconciled with the Fixed Asset Register.

It is important to note that the Urban Improvements Adjustment Account (Pre-2018) is a **temporary mechanism**. Over time, it will naturally reduce to zero as assets become fully depreciated (based on the maximum applicable depreciation period).

5. Fixed Asset Register - Key Compliance Requirements

5a. Urban Improvements

Particular attention is drawn to the following requirements of Directive 1/2017:

- Directive 1/2017 instructed that the **Net Book Value as at 1st January 2018** must have been used as the opening balance for each asset category in the Fixed Asset Register, based on the adjusted Statement of Financial Position.
- As from year 2018 onwards, Directive 1/2017 established the requirement for all Local Councils to maintain a comprehensive and up-to-date Fixed Asset Register (FAR). This includes the individual recording of all asset acquisitions and ensuring full reconciliation with the nominal ledger.

Accordingly, all Councils are expected to have recorded, at cost, every asset acquired from 2018 onwards within the Fixed Asset Register. Proper controls and procedures should be in place to ensure the completeness, accuracy, and ongoing maintenance of this register.

5b. All Fixed Assets

With respect to grants, the Fixed Asset Register should show the purchase price, and grants related to asset acquisition, should be recognised in a manner that offsets the cost of the asset. In the accounting system's Fixed Asset Register, this treatment may be reflected through a *fictitious* depreciation charge or an equivalent mechanism that reduces the carrying value or expense recognition associated with the asset and ensuring full reconciliation with the nominal ledger.

It has been noted that certain Councils are encountering practical challenges in maintaining a Fixed Asset Register that fully aligns with the categorisation requirements set by auditors. In such cases, Councils are advised that the use of supplementary Excel-based schedules is acceptable as an interim measure. However, this is subject to the condition that:

- A clear and auditable linkage is maintained between the accounting system's Fixed Asset Register and the supplementary records;
- Each asset is assigned a unique identification reference that is consistently used across both systems; and
- Adequate audit trails are preserved to support verification and reconciliation processes.

Fixed assets that have exceeded 10-years are considered fully depreciated. Councils are encouraged to clean off such assets from both the accounting system and the Fixed Asset Register, as their net book value is zero. Local and Regional Councils shall inform their Local Government Auditor of such write-offs and provide the Local Government Auditors with any requested workings, clarifications or supporting documentation to enable the auditors to properly verify and attest to the accuracy and legitimacy of the write-off process. Executive Secretaries are encouraged to seek advice from their accountant where necessary.

6. Reconciliation and Ongoing Compliance

This Circular aims to safeguard the integrity and accuracy of Local Councils' Fixed Asset Registers moving forward.

Where discrepancies relating to periods **from 1st January 2018 onwards** are identified, Executive Secretaries are required to:

- Undertake a **formal reconciliation process**,
- Identify the nature and source of the discrepancy, and
- Take appropriate corrective action without delay.

All Local Councils are therefore instructed to perform such reconciliations where applicable and ensure full compliance with the established accounting framework.