

## 12. Glossary of Terms

### **Accounting Code of Practice**

The CIPFA Code of Practice on Local Authority Accounting: Specifies the principles and practices of accounting required to give a 'true' and 'fair' view of the financial position and transactions of a local authority, including group financial statements. The code prescribes the accounting treatment and disclosures for all normal transactions of a local authority based on a hierarchy of standards including International Financial Reporting Standards (IFRS)

### **Accounting Policies**

The rules and practices adopted by the Authority that dictate how transactions and events are treated in its financial records.

### **Accounting Standards**

A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices', which are set out in Acts of Parliament, professional codes and statements of recommended practice.

### **Accruals**

This is an accounting concept that recognises income and expenditure when goods or services are provided, and not when cash is transferred. The inclusion of debtors, creditors and depreciation are examples of accruals.

### **Actuarial Gains/Losses**

The profits and losses on the pension scheme as calculated by the Actuary because the assumptions made were not the same as the actual performance (e.g. if interest rates were less than anticipated).

### **Acquisitions**

The Council spends funds from the capital programme to buy assets such as land and buildings.

### **Amortisation**

The equivalent of depreciation for intangible assets.

### **Appointed Auditors**

The Audit Commission appoints external auditors to every Local Authority, from one of the major firms of registered auditors.

### **Asset**

An asset is a resource controlled by the authority as a result of past events and from which economic benefits or service potential are expected cash flow to the authority e.g. cash, stock, buildings etc.

### **Assets Held for Sale**

Properties or equipment that have been taken out of use for service delivery and are awaiting sale.

### **Assets under Construction**

Assets not yet ready for use. This could be new building work in schools or road construction.

### **Balances and Reserves**

Balances and reserves are maintained to fund future years' expenditure, or specific projects, and to provide a cushion against expenditure being higher or income lower than expected. Contributions to balances and reserves can be either a planned contribution from the revenue budget to set aside monies for a specific purpose or a transfer of any revenue surplus at the

year-end. The maintenance of an appropriate level of general balances is a fundamental part of prudent financial management.

### **Budget**

A planned expenditure forecast. Budgets are reviewed during the course of the financial year to take account of pay and price changes and other factors affecting the level or cost of services.

### **Capital Expenditure**

Capital expenditure is expenditure that creates future benefits. A capital expenditure is incurred either when buying or, adding to the value of an existing fixed asset with a useful life extending beyond the current financial year.

### **Capital Adjustment Account (CAA)**

A balance sheet reserve that is unique to the local authority accounting capital accounting regime. The balance on the account cannot be used, but reflects how the Council's assets have been financed. It contains the balance of depreciation against the Minimum Revenue Provision (MRP), additional debt repayments over the MRP, reserved capital receipts and usable capital receipts/ grants/ planning gains applied to meet capital expenditure.

### **Capital Financing**

This term describes the method of financing capital expenditure, the principal methods now being loan financing, leasing, capital receipts and developed contributions.

### **Capital Financing Requirement**

It measures the local authorities underlying need to borrow or finance by other long-term liabilities for capital purposes. It represents the amount of capital expenditure that has not yet been resourced absolutely.

### **Capitalisation**

Costs are capitalised to the extent that they create or improve any fixed asset with a useful economic life greater than one year.

### **Capital Receipts**

Proceeds from the sale of fixed assets. The Council earmarks capital receipts to finance future capital expenditure.

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is the professional accountancy institute that sets the standards for the public sector. The institute produces advice, codes of practice and guidance to local Authorities on best practice.

### **Collection Fund**

A statutory account into which Council Tax and National Non-Domestic Rates are paid, and from which amounts are paid to the local authority and the precepting bodies.

### **Community Assets**

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include the Countryside estate and historic assets that are not used in service delivery.

### **Community Infrastructure Levy (CIL)**

CIL is a statutory charge on proposals for buildings based upon the type, size and location of development. As a charging Authority for the purposes of Part 11 of the Planning Act 2008 the council may therefore charge the Community Infrastructure Levy (CIL) in respect of development in its administrative area.

## **Comprehensive Income and Expenditure Statement (CIES)**

Statement that shows the accounting cost in the year of providing the services in accordance with generally accepted accounting policies.

## **Contingent Assets**

Potential assets whose outcome depends on future events.

## **Contingent Liabilities**

A contingent liability is either: A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control (e.g. the outcome of a court case).

## **Creditors**

Financial liabilities for future goods or services that have been received or supplied by the end of the accounting period, that is due immediately or in the short term. Creditors are an example of the concept of accruals.

## **Current Service Cost (Pensions)**

The increase in the present value of Local Government pension scheme liabilities expected to arise from employee service in the current period.

## **Curtailement Costs (Pensions)**

For a defined benefit scheme (such as LGPS) an event that reduces the expected years of future service of present employees or reduces for a number of employees, the accrual of defined benefits for some or all of their future service.

## **Debtors**

Financial assets, with fixed or determinable payments, when goods or services have been delivered or rendered. Debtors are an example of the concept of accruals.

## **Depreciation**

A charge to the revenue account to reflect the consumption or use of a fixed asset in service delivery. There is a corresponding reduction in the value of the fixed asset.

## **Earmarked Reserves**

These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

## **Exceptional Item**

An item identified separately in the accounts because of its exceptional nature to ensure the presentation of the accounts is fair, and comparable year on year.

## **Fair Value**

The amount for which an asset could be exchanged, or liability settled at arm's length, between Knowledgeable and willing parties.

## **Fair Value Hierarchy**

IFRS 13 requires Investment Properties, Assets Held for Sale and Surplus Assets to be valued at fair value. A hierarchy has been established that categorises into three levels the inputs to valuation techniques used to measure fair value. The levels of inputs are as follows:-

Level 1 inputs – observable, unadjusted quoted prices in active markets

Level 2 inputs – observable, other than quoted prices in active markets

Level 3 inputs – unobservable inputs

Valuation techniques shall aim to maximise the use of observable inputs and minimise the use of unobservable inputs.

### **Finance Lease & Operating Leases**

A finance lease is one that transfers a substantial proportion of the risks and rewards of a fixed asset to the lessee. With a finance lease the present value of the lease payments equates to substantially all of the value placed on the leased asset. For an operating lease a rental payment is payable to the lessor for the use of the asset and the ownership reverts to the owner when the lease is terminated.

### **Financial Instrument**

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments can be classified generally as equity based, representing ownership of the asset, or debt based, representing a loan made by an investor to the owner of the asset.

### **Financial Year**

The year of account, which runs from the 1<sup>st</sup> April to the following 31<sup>st</sup> March.

### **Fixed Assets**

An asset that yields benefits to the local authority and the services it provides for a period of more than one year. Tangible fixed assets have a physical form e.g. buildings or land. Intangible fixed assets do not have a physical form e.g. software licences.

### **General Fund**

The local authorities' main revenue account that covers the net cost of all services other than the provision of council housing for rent.

### **Government Grants**

Financial assistance from Central Government, or its agents, usually for a specific purpose, in the form of cash transfers in return for compliance with certain conditions. These grants may be capital or revenue in nature.

### **Heritage Assets**

A building, monument, site, place, area or landscape identified as having a degree of significance meriting consideration in planning decisions, because of its heritage interest. Heritage asset includes designated heritage assets and assets identified by the local planning authority (including local listing).

### **Historic Cost**

The estimated value of an asset on the balance sheet based upon its original purchase cost, less depreciation to date.

### **Housing revenue account (HRA)**

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing. It contains the balance of income and expenditure that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

### **Impairment**

A reduction in the value of a fixed asset, below its carrying amount on the Balance Sheet.

### **Infrastructure Assets**

Fixed assets, such as highways and footpaths, that is inalienable and has no resale value.

### **Intangible Asset**

Fixed assets which have value but do not have physical any substance. They are identified and controlled by the local authority, for example, purchased software licences.

### **Investment Properties**

An interest in land and, or buildings, which are held solely for their investment potential/rental income and are not required for delivery of local authority service.

### **Lessee**

The party that leases an asset that is owned by another party.

### **Lessor**

The owner of an asset that is leased by another party.

### **Liability**

An obligation that binds the authority to settle a debt as a result of a past event or transaction such as the purchase of goods or services.

### **Major Repairs Reserve**

Contains an element of the capital resources limited to being used on capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

### **Net Book Value**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or Current value less the cumulative amounts provided for depreciation.

### **Net Realisable Value**

A method of valuation that estimates the open market value of an asset, less the expenses required to sell it.

### **Non-Domestic Rate (NDR) Income**

A levy on businesses based on national 'rateable value' of the premises occupied. NDR is paid into a national pool and then redistributed to all local and police authorities on the basis of assessed needs.

### **Non-Operational Assets**

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of these assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

### **Observable Inputs**

See 'Fair Value Hierarchy'. Inputs that are developed using market data, such as publicly available information about actual events or transactions, and reflect the assumptions that market participants would use when pricing the asset or liability.

### **Operational Assets**

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

### **Past Service Cost (Pensions)**

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

### **Precept**

An amount levied on another public body in respect of the Council Tax. Parish Councils, Royal Berkshire Fire Authority and the Police and Crime Commissioner for Thames Valley levy precepts on the Council to collect council tax on their behalf.



### **Prior Period Adjustments**

Material adjustments applicable in prior years, arising from changes in accounting policies or from correction of fundamental errors.

### **Private Finance Initiative (PFI)**

A contract between the local authority and a private company. The private company makes a capital investment in the assets required to deliver improved services, and the council pays a unitary charge to cover the cost of services and financing requirements. In the case of Wokingham the PFI contract is for the disposal of waste.

### **Provisions**

Amounts set aside for any liabilities or losses that are likely to be incurred, but which are uncertain as to the amounts or the dates on which they will arise.

### **Public Works Loans Board (PWLB)**

A central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

### **Revaluation Reserve**

This account contains the balance on the revaluation of fixed assets previously shown in the accounts arising from revaluations or disposals of those assets. The balance on the account cannot be used.

### **Revenue Expenditure**

Expenditure incurred on day to day running costs e.g. running costs, salaries, and is confined to accounts within one financial year.

### **Revenue Expenditure Funded From Capital under Statute (REFCUS)**

Expenditure that is treated under the Local Government Act 2003, as capital expenditure but which does not meet the definition of capital expenditure in the Statement of Recommended Practice. Therefore the expenditure is not carried on the balance sheet as a fixed asset.

### **Revenue Support Grant (RSG)**

This grant is non-specific and funds local government revenue expenditure. It is based upon the Government's assessment of how much a local authority needs to spend to provide a common level of service.

### **Surplus Assets**

Surplus assets are those assets that are no longer essential for the operation of services.

### **Unobservable Inputs**

See 'Fair Value Hierarchy'. Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

### **Unuseable Reserves**

Unusable reserves are reserves that in simple terms enable the local authority's balance sheet to reconcile and cannot be released to spend on services.

### **Useable Reserves**

Usable reserves are those reserves that can be released to spend on services or added to for future spending on services.



**Useful Life (of assets)**

The period over which the local authority can derive benefits from the use of a fixed asset.

**Write-Offs**

Elimination of an asset or liability within the financial year, for example, uncollectable debts.

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