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 gain/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
Public Sector Audit Appointments appoints external auditors to local authorities, 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.

The account is debited with the cost of acquisition, construction or enhancement of assets, as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (q.v.) (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date the revaluation reserve was created to hold such gains.

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

Curtailment 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 instrument adjustment account
The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the general fund balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the general fund balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

Financial year
The year of account, which runs from the 1st April to the following 31st 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.

Minimum revenue provision
The way in which capital expenditure which is financed by borrowing or credit arrangements is paid for by council tax payers. Local authorities must set aside some of their revenue each year as provision for this debt

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.

Pensions reserve
The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

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 is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The reserve contains revaluation gains accumulated since 1 April, 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on capital adjustment account. 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.

Unusable 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.

Usable 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.