

## **GLOSSARY**

### **Everything You Needed to Know About Local Authority Accounting Terminology, But Were Afraid to Ask About....**

*NB there is a glossary in the Statement of Accounts, but this may also help, in terms of overall understanding of local authority financial terminology.*

#### **Accruals**

The concept that income and expenditure are recognised as they are earned or incurred and not as money is received or paid.

#### **Annual Governance Statement**

An annual report prepared, approved and published with the financial statements that reviews the council's overall governance arrangements.

#### **Balance Sheet**

This statement is fundamental to the understanding of an authority's financial position at the year end. It shows the balances and reserves at an authority's disposal and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

#### **Balances**

The capital or revenue reserves of an authority are made up of the accumulated surplus of income over expenditure on the General Fund and the Housing Revenue Account. Revenue balances may be utilised to provide for unforeseen circumstances or to ensure that payments can be made pending the receipt of income, and may be used to reduce the Council Tax levy.

#### **Best Value**

The legal duty introduced in the Local Government Act 1999 that requires councils to make arrangements to continuously improve the way in which its functions are exercised and to have regard to a combination of economy, efficiency and effectiveness.

#### **Billing authority**

A local council that directly bills council tax and business rates in its local area.

#### **Budget**

The Council's aims and policies set out in financial terms, against which performance is measured. Both capital and revenue budgets are prepared.

#### **Budget gap**

Where the estimated expenditure is higher than the estimated income in a budget or other financial plan, there is said to be a 'budget gap'.

## **Budget outturn**

The actual income or expenditure compared to the budgeted sum at the end of the financial year. This is usually reported to councillors soon after the close of the financial year in the 'outturn report'.

## **Business rate multiplier**

The annual amount established by central government used in the calculation of the business rates bill. This amount is multiplied by the businesses rateable value to derive the size of the business rates bill for the year.

## **Business rates pools**

An agreement between neighbouring councils to combine their business rates activities in a pool. This is designed to maximise the ability for councils to retain business rates locally.

## **Capital Expenditure**

Expenditure either on the acquisition of a fixed asset, or expenditure on an existing fixed asset which adds to, rather than merely maintaining its value.

## **Capital Receipts**

The proceeds of sale from the disposal of assets such as land and buildings.

## **CIPFA**

The Chartered Institute of Public Finance and Accountancy is the accountancy body which represents at national level the interests of local government and public service finance. The Institute produces advice, codes of practice, guidance to local authorities on best practice, etc.

## **Code of Practice**

This specifies the principles and practices of accounting required to prepare a Statement of Accounts which "present fairly" the financial position and transactions of an authority.

## **Collection Fund**

A statement that shows the transactions of the billing authority in relation to non-domestic rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

## **Consistency**

The concept that the accounting treatment of like items within an accounting period, and from one period to the next, is the same.

## **Contingency**

A condition which exists at the balance sheet date, the outcome of which depends on one or more uncertain future events.

## **Council Tax Bands**

The amount of council tax paid on a property depends upon into which of eight valuation bands it falls. Each home has been placed in one of these bands, according to its value on

the open market, on 1 April 1991. The relative council tax charge to each band is based on a sliding scale where band D is set as the norm; A(6/9) B(7/9) C(8/9) D(9/9) E(11/9) F(13/9) G(15/9) H(18/9).]

### **Council tax base**

This is a calculation that sums the number of dwellings in the authority, expressed as a Band D equivalent, applies any discounts, exemptions or premiums that have been allowed to give the amount the Billing Authority would raise from each £1 of Council Tax. The tax base can increase by building new homes as well as by increasing the council tax demand itself.

### **Creditors**

Occur where the Council owes money at the year end to persons for goods and services supplied in year.

### **Current Liabilities**

Those amounts which will become payable or could be called upon within the next accounting period e.g. creditors and cash overdrawn.

### **Debtors**

Occur where money is due at the year end from persons for goods and services supplied to them by the Council.

### **Deferred Charges**

Expenditure which may properly be deferred but which does not result in, or remain matched with, tangible assets. Examples of deferred charges are expenditure on items such as improvement grants, where the asset that is "improved" does not belong to the Council.

### **Depreciation**

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, usually arising from use, time passing or obsolescence through technological or other changes.

### **De-minimis**

Literally means 'too small'. Councils will usually set a de-minimis level where small value assets (usually equipment) are treated as revenue expenditure rather than capital expenditure.

### **Discretionary services**

A range of services that councils provide which they are not required to provide by law.

### **Earmarked reserves**

An amount of money that has been set aside to be spent on a defined activity or manner at some point in the future. Also known as specific reserves.

### **Employee Costs**

Pay and associated costs such as National Insurance and pension contributions.

### **Estimates**

Same as budget.

## **Exceptional Items**

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

## **Extraordinary Items**

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are therefore expected not to recur frequently or regularly.

## **Fair Value**

The fair value of a fixed asset is the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

## **Fixed Assets**

These are Non-Current Assets that yield benefits to the Authority and the services it provides for a period of more than one year. These can be either tangible or intangible (see definition of intangible assets below:

### *Tangible Fixed Assets*

- Operational Assets - Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.
- 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 of community assets are parks and historic buildings.
- Infrastructure Assets - Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.
- Non-operational Assets - Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirement, pending sale or redevelopment.

### **Intangible Fixed Assets**

The definition of intangible fixed assets is 'non-financial fixed assets that do not have a physical substance but are identifiable and are controlled by the Council through custody or legal rights'. Assets falling under this definition could include the Council's Accounts are IT systems and software licences

## **FRS**

Financial Reporting Standards as required within the SORP.

## **Fund**

A major division of the Council's accounts.

## **General Fund**

This is the main revenue account detailing the Council's expenditure and income on services, except those arising from the provision of housing accommodation directly by the Council.

## **Going Concern**

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

## **Government Grants**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

## **Gross Expenditure**

The total cost of providing services before deducting any income.

## **Housing Revenue Account**

Reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure and how this is met by rents, subsidy and other income.

## **Income**

Monies received or due from rents, fees and charges for services, specific grants and investment interest.

## **Income and Expenditure Account**

A statement that reports the net cost for the year of all the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from taxpayers.

## **Internal borrowing**

Where a council decides to use its reserves to finance expenditure rather than borrow externally.

## **Internal control**

A system of rules, systems and procedures intended to make sure that the council's financial activities are well managed.

## **Investments**

These are only long-term investments which are intended to be held for use on a continuing basis in the activities of the authority. Where investments do not meet this criterion they have been classified as current assets.

## **Lease**

These can be either:

- Finance lease - A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.
- Operating lease - A lease other than a finance lease.

### **Liabilities**

Those amounts which will become payable by the Council in the short or long term.

### **Local government settlement**

The annual announcement by Government of the amount of grant funding to be provided for the forthcoming year. The provisional settlement is usually announced in mid-December, with a final settlement confirmed in mid to late January.

### **Long-Term Contracts**

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service, where the time taken substantially to complete the contract is such that the contract falls into different accounting periods.

### **Matching**

The concept that expenditure and income transactions, including accruals, are matched with one another so far as their relationship can be established, or justifiably assumed, and dealt with in the period to which they relate.

### **Materiality**

The concept of materiality derives from the premise that financial statements often cannot be precisely accurate but this need not detract from their ability to be fairly stated. Within certain limits a tolerance is permitted in measurement and disclosure of financial statement items and the concept of materiality determines the acceptability of the degree of this tolerance.

### **Medium Term Financial Plan (MTFP)**

A budget estimating income and expenditure at a high level over at least three forward financial years.

### **Minimum Revenue Provision**

The minimum revenue provision (MRP) is the minimum amount that must be charged to an authority's revenue account each year and set aside as a provision for debt repayment or other credit liabilities.

### **Narrative report**

An element of the council's annual financial statements providing an overview of the council's finances and financial provision in an accessible format.

### **National Non-Domestic Rates**

A national rate levied on businesses by the Government, collected by local authorities on the Government's behalf. From 1st April 2013 Central Government introduced the Business Rates Retention Scheme where a proportion of Business Rates would be retained locally rather than all being paid into a National Pool, as under the previous system.

**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 Expenditure**

Gross expenditure for a service, less directly related income.

**Net Realisable Value**

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

**Post Balance Sheet Event**

The occurrence of a material event between the balance sheet date and the date the accounts are authorised for issue, which might have a bearing on the financial results of the organisation. In such cases the event should be reflected in the Statement of Accounts as a note or amendment.

**Precept**

The amount of income collected in the Collection Fund on behalf of other public bodies who cannot bill council tax directly (such as the County Council). The council tax is collected on behalf of the precepting authority by the relevant billing authority (usually the district or borough council).

**Prior Year Adjustments**

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Provisions**

Provisions are required for any liabilities or losses which are certain or likely to be incurred, but where there is uncertainty as to the amounts or the dates on which they will arise.

**Prudence**

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

**Prudential borrowing/The Prudential Code**

The CIPFA Code of Practice that regulates local council capital spending and financing. Requires all borrowing to be both affordable and prudent.

**PWLB**

Public Works Loans Board - a statutory body operating within the United Kingdom Debt Management Office, which is an Executive Agency of HM Treasury. Its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

**Rateable Value (RV)**

The value, assessed by the Valuation Office Agency, on which business rates are payable.

### **Recharges**

The transfer of costs from one account to another.

### **Related Party Transactions**

The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

### **Responsible financial officer**

The proper name for the 'Section 151 officer'. Every council, by law will designate an individual officer as having legal responsibility over providing effective financial management and advice across the council. The post holder must be a qualified member of one of the main accountancy bodies in the UK.

### **Reserves**

Amounts set aside for purposes falling outside the definition of provisions made above are considered as reserves.

### **Revenue Expenditure**

The cost related to the day-to-day running of services.

### **Revenue Income**

The income related to the day-to-day running of services.

### **Revenue Support Grant**

A general grant paid by Central Government to local authorities to help them finance the cost of their services, distributed on the basis of government relative needs formulas. The amount of this grant has been severely reduced (and in many cases set to zero) since 2010.

**Ring-fenced funding, budgets etc** income and expenditure budgeted and spent on certain defined activities and cannot be used elsewhere.

### **Running Expenses**

Regular revenue expenses other than employee costs.

### **Section 151 officer**

Another name for the responsible financial officer. Derived from the fact that section 151 of the Local Government Act 1972 requires there to be such an officer at every council.

### **Self-insurance**

The process used by many councils to use a specific reserve to set aside money to repair or replace any damage that occurs where there is no external insurance policy to cover the loss.

### **Specific Government Grant**

Money provided by central government to local government where there are specific requirements for councils to spend the money on certain defined activities.

### **Statutory services**



Services which councils must provide by law.

### **SSAPs**

Statements of Standard Accounting Practice as recommended to local authorities.

### **SORP**

The Statement of Recommended Practice (SORP) sets out the application of Statements of Standard Accounting Practice (SSAP's) and Financial Reporting Standards (FRS's) to local authorities in the United Kingdom.

### **Substance over Form**

The concept of substance over form requires that transactions and other events are accounted for and represented in financial statements with regard to their economic substance and financial reality rather than just their legal form.

### **Useful Life**

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

### **Work in Progress**

The cost of work completed on an unfinished project at the year end.