

# Glossary of Terms

## **Accrual**

A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts are prepared.

## **Accounting Policies**

Those principles, bases, conventions, rules and practice applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising
- selecting measurement bases for, and
- presenting assets, liabilities, gains, losses and changes to reserves

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

## **Acquired Operation**

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. Acquired operations are those operations of the local authority that are acquired in the period.

## **Actuarial Gains and Losses**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or
- the actuarial assumptions have changed.

## **Agency Services**

Services which are performed by or for other authorities or bodies, where the authority/body responsible for the service reimburses the authority carrying out the work for the cost of the work carried out.

## **Assets**

Items of worth which are measurable in terms of money (value). Current assets are ones that may change in value on a day-to-day basis (e.g. Stocks and Stores). Fixed assets are tangible assets that yield benefit to the City Council and the services it provides for a period of more than one year.

## **Audit Commission**

Is an independent body established by the 1982 Local Government Finance Act, which is responsible for appointing auditors to local authorities.

## **Balance Sheet**

A statement of the recorded assets, liabilities and other balances at a specific date usually at the end of an accounting period.

## **Balances**

The capital or revenue reserves of the Authority made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

## **BVACOP**

The Best Value Accounting Code of Practice was developed from the key principles established from the Local Government Act 1999 (Sections 5 and 6). It aims to:-

- a) Modernise the system of local authority accounting and reporting to meet the changed and changing needs of local government, particularly the duty to secure and demonstrate Best Value in the provision of services to the community.
- b) Facilitate accurate comparison between both services and authorities.
- c) Strengthen the arrangements for recharging all support costs which may be reasonably charged to front-line services and in so doing bringing efficiency pressures to support services comparable to those of service providers to the community
- d) Represent best practice.

## Glossary of Terms (Continued)

### **Capital Charge**

The charge to the services for the use of fixed assets. As a minimum, the capital charge must cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet.

### **Capital Expenditure**

Expenditure on the acquisition or provision of tangible assets which have a long term value to the City Council, e.g. land, purchase of existing buildings, erecting new buildings, purchase of furniture and equipment.

### **Capital Financing Charges**

The annual charge to the Revenue Account in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

### **Capital Financing Requirement**

The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

### **Capital Grants**

Grants received towards capital expenditure on a particular service or project.

### **Capital Receipts**

Money received from the sale of land or other capital assets. A proportion of capital receipts must be paid to the government on housing assets held within a Housing Revenue Account. This is pooled and redistributed nationally. For non-housing authorities capital receipts are held by the authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

### **Class of Fixed Assets**

The classes of fixed assets required to be included in the accounting statements are:

#### Operational assets

- Council Dwellings
- Other land and buildings
- Vehicles, Plant, Furniture and Equipment
- Infrastructure assets
- Community Assets

#### Non-operational assets

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

### **Collection Fund**

The fund maintained by the City Council into which are paid the amounts of Council Tax and Non-Domestic Rates which it collects and out of which are to be paid precepts issued by major precepting authorities, its own demands and payments into the NNDR pool.

### **Community Assets**

These are assets that the City Council intends to hold in perpetuity, which have no determinable finite useful life and in addition may have restrictions on their disposal. Examples include parks, historical buildings not used for operational purposes, works of art, museum exhibits and statues.

### **Consistency**

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

## Glossary of Terms (Continued)

### ***Constructive Obligation***

An obligation that derives from an authority's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities and
- as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### ***Contingent Asset***

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

### ***Contingent Liability***

A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

### ***Contingencies***

Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

### ***Corporate and Democratic Core***

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

### ***Council Tax***

The form of local taxation operated from April 1993, based on properties.

### ***Credit Approvals***

The amount, as notified by Central Government, of capital expenditure which may be financed by loan, leasing or other forms of credit. There are two types of credit approvals: basic credit approvals (BCAs) and supplementary credit approvals (SCAs).

***Basic Credit Approvals*** - BCAs are issued by the Secretary of State before the beginning of the financial year and are only available for use in the relevant year for which they are issued. Each authority received a single BCA and under normal circumstances BCA may be used for any type of capital expenditure.

***Supplementary Credit Approvals*** - any Government Minister may issue an SCA for utilisation in relation to a particular category of expenditure or scheme which is ringfenced and specific in nature. SCAs can, now, be used within a two year period from when they are issued, which was a measure introduced by the government to give more flexibility in their use and to ensure the resource was actually used.

The system of capital funding through credit approvals was abolished in the Local Government Act 2003 and replaced by funding through Supported Capital Expenditure (Revenue).

### ***Creditors***

Amounts owed by the City Council for goods and services provided where payment has not been made at the date of the balance sheet.

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

The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

### ***Curtailment***

For a defined benefit scheme, 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. Curtailments include:

- termination of employee's service earlier than expected, for example as a result of closing a factory or discontinuing a segment or a business, and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify for only reduced benefits.

## Glossary of Terms (Continued)

### ***Debt Outstanding***

Amounts borrowed to finance capital expenditure that are still to be repaid.

### ***Debtors***

Sums of money due to the City Council but not received at the date of the balance sheet.

### ***Defined Benefit Scheme***

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

### ***Defined Contribution Scheme***

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

### ***Depreciation***

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

### ***Direct Service Organisation (DSO)***

The term is used to cover both Direct Labour Organisations (DLO'S) established under the Local Government, Planning and Land Act 1980 and DSO's established under the Local Government Act 1988.

### ***Discontinued Operations***

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- the activities related to the operation have ceased permanently;
- the termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting in either form its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations;
- the assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

### ***Discretionary Benefits***

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

### ***Emoluments***

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

## Glossary of Terms (Continued)

### ***Estimation Techniques***

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gain losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured: where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period.
- Different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

### ***Exceptional Items***

Material items that 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.

### ***Expected Rate of Return on Pension Assets***

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

### ***Expenditure***

Amounts paid by the City Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment - expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for (in which case the supplier is a creditor of the City Council).

### ***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 not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

### ***Fair Value***

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

### ***Fees and Charges***

Income arising from the provision of services, e.g. for the use of recreation facilities.

### ***Formula Spending Shares (FSS's)***

This is the amount of revenue expenditure calculated annually by the Secretary of State for each authority as being the amount to be incurred to provide a standard level of service. The total FSS for each authority is used for distributing the amount of Revenue Support Grant determined by Central Government each year.

### ***FRS 1 – Cash Flow Statements***

Requires the Authority to prepare a cash flow statement in a manner prescribed by the FRS. Cash flows are increases or decreases of cash, cash being cash in hand and deposits repayable on demand less overdrafts repayable on demand.

### ***FRS 3 – Reporting Financial Performance***

The objective of FRS 3 is to highlight a range of components of financial performance to aid users in understanding financial performance. The aspect of FRS 3 affecting the authority's accounts for 2004/2005 is the requirement to restate opening balances for the effects of prior year adjustments to the accounts, where these adjustments are as a result of fundamental errors or changes in accounting policies.

## Glossary of Terms (Continued)

### ***FRS 4 – Capital Instruments***

This standard exists to ensure that financial statements provide a clear, coherent and consistent treatment of capital instruments, particularly the classification of instruments. The standard also seeks to ensure that redeemable instruments are allocated to accounting periods on a fair basis over the period the instrument is in issue, and that the statement of accounts provides relevant information concerning the nature and amount of the Council's sources of finance and associated costs, commitments and potential commitments.

### ***FRS 8 – Related Party Disclosures***

FRS 8 exists to ensure that accounting statements contain the disclosures necessary to draw attention to the fact that reported performance and results may have been affected by the existence of related parties and by material transaction with them.

### ***FRS 11 – Impairment of Fixed Assets***

FRS 11 seeks to ensure that fixed assets are recorded in the financial statements at no more than their recoverable amount, that impairment losses are measured and recognised on a consistent basis and that sufficient information is disclosed in the statements to enable users to understand the impact of impairments on the financial position of the Authority.

### ***FRS 12 - Provisions, Contingent Liabilities and Contingent Assets***

The objective of this standard is to ensure that provisions (liabilities of uncertain timing or amount) are recognised only when they actually exist at the balance sheet date. A provision may only be recognised in the Authority's accounts when there is an obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle this obligation and a reliable estimate can be made of the amount of this obligation. A contingent liability or asset is not recognised on the balance sheet, although where these are material they are disclosed in the notes to the accounts.

### ***FRS 15 – Tangible Fixed Assets***

This standard sets out the principles of accounting for tangible fixed assets. The objective is to ensure that these assets are accounted for on a consistent basis in terms of their carrying amount and depreciation policies.

### ***FRS 17 – Retirement Benefits***

FRS 17 sets out the accounting treatment for retirement benefits such as pensions during retirement. The standard aims to show the value of benefits accrued and the value of assets set aside to meet these costs. For 2004/2005 the Consolidated Revenue Account shows the effects of over/under funding of pension liabilities within the net cost of services.

### ***FRS 18 – Accounting Policies***

This standard deals with the selection, application and disclosure of accounting policies. Mainly, that for all material items the reporting body adopts the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view, that accounting policies are reviewed regularly to ensure that they remain appropriate and that sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

### ***General Fund***

This accounts for the services of the City Council except for the Housing Revenue Account and the Collection Fund. The net cost is met by the Council Tax, Government Grants and National Non Domestic Rates.

### ***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 transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

### ***Impairment***

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

## Glossary of Terms (Continued)

### ***Income***

Amounts due to the City Council for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment - income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the City Council).

### ***Infrastructure Assets***

These are inalienable assets; expenditure on which is recoverable only by continued use of the asset created.

Examples of such assets are highways, footpaths, bridges, water and drainage facilities.

### ***Intangible Fixed Assets***

These are non-financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled through custody or legal rights.

### ***Interest Cost (Pension)***

For a defined benefit scheme, the expected increase during the period is the present value of the scheme liabilities because the benefits are one period closer to settlement.

### ***Investments (Pension Fund)***

The investments of the pension fund will be accounted for in the statements of that fund. However authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

### ***Investment Properties***

Interest in land and/or buildings in respect of which construction work and development have been completed; and which is held for its investment potential, any rental income being negotiated at arm's length.

### ***Investments (Non-Pensions Fund)***

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

### ***Large Scale Voluntary Transfer (LSVT)***

The voluntary transfer of public sector housing tenancies to other bodies, usually to a Registered Social Landlord, which may be a Housing Company or Housing Association.

### ***Leasing***

The method of financing the provision of various capital assets to discharge the City Council's functions outside normal borrowing procedures but within criteria laid down in the Local Authorities (Capital Finance) Regulations 1990. There are different types of leases available of which the following are most commonly used:

***Operating Leases*** - may generally be described as those which do not provide for the property in the asset to transfer to the local authority and where "the authority estimates on the commencement date" that the value of the asset on the termination date of the lease will be equal to or greater than 10% of its value at the commencement date. The full definition of an operating lease is set out in Regulation 6 of the Local Authorities (Capital Finance) Regulations 1990. Operating leases are exempt from classification as a credit arrangement if the necessary criteria are satisfied.

***Finance Leases*** - are leases that transfer substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

## Glossary of Terms (Continued)

### ***Lender Option Borrower Option Loans (LOBO)***

Many local authorities use LOBO Instruments as part of their overall borrowing portfolio. The common feature of these loans is a reduced interest rate for an initial period and then a stepped increase fixed to the end of the term. The lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable above the fixed rate then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty). CIPFA and the Audit Commission have looked closely into how to account for LOBO's. The inclusion of options within LOBO's means the loans effectively become variable rate instruments and under FRS 4 accounting standard interest should be averaged over the period to the earliest date at which the instrument would be redeemed or cancelled on exercise of such an option rather than the original term of the instrument where there is uncertainty over the term of the instrument.

### ***Liabilities***

Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

### ***Liquid Resources***

Current asset investments that are readily disposable by the authority without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

### ***Loans Outstanding***

The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

### ***London Inter Bank Bid Rate (LIBID)***

The rates of interest being bid on the London Money Market for various time periods.

### ***Long Term Contracts***

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

### ***Minimum Revenue Provision***

Is the minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government Act 1989.

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

With effect from April 1990 all non-domestic properties were revalued and the Government determines a national rate poundage every year which is applicable to all local authorities. Local authorities continue to collect the non-domestic rate but the proceeds are pooled and distributed by Central Government on the basis of an authority's adult population.

### ***Net Book Value***

The amount at which fixed assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

### ***Net Current Replacement Cost***

The cost of replacing or recreating a particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### ***Net Debt***

The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

### ***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.

## Glossary of Terms (Continued)

### ***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 requirements, pending sale or redevelopment.

### ***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 Costs***

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.

### ***Post Balance Sheet Events***

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

### ***Precept***

The amount levied by various authorities (e.g. the Tyne and Wear Fire and Rescue Authority) which is collected by the Tyne and Wear District Councils on their behalf.

### ***Prior Year Adjustments***

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### ***Projected Unit Method***

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants. Allowing where appropriate for future increases and;
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

### ***Provisions***

These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or the timing of such costs is uncertain.

### ***Private Finance Initiatives (PFI)***

PFI's are method of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The authority pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Authority does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the scheme.

### ***Prudence***

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

## Glossary of Terms (Continued)

### ***Prudential Framework***

One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of their budget setting process.

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

A Central Government agency, which lends money to Local Authorities at lower interest rates than those generally available from the private sector. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

### ***Rate of Return on Capital***

The profit of the authority's DLO/DSO's expressed as a percentage of the value of capital employed.

### ***Related Parties***

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- central government;
- local authorities and other bodies precepting or levying demands on the Council Tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its members;
- its chief officers; and
- its pension fund.

Examples of related parties of a pension fund include its:

- administrating authority and its related parties;
- scheduled bodies and their related parties; and
- trustees and advisors.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

## Glossary of Terms (Continued)

### ***Related Party Transaction***

A related party transaction is 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. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, Rents and payable of benefits.

This list is not intended to be comprehensive.

The Materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

### ***Renewals Accounting***

Where renewals accounting is adopted, the level of annual expenditure required to maintain the operating capacity of the infrastructure asset is treated as depreciation charged for the period. Actual expenditure is capitalised as incurred. Renewals accounting may only be used for infrastructure assets.

### ***Research and Development***

Expenditure falling into one or more of the following broad categories:

- pure (or basic) research: experimental work undertaken primarily to acquire knowledge.
- applied research: original investigation undertaken to gain knowledge towards a specific practical objective.
- development: use of knowledge to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

### ***Reserves***

These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

### ***Residual Value***

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

### ***Retirement Benefits***

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- an employer's decision to terminate an employee's employment before the normal retirement date or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

### ***Revenue Balances***

These are the accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce the Council Tax, or held to be applied in future years.

### ***Revenue Contributions***

The method of financing capital expenditure directly from revenue. The City Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

### ***Revenue Expenditure***

Expenditure incurred on the day-to-day running of the City Council, the costs principally include employee expenses, capital financing charges and general running costs.

## Glossary of Terms (Continued)

### **Revenue Expenditure Funded by Capital under Statute**

Items of capital expenditure, which do not result in, or remain matched by, tangible fixed assets. *Revenue Expenditure Funded by Capital under Statute* is charged to revenue in the year in which the expenditure is incurred.

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

A grant paid by Central Government to every Local Authority to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and NNDR income on one hand and the total assessment of the City Council's need to spend on the other. The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

### **Scheme Liabilities**

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

### **Settlement**

An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

### **Specific Grants**

Government grants to Local Authorities in aid of particular services, e.g. magistrates court grant.

### **Statements of Recommended Practice (SORPs)**

Statements agreed by the Accounting Standards Board (established by the major accounting bodies) setting out the current best accounting practice.

### **Statements of Standard Accounting Practice (SSAPs)**

Statements prepared by the Accounting Standards Committee to ensure consistency in accountancy matters. Many standards are now applied to local authority accounts and any departure must be disclosed in the published accounts.

### **Stocks**

Comprises the following categories:

- goods or other assets purchased for resale
- consumable goods
- raw materials and components purchased for incorporation into products for sale
- products and services in intermediate stages of completion
- long term contract balances
- finished goods

### **Supported Capital Expenditure**

Government provide support for capital expenditure in one of two ways:

- Supported Capital Expenditure (Revenue);
- Supported Capital Expenditure (Capital).

The Supported Capital Expenditure (Revenue) is in effect revenue support through the Revenue Support Grant System for borrowing. The Supported Capital Expenditure (Capital) is a capital grant given by government.

### **Total Cost**

The total cost of a service or activity includes all costs, which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

## **Glossary of Terms (Continued)**

### ***Trust Funds***

Funds administered by the City Council on behalf of charitable organisations and / or specific organisations.

### ***Unapportionable Central Overheads***

These are overheads for which no user benefits and should not be apportioned to services.

### ***Unsupported Borrowing***

Under the Prudential Framework, the facility to undertake what is known as 'unsupported borrowing' is available. This is borrowing to fund capital expenditure where no support or provision is made by the government to fund this borrowing. In deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- the prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;
- the effect on the revenue budget of any additional costs incurred.

### ***Useful Life***

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

### ***Vested Rights***

In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits;
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.