Glossary of Financial Terms

Accounting Policies

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

1. recognising
2. selecting measurements bases for, and
3. 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.

Accruals

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

Actuarial Gains and Losses

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

(a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or

(b) the actuarial assumptions have changed.

Asset Management Revenue Account (AMRA)

This account records: the capital charges that have been made to the service revenue accounts, comprising of depreciation and notional interest charges for the use of assets, the depreciation charge for the year, external interest charges (net relevant to KDC). The resulting surplus/deficit is credited/debited below the net cost of services line in the Consolidated Revenue Account to zero the effect of the capital charge. In other words, the net impact upon the taxpayer is nil.

Balances (Revenue Account)

The accumulated surplus of income over expenditure. Balances can be used to reduce future Council Tax precepts.

Capital Charge

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Financing Account

In respect of capital transactions (expenditure and disposals) this account shows the statutory element of the capital receipts set aside, the amount of capital receipts that have been used to finance capital expenditure and the amount of revenue monies used to finance capital expenditure.

It also records the amount of money, as adjusted for depreciation, required to repay debt (the minimum revenue provision – see separate note below) and the amount of Government Grants amortised. This account is purely a mechanism for recording capital accounting transactions and is therefore not available to support spending.

Capital Programme

The Authority's plan of capital projects and spending over future years. Included in this category are the purchase of land and buildings, the erection of new buildings and works, design fees and the acquisition of vehicles and major items of equipment.

Capital Receipts

Income from the sale of land and buildings which can only be used to finance other capital expenditure or repay outstanding debt on assets financed from loan.

Cash Flow Statement

Summarises the inflows and outflows of cash arising from transactions with third parties for capital and revenue purposes.

Class of Tangible Fixed Assets

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

Operational assets

- Other land and buildings
- Vehicles, plant, furniture and equipment
- Infrastructure assets
- Community assets

Non-operational assets

- Investment properties
- Assets under construction
- Surplus assets, held for disposal

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

Community Assets

Assets that the local authority intends to hold in perpetuity, that have no determinable and useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Consistency

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

Consolidated Balance Sheet

The accounting statement which sets out the Council's total net assets and how they were financed.

Consolidated Revenue Account

This account sets out the Council's income and expenditure for the year. It brings together all the services and functions performed by the County Council in one statement.

Contingent Liability

A contingent liability is either:

(a) 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, or

(b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

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.

Current Service Cost (Pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to arise 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 their future services. Curtailments include:

(a) termination of employee's services earlier than expected, for example as a result of closing a factory or discounting a segment of a business, and

(b) termination of, or amendment to 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 only for reduced benefits.

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 and other expenses of private acts.

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 contribution payable, and the benefits are not directly related to the investment 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 employees benefits relating to employees 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, effluxion of time or obsolescence through technological or other changes.

De Minimus Expenditure

This is the term given to expenditure incurred by local authorities that does not fall within the Code of Practice's definition of fixed assets but is classified as expenditure for capital purposes with respect to capital controls i.e. part of an authority's approved capital programme expenditure.

Direct Revenue Financing

The amount of capital expenditure financed directly from revenue.

Discretionary Benefits

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

Estimation Techniques

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, loses 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:

(a) 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

(b) 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.

Euro

The Economic Monetary Union (EMU) has introduced a single European Currency. This is known as the Euro.

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.

Expected Rate of Return on Pensions 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.

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.

Finance Lease

A finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally 90 per cent or more) of the fair value of the leased asset. The present value should be calculated by using the interest rate implicit in the lease. However, where the present value of the minimum lease payments does not amount to 90 per cent or more of the fair value of the leased asset, it should not be automatically assumed that the lease is not a finance lease.

FRS 5 requires that the substance of the transaction be reflected and therefore the lease may still need to be classified as a finance lease.

Notwithstanding the fact that the lease meets the definition above, the presumption that an asset should be classified as a finance lease may in exceptional circumstances be rebutted if it can be clearly demonstrated that the lease in question does not transfer substantially all the risks and rewards of ownership (other than legal title) to the lessee.

NB: Kennet does not have any Finance Leases

Fixed Asset Restatement Account

The Fixed Asset Restatement Account records the deficits or surpluses arising on the revaluation of assets, and is written down by the net book value of assets as they are disposed of. This account is purely a mechanism for recording capital accounting transactions and is therefore not available to support spending.

Fixed Assets

Tangible assets that yield benefits to the local authority and the services it provides for the period of more than one year.

Going Concern

The concept that the authority will remain in operational existence for the foreseeable future and, 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.

Impairment

A material change (normally reduction) during an accounting period, in the value of a fixed asset, below its carrying amount on the balance sheet that is not reflected in a general fall in prices. An example of impairment would be evidence of obsolescence, physical damage to the fixed asset or a deterioration in the quality of the service provided by the asset.

Infrastructure Assets

Fixed assets that are inalienable, expenditure on which is recoverable only by the continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Investments

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 which do not meet the above criteria should be classed as current assets.

Investment Properties

Interest in land and/or buildings:

(a) in respect of which construction work and development have been completed; and

(b) which is held for its investment potential, any rental income being negotiated at arm's length.

Minimum Revenue Provision (MRP)

Represents the statutory minimum amount that must be charged to a revenue account in each financial year to repay external borrowings.

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 Current Replacement Cost

The cost of replacing or recreating the 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 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.

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.

Operating Lease

A lease other than a finance lease.

Operational Assets

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

Past Service Cost

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee services in prior periods arising in the current period as a result of the introduction of, or improvements 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 County Council obtained its Council Tax income by precepting on the District Collection Funds run by the Council in its area. The National Rivers Authority levies (for land drainage purposes) on the County Council to meet its requirements.

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.

Private Finance Initiative

A long-term contractual public/private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.

Projected Unit Method

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

(a) the benefits for pensioners and deferred pensioners (i.e. individuals who ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increase, and

(b) the accrued benefited for members in service on the valuation date.

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

Provision for Credit Liabilities (PCL)

Following the implementation of the Prudential Framework, the concept of PCL is no longer of relevance. The 2004 SORP has deleted any disclosure requirements.

Provisions

Provisions are set up from annual revenue contributions to meet any liabilities or losses which are likely to be incurred, or will be incurred, but the amount or the dates on which they will arise is uncertain. Provisions are maintained for bad debts, insurance claims and future DLO losses.

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 Code for Capital

2004-2005 was the first year of the Prudential Code for Capital Finance in Local Authorities. The Prudential Code is a code of practice that has been written by CIPFA (the Chartered Institute of Public Finance and Accountancy). It sets out the accounting standards in relation to capital investment for councils.

The Local Government Act 2003 is the statute that makes compliance with the code mandatory. The bill received Royal ascent on 18 September 2003. The Audit Commission will ensure that local authorities comply with the code.

The new system means that local authorities are free to invest in capital projects as long as the spending plans are affordable, prudent and sustainable in the long term.

Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set using the indicators and factors set out in the code.

Government support for its capital investment priorities, such as schools and roads, will continue. The Council receives a grant towards the costs of borrowing for these schemes through the Capital Financing Formula Spending Share (Revenue Grant System). This is known as "Supported Capital Expenditure" and replaces the previous system of credit approvals. Some government priorities will also continue to be funded by capital grants.

Related Parties

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

1. one party has direct or indirect control of the other party, or
2. the parties are subject to common control form the same source, or
3. 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
4. the parties, in entering a transaction, are subject to influence from the same source to such as extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

1. central government
2. local authorities and other bodies precepting or levying demands on the Council Tax

3. its subsidiary and associated companies
4. its joint ventures and joint venture partners
5. its members
6. its chief officers, and
7. its pension fund

Examples of related parties of a pension fund include its:

1. administering authority and its related parties
2. scheduled bodies and their related parties, and
3. trustees and advisers.

These lists are not intended to be comprehensive.

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

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

Reserves

Reserves are established by the District Council by transfers from the Genera; Fund, in order to meet future commitments such as capital charges and unforeseen or exceptional expenditure demands.

Residual Value

The net realisable value of an asset at the end of its useful life. Residual values are based on price prevailing at 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 the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) 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 Account

An account that records an authority's day to day expenditure and income on such items as salaries and wages, running costs of services and the financing of capital expenditure.

Revenue Support Grant

The main Government general grant which is not specific to any service. It is distributed according to a formula which takes account of the Government's assessment of spending needs (Formula Spending Share).

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

(a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits

(b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and

(c) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Specific Grants

Central Government grants towards specific services, usually calculated on a fixed percentage basis for particular services.

Stocks

Comprise the following categories:

1. goods or other assets purchased for resale;
2. consumable stores;
3. raw materials and components purchased for incorporation into products for sale;
4. products and services in intermediate stages of completion;
5. long term contract balances; and
6. finished goods

Supported Capital Expenditure Approvals (SCE's)

Authorisations to use credit to finance capital expenditure. They are required as cover for both external borrowing and credit arrangements, which include leasing and deferred purchase agreements.

Tangible Fixed assets

Tangible assets that yield benefits to the local authority and the services it provide for a period of more than one year.

Total Cost

The total cost of a service or activity includes all costs which relate to the provision of the service (directly or brought 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.

Useful Life

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

APPENDIX A

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