GLOSSARY OF FINANCIAL TERMINOLOGY

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Accounting Policies:
Those principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are to be reflected in financial statements. Accounting policies define the process whereby transactions and other events are reflected in the financial statements.

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

Accruals:
The recognition of income and expenditure as goods and services are provided, not when cash is received or paid.

Accruals Accounting:
A method of recording expenditure as it is incurred (i.e. when the activity which generates the costs arises), and income as it is earned, rather than when cash is paid or received. This method of accounting is now used in the UK throughout the public and private sectors (with the exception of very small charities and businesses).

The principal advantage of accruals accounting over cash accounting (where cash movements are all that is recorded) is that accruals accounting allows better financial management and scrutiny by:

- matching expenditure in any period to revenues earned and obligations incurred in that period; and
- matching the cost of assets to the period in which they are used or consumed, by charging depreciation on them.

Actuarial Gains:
These may arise on the Local Government Pension Scheme's (LGPS) liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).

Actuarial Losses:
These may arise on the LGPS liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

Actuarial Valuation:
Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the council on the fund's financial position and recommended employers' contribution rates in order to balance the fund over the long term.

Actuary:
An adviser on financial information and assumptions relating to the pension scheme.

Admitted Body:
A body which can be admitted to the LGPS with the agreement of the administering council, it must be non-profitmaking and will normally be in receipt of a grant from either central or local government

Adult Social care precept:
The ability for local authorities to raise additional council tax funding specifically for adult social care expenditure.

Annual Governance Statement (AGS):
This is a statement prepared by the Council each year to summarise the governance and assurance framework and highlight any significant weaknesses in that framework.

Asset Register:
A record of council assets including land and buildings, infrastructure, vehicles and equipment etc. This is maintained to show the value of all council assets and for the purpose of calculating capital charges that are made to service revenue accounts. It is update annually to reflect new acquisitions, disposals, revaluations and depreciation.

Audit Commission:
The body responsible for the appointment of external auditors to local councils, co-ordinating audits throughout the country, setting standards and monitoring performance.

Bad Debt Provision:
To take account of the amount of debt which the Council estimates it will not be able to collect.

Balance Sheet:
This is a ‘snapshot’ of the council’s assets, liabilities and reserves on 31 March of each year. Assets represent everything owned by the council and money owed to it. Liabilities are the sums that the council owes to others. It excludes the Pension Fund, whose assets the council cannot use.

Base Budget:
This is the budget for the new financial year agreed annually by Council in February.

Better Care Fund (BCF):
The BCF was announced by Government June 2013 to ensure a transformation in health and social care. The BCF creates a pooled budget between the Council and Health.

Budget:
A statement of an authority’s plans for net revenue or capital expenditure over a specified period of time. The annual budget is prepared as part of the Council’s Annual Council Tax setting process. The budget, once approved, is an instrument of delegation which is used to authorise, monitor and control expenditure (and income). Legally every Council must set a budget by the 11th of March preceding the financial year.

Budget Profiling:
A means of calculating the 'budget to date' - based on prior years' experience, expectations of budget holders, seasonal factors

Business Rates Retention Scheme:
Whereby the Council retains a proportion of the Business Rates it collects, allowing an incentive to Councils to encourage growth.

Capital Charges:
Charges to services for the use of assets (property, land, equipment) needed to provide the service. Their purpose is to ensure that the cost of services reflects the true economic cost of financing and consuming the capital assets (property, vehicles, equipment and plant) used in the delivery of the service. The payment is a notional one i.e. it is not actual cash.

Capital Expenditure:
Spend on assets that have a lasting value, for example, land, buildings and large items of equipment such as vehicles. This can also include indirect expenditure in the form of grants or loans to other persons or bodies.

Capital Financing:
This term describes the method of financing capital expenditure, the principal methods now being loan and revenue financing, capital receipts, Section 106 funding (developer contributions) and government grants.

Capital Financing Requirement:
The council's total liabilities in respect of capital expenditure financed by loans less the provision made to meet these liabilities.

Capital Programme:
The Council's plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.

Capital Receipts:
The proceeds from the disposal of land or other assets. These receipts can be used to finance capital or repayment of debt but not revenue expenditure.

Central Support Charges:
The transfer of costs from central services departments to service departments to reflect the support services provided, e.g. payroll

CIPFA:
The Chartered Institute of Public Finance and Accountancy are one of the UK accountancy institutes. Uniquely, CIPFA specialise in the public sector. Consequently, CIPFA holds the responsibility for setting accounting standards for local government.

Collection Fund:
A statutory account maintained by the Council recording the amounts collected from District Councils who collect Council Tax and Business Rates on behalf of the County Council

Collection Fund Surplus (or Deficit):
Any year-end balance of the council tax collection fund (which can be a deficit or a surplus) is shared between the county council, the local police authority and district councils.

Commitment:
An order raised, entered onto system, and once it is "goods receipted" it is classed as an actual.

Community Assets:
These are assets which the council intends to hold in perpetuity, have no determinable useful life, and may have restrictions on their disposal, for example parks and historic buildings.

Comprehensive Income & Expenditure Statement:
The Comprehensive Income and Expenditure Statement is the council's version of a profit and loss account. It summarises all of the resources that the council has generated, consumed or set aside in providing services during the year.

Contingency Budget:
Money set-aside centrally in the Council's base budget to meet the cost of unforeseen items of expenditure, e.g. higher-than-expected inflation or new responsibilities.

Contingent Assets:
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 event not wholly within the council's control.

Contingent Liabilities:
These are potential losses for which a future event will establish whether a liability exists. As it is not appropriate to establish provisions for such amounts, they are not accrued in the financial statements but disclosed separately in a note to the Comprehensive Income and Expenditure Statement.

Corporate and Democratic Core:
This comprises all activities, which local authorities engage in specifically because they are elected, multi-purpose authorities. It consists of democratic representation i.e. members allowances, mayoral costs and corporate management of the authority.

Corporate Budgets:
These are budget items that are not service specific and comprise the Council's interest payments, investment income and insurance. Corporate Budgets also include the Contingency Budget, and the New Homes Bonus Priority Spend Fund.

Council Tax Base:
The Council Tax base for a Council is used in the calculation of council tax and is equal to the number of Band D equivalent properties. To work this out, the Council counts the number of properties in each band and works out an equivalent number of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992. They are: A 6/9, B 7/9, C 8/9, D 9/9, E 11/9, F 13/9, G 15/9 and H 18/9, so that Band A is six ninths of the 'standard' Band D, and so on.

Council Tax Requirement:
This is the estimated revenue expenditure on General Fund services that will be financed from the Council Tax after deducting income from fees and charges, General Fund Balances, specific grants and any funding from reserves.

CPI and RPI:
The main inflation rate used in the UK is the CPI (Consumer Price Index), the Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is currently set at 2%. The CPI differs from the RPI (Retail Price Index) in that CPI excludes housing costs.

Creditors:
Amounts owed by the County Council for work done, goods received, or services provided but for which payment has not been made by the end of the accounting period.

Debtors:
Amounts due to the County Council for work done, goods received, or services provided but which remain unpaid by the end of the accounting period.

Debt Repayment Policy:
The council's policy for making provision for the repayment of debt.

Dedicated Schools Grant (DSG):
A central government grant paid to the County Council for use for expenditure on schools and other education based spend including High Needs and Early Years.

Deferred charge:
A Deferred Charge builds up as a debt which is cleared when the money tied up in a person's home is released usually on sale.

DEFRA:
Department for Environment, Food and Rural Affairs.

Depreciation:
The fall in value of an asset, as recorded in the financial records, due to wear and tear, age or obsolescence. This will arise from use, passage of time or obsolescence through technological or other changes. A charge is made to service revenue accounts each year to reflect the reduction in the value of the asset used in the delivery of services.

Discretionary expenditure:
Expenditure incurred by a local authority that relates to services that it is not legally obliged to provide.

DWP:
Department for Work and Pensions.

Earmarked Reserves:
Reserves which are set aside for specific purposes: for example:
- To provide resilience against future risks
- Smoothing the impact of uneven expenditure between years (e.g. local
- elections reserve)
- To create policy capacity for one-off priority funding

Employee Related Costs:
Includes gross salaries and the employer's cost of pension and national insurance contributions relating to all Council employees. It also covers all indirect employee costs i.e. staff advertising, training, interview expenses, etc.

External Audit:
The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

Fair Value:
Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Fees and Charges:
Income raised from making charges for the provision of services such as licence permits, library fines, client contributions and planning fees.

Financial Conduct Authority:
Regulates the financial services industry in the UK. It protects customers, promotes competition and keeps the industry stable.

Financial Regulations:
A written framework for the proper financial management of the authority. The Financial Regulations are approved by Full Council as part of its formal constitution.

Financial Year:
The local authority financial year commences on 1st April and finishes on the following 31st March.

Forecast Outturn:
The estimated financial position at the end of the financial year.

General Reserves:
Amounts built up that are not set-aside for specific purposes but to meet any unforeseen pressures.

Government Grants:
Grants made by the Government towards either revenue or capital expenditure to support the cost of the provision of services. These grants may be specifically towards the cost of particular schemes or to support the revenue (or capital) spend of the Council generally

Gross Domestic Product (GDP):
GDP is defined as the value of all goods and services produced within the overall economy.

Imprest accounts:
Petty cash accounts used for small items of expenditure.

Infrastructure Assets:
A fixed asset that cannot be taken away or transferred, and which can only continue to provide benefit from it being used. Infrastructure includes roads, bridges, and footpaths.

International Financial Reporting Standards (IFRS):
The accounting standards adopted by the International Accounting Standards Board (IASB). Local councils are required to produce their accounts using IFRS.

Intangible Assets:
These are assets of value that do not have physical substance, for example Software Licences. Expenditure incurred on these assets is capitalised at cost and charged to the Balance Sheet.

Inventories:
Amounts of unused or unconsumed stocks held in expectation of future use. Inventories are comprised of the following categories:

- Goods or other assets purchased for resale
- Consumable stores
- Raw materials and components
- Products and services in intermediate stages of completion
- Finished goods

Joint funding:
Where two or more agencies - for example, health and social services – agree to share the cost of running a project or service. This may make use of pooled budget arrangements.

Joint Venture:
A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Journal:
The transfer of income or expenditure from one account to another.

KPI:
Key Performance Indicator

Liability:
A present obligation of the County Council arising from past events, the settlement of which is expected to result in an outflow of resources.

Local Government Finance Settlement:
The annual determination of funding to local government.

Local Government Pension Scheme (LGPS):
Pension Scheme for all public sector employees (Teachers Pension Scheme applies for teaching staff.

Materiality:
Information is material if omitting it or misstating it could influence the decisions that users make on the basis of financial information about a specific reporting authority.

Medium Term Financial Plan (MTFP):
Sets out the future forecast financial position of the Council.

Minimum revenue provision (MRP):
The statutory amount set aside from the revenue budget which can be used to repay external loans.

National Fraud Initiative (NFI):
A national exercise to compare data across public sector organisation to aid identifying potential frauds.

National Non-Domestic Rates (NNDR):
Also known as 'business rates': a form of taxation on commercial and business properties (i.e. non-domestic properties). The Government determines the rate at which it is imposed nationally, but it is collected by billing authorities (district, city and borough councils). Up until 31 March 2013 business rates were all paid into a central national pool and then redistributed to authorities according to resident population numbers. From 2013/14 local authorities retain a "Local Share", (50%), the aim of which is to provide an incentive to help businesses set up and grow.

Net Book Value (NBV):
The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net Cost of Services:
This is the cost of providing the Council's customer-facing and back-office services.

Net Realisable Value:
The open market value of the asset less the expenses to be incurred in disposing of the asset.

New Homes Bonus:
Under this scheme Councils receive a new homes bonus (NHB) per each new property built in the borough for the first six years following completion. Payments are based on match funding the council tax raised on each property with an additional amount for affordable homes. It is paid as a non-ring-fenced grant.

Office for Budget Responsibility (OBR):
A non-departmental advisory body that provides independent forecasts on the UK economy.

Operating leases:
A method of obtaining the use of an asset where the rewards and risks of ownership of the asset remain with the leasing company and the annual rental is charged directly to the revenue account

Original (Base) Budget:
This is the budget for the new financial year agreed annually by Council in February.

Post Balance Sheet Events:
Events arising after the balance sheet date should be reflected in the statement of accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

Precept:
The amount the County Council ask district and borough councils to collect on their behalf as council tax.

Prepayment:
An item paid for in advance, e.g. annual rent for a property in advance

Premises Related Costs:
This includes expenses directly related to the running costs of land and buildings i.e. repairs and maintenance, public utility costs, rent, rates, etc.

Prior Year Adjustments:
These are material adjustments to previously published accounts, which are applicable to prior years arising from the correction of fundamental errors or inaccuracies. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI):
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 standards of performance.

Property, Plant and Equipment (PPE):
PPE are tangible assets (i.e. assets that have physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used during more than one year.

Provisions:
Monies set aside to meet any liabilities or losses which are likely or will be incurred, but the amounts or the dates on which they will arise are uncertain e.g. provision for bad debts.

Prudential Code:
This is a code of practice agreed between central government and CIPFA for the Prudential Capital Finance System introduced on 1st April 2004. The system allows local councils to set their own borrowing limits based upon affordability, sustainability and prudence. Local councils are required by legislation to have regard to the code.

Public Works Loan Board (PWLB):
A central government agency which provides long and medium-term loans to local councils.

Recharge:
The transfer of costs from one service account to another

Reserves:
Money set aside to meet the cost of specific future expenditure. These can be either:

- Usable – those which can be used to provide services
- Unusable – those which cannot be used to provide services e.g. schools balances

Prudential Borrowing:
The Local Government Act 2003 replaced detailed central government controls over the level of local authority capital expenditure with a system of self-regulation based upon a requirement to ensure that capital expenditure plans are affordable, sustainable and prudent, as prescribed in CIPFA's prudential code.

Revenue Contribution to Capital Outlay (RCCO):
Use of the revenue budget to finance capital expenditure.

Revenue Expenditure:
Expenditure that the Council incurs on the day to day running costs of its services including salaries and wages, premises costs, transport related costs, supplies and services, payments to third parties and capital charges. The expenditure is financed from charges for services, government grants, income from Council Tax and Business Rates and other miscellaneous income.

Revenue Expenditure Funded from Capital under Statute (REFCUS):
Spending on assets that have a lasting value which we do not own e.g. grants to the community.

Revenue Support Grant (RSG):
A general non-ring-fenced government grant to support councils' general revenue expenditure.

Section 31 Grants:
These are government awarded grants to compensate councils for central government policy decisions in respect of rate reliefs. These grants are not ring-fenced.

Section 106:
Section 106 agreements, also known as planning obligations, are agreements between developers and local planning authorities that are negotiated as part of a condition of planning consent.
The Town and Country Planning Act 1990 enables local authorities to negotiate contributions towards a range of infrastructure and services, such as community facilities, public open space, transport improvements and/or affordable housing.

Section 114 Notice:
A Section 114 notice is a formal declaration issued by a local authority's finance officer in the UK, indicating that the council anticipates its expenditure will exceed its income, leading to unlawful spending. This notice essentially halts most new spending commitments, except for those related to statutory services like safeguarding vulnerable people, and existing contracts. It's a mechanism to address financial instability within a local authority.

Section 151 officer:
Legally Councils must appoint under section 151 of the Local Government Act 1972 a named chief finance officer to give them financial advice.

Service Level Agreement (SLA):
An agreement between users and providers of support services which specifies the service to be provided and the charge to be made.

Service Reporting Code of Practice (SeRCOP):
CIPFA's Service Reporting Code of Practice (SeRCOP) sets out the financial reporting guidelines for local councils. It supplements the principles and practice set out in the Code of Practice on Local Authority Accounting (known as the Code), by establishing practice for consistent reporting.

Specific Grants:
As the name suggests funding through a specific grant is provided for a specific purpose and cannot be spent on anything else e.g. Public Health Ring-Fenced Grant.

Spending Review:
The Spending Review is an internal Government process in which the Treasury negotiates budgets for each Government Department. A Spending Review or occasionally Comprehensive Spending Review is a governmental process in the United Kingdom carried out by HM Treasury to set firm expenditure limits and, through public service agreements, define the key improvements that the public can expect from these resources.

Supplies and Services:
This includes, for example, furniture, equipment and materials, catering, printing, stationery and other general office expenses, communications and IT and other miscellaneous expenses.

Third Party Payments:
Payments to agencies and contracted service providers in return for the provision of a service, i.e. payment to the Council's waste collection contractor.

Transfer Payments:
Payments made by the authority for which no goods or services are received in return by the authority i.e. rent rebates.

Transport Related Costs:
This includes costs relating to the running of the Council's own vehicles and staff travelling expenses, both own vehicle costs and public transport.

Treasury Management:
The process of managing the Council's cash flows, borrowing and cash investments to support Worcestershire's finances. Details are set out in the Treasury Management Strategy which is approved by Cabinet and Full Council in February each year.

Treasury Management code:
The CIPFA Treasury Management Code of Practice sets out the procedures and policies local authorities should follow in their treasury management functions.

Ultra Vires:
Beyond the legal powers or authority.

Virements:
The transfer of a budget from one account to another.

Usable Capital Receipts:
That part of income from the sale of capital assets that can be used to fund further capital expenditure.

Write-offs:
Income is recorded in the council's accounts on the basis of amounts due. When money owing to the council cannot be collected the income is already showing in the accounts and has to be reduced or written off.