

## Glossary of Terms

### A

**Accounting period:** the period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period i.e. 31 March is the balance sheet date.

**Accounting policies:** are the specific principles, bases, conventions, rules and practices applied in preparing and presenting the accounts.

**Accruals basis:** the method of including amounts in accounts to cover income or expenditure attributable to an accounting period but for which payment has not been received or made by the end of the accounting period. This is based on 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:

- events have not coincided with the actuarial assumptions made for the last valuation; or
- the actuarial assumptions have changed.

**Amortised:** reducing the value of a balance in an accounting period. The reduction in value is transferred from the balance sheet to the Comprehensive Income and Expenditure Statement.

**Amortised Cost:** is the amount at which an asset or liability is measured (usually at cost) plus or minus accumulated interest.

**Appropriations:** transferring of an amount between specific reserves in the Comprehensive Income and Expenditure Statement.

**Asset:** something of value which is measurable in monetary terms.

**Authorised Limit:** this is the limit beyond which borrowing is prohibited.

**Authority:** this is the corporate body of North Tyneside Council.

**Available for Sale financial assets:** financial instruments that either do not have fixed or determinable payments or whose prices are quoted on an active market.

### B

**Bad (and doubtful) debts:** debts which may be uneconomic to collect or unenforceable in law.

**Balances:** the reserves of the Authority, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.

**Balance Sheet:** a statement of the recorded assets, liabilities and other balances at the end of an accounting period.

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**Billing authority:** a local authority empowered to collect Non - Domestic Rates and Council Tax i.e. metropolitan authorities, unitary authorities, London Boroughs, district authorities and the City of London. North Tyneside Council is a billing authority.

**Business Rates: (also known as Non-Domestic Rates (NDR)):** a tax levied on business properties and is a means by which local businesses or organisations contribute to the cost of local authority services. The levy on businesses being based on a notional rate in the pound set by the government multiplied by the rateable value of the premises occupied. This multiplier is set annually by central Government, and comprises of a standard rates multiplier and a small business multiplier. The Authority can now keep half of this revenue to invest in local services.

**Budget:** a statement of the Authority's expected level of service expressed as an amount of spending over a set period, usually one year.

## C

**Capital Adjustment Account:** provides a balancing mechanism between the different rates at which assets are depreciated under The Code and are financed through the capital controls systems.

**Capital expenditure:** expenditure on the acquisition or enhancement of non current assets. Capital expenditure can be incurred in some instances (where no asset is created) if Secretary of State permission is granted (e.g. where grants are made to other organisations for capital projects).

**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 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 receipts:** the proceeds from the sale of a fixed asset, or the repayment of some grants or loans made by the Authority.

**Capitalised:** transferred from revenue to capital.

**Cash and cash equivalents:** this comprises cash in hand, cash overdrawn and short term investments which are readily convertible into known amounts of cash.

**Cashflow:** movement in cash and cash equivalents by the Authority in the accounting period.

**CIPFA:** The Chartered Institute of Public Finance and Accountancy.

**CIPFA Code of Practice on Local Authority Accounting (The Code):** the code of practice applicable to preparing the accounts.

**Collection Fund:** this account reflects the statutory requirement contained in section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance

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Act 1992) for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates (NDR).

**Community assets:** assets that the Authority intends to hold in perpetuity have no determinable finite useful life and in addition may have restrictions on their disposal. Examples of community assets are playing fields and parks.

**Community Infrastructure Levy (CIL):** is a charge that local authorities can set on new development in order to raise funds to help fund the infrastructure, facilities and services - such as schools or transport improvements - needed to support new homes and businesses.

**Component:** is a significant part of an asset (such as a roof or major item of plant or equipment), which has to be separately identified for the purposes of accounting and asset management.

**Comprehensive Income & Expenditure Statement:** the account, that sets out the Authority's income and expenditure for the year for non-capital spending. It is sometimes referred to as the Revenue Account.

**Consistency:** the concept that the accounting treatment of like items within an accounting period and from one period to the next should be the same.

**Consolidated:** added together with adjustments to avoid double counting of income, expenditure, or to avoid exaggeration, e.g. debtors, creditors as a result of trading between services within the Authority which are reported on as a whole in the section on consolidated financial accounts.

**Consumer Price Index (CPI):** the index has been designed as a macro-economic measure of consumer price inflation. The official measure is calculated each month by taking a sample of goods and services that a typical household might buy including food, heating, household goods and travel costs.

**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 Authority's control.

**Contingent liabilities:** arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

**Contingencies:** sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

**Council (or Full Council):** the formal meeting of all Members of North Tyneside Council.

**Creditors:** amounts owed by the Authority for work done, goods received or services rendered to the Authority during the accounting period, but for which payment has not been made by the Balance Sheet date.

**Council Tax:** the main source of local taxation for local authorities. It is a banded property tax (using 1 April 1991 property values) which is levied on households within its

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area by the billing authority and is set annually for the properties in its area. Council Tax income is paid into the billing authority's Collection Fund for distribution to precepting authorities and for use by the billing authority's own General Fund.

**Current assets:** which will be consumed or cease to have value within the next accounting period, e.g. stock and debtors.

**Current liabilities:** amounts that the Authority owes to other bodies and due for payment within 12 months.

**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 pension scheme this is 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, examples being termination of employees service through redundancy or amendment of the terms affecting future benefits.

## D

**Debtors:** amounts due to the Authority which relate to the accounting period and have not been received by the Balance Sheet date.

**Deferred Credits including Deferred capital receipts:** amounts derived from the asset sales which will be received in instalments over a period of a year (e.g. mortgages on the sale of Council houses).

**Deferred Liabilities:** these are liabilities which are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time, e.g. deferred purchase arrangements.

**Depreciation:** the reduction in value of an asset due to age, wear and tear, deterioration or obsolescence.

**Defined Benefit Scheme:** a defined contribution scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or 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 the employees benefits relating to employee service in the current or prior periods. A defined benefit scheme is a pension or retirement benefit scheme other than a defined contribution scheme.

## E

**Earmarked reserves:** these reserves represent the monies set aside that can only be used for a specific usage or purpose (see Reserves definition for more information).

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

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**Enterprise Zones:** specific areas where a combination of financial incentives and reduced planning restrictions apply.

**Equity instrument:** a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

**Estimation Techniques:** methods adopted by the Authority to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

**Events after the Balance Sheet Date:** events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts are authorised for issue.

**Exceptional items:** are ones that are material in terms of the Authority's overall expenditure for example impairments and changes in accounting regulations.

**Expenditure:** costs incurred by the Authority for goods received, services rendered or other value consumables during the accounting period, irrespective of whether or not any movement of cash has taken place.

**Extraordinary items:** these are very rare. They are material items with a high degree of abnormality that arise outside the normal activities of the Authority and are not expected to recur.

## F

**Fair Value:** Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

**Finance Lease:** a lease that transfers substantially all the risk and rewards of ownership of a fixed asset to the body leasing the asset (see Leasing definition for more information).

**Financial Asset:** a right to future economic benefits controlled by the Authority that is represented by: cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity.

**Financial Instruments:** contracts that give rise to a financial asset of one entity and a financial liability of another entity.

**Financial Liability:** an obligation to transfer economic benefits controlled by the Authority that is represented by: a contractual obligation to deliver cash (or another financial asset) to another entity, or a contractual obligation to exchange financial assets/liabilities with another entity.

### G

**General Fund:** the main revenue account of the Authority, which brings together all income and expenditure other than recorded in the Housing Revenue Account and the Collection Fund.

**Government grants:** grants made by the Government towards either revenue or capital expenditure to support the cost of the provision of local authority services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of the Authority.

### H

**Historical cost:** the actual cost of assets, goods or services, at the time of their acquisition.

**Housing Benefits:** a system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central government.

**Housing Revenue Account:** a separate account that includes all income and expenditure arising from the provision of Council housing by the Authority.

### I

**Impairment:** a reduction in the value of a fixed asset, measured by specific means, below its stated carrying amount in the Balance Sheet.

**Income:** amounts which the Authority receives or expects to receive from any source, including rents, fees, charges, sales and grants.

**Infrastructure Assets:** assets such as highways, bridges, street lights and footpaths.

**Intangible Asset:** identifiable non-monetary asset without physical substance e.g. computer licences.

**Interest Cost (pensions):** for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

**International Accounting Standards (IAS):** international accounting standards issued by the International Accounting Standards Board. They are authoritative statements of how particular types of transactions and other events should be reflected in financial statements.

**Inventories:** raw materials and consumable items which the Authority has procured to use on a continuing basis and have not been used by the end of the accounting period.

**Investment Property:** interests in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arm's length.

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**Investments:** items such as company shares, other securities and money deposited with financial institutions (other than bank current accounts).

### L

**Leasing:** a method of acquiring the use of an asset by paying a rental for a specified period of time, rather than purchasing it outright. The two methods are:

- *Operating Leases* – may generally be described as those which do not provide for the property in the asset to transfer to the Authority, only the rental will be taken into account by the lessee; or
- *Finance Leases* – are leases that transfer substantially all of the risks and rewards of ownership of the asset to the lessee. The asset is recorded on the lessee's balance sheet.

**Lender Option Borrower Option Loans (LOBO):** borrowing whereby 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 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).

**Levies:** similar to precepts, these sums are paid to other bodies. However, these amounts are not collected through Council Tax as with precepting bodies; they are items of expenditure on the face of the Comprehensive Income and Expenditure Statement. The bodies that charge a levy on the Authority are the Tyne and Wear Integrated Transport Authority, the Environment Agency and the Tyne Port Health Authority and Northumberland Inshore Fisheries and Conservation Authority.

**Liabilities:** amounts due to individuals or organisations, which will have to be paid at some time in the future.

**Long Term Assets:** assets which have value to the Authority for more than one year, e.g. land, buildings, equipment (also known as non current assets).

### M

**Material:** the concept that any omission from or inaccuracy in the statements of account should not be large enough to affect the understanding of those statements by a reader.

**Minimum Revenue Provision (MRP):** is the amount which must be charged to an authority's revenue account and set aside as a provision for credit liabilities (repayment of debt), as required by the Local Government Act 1989.

### N

**National Multiplier:** the figure used to calculate a non-domestic rates bill from the rateable value.

**Non-Domestic Rates (NDR) (also known as Business Rates):** a tax levied on business properties and is a means by which local businesses or organisations contribute to the cost of local authority services. The levy on businesses being based on a notional

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rate in the pound set by the government multiplied by the rateable value of the premises occupied. This multiplier is set annually by central Government, and comprises of a standard rates multiplier and a small business multiplier. The Authority can now keep half of this revenue to invest in local services.

**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 by depreciation.

**Net Realisable Value:** the open market value of the asset in its existing use (or open market value in the case of investment Property), less the expenses to be incurred in realising the asset.

**Non Current Asset:** assets which have value to the Authority for more than one year eg land, buildings, equipment (also known as Long Term Assets).

## O

**Operating Lease:** a type of lease where the ownership of the asset remains with the lessor, and rental payments are recorded against services in the Comprehensive Income & Expenditure Statement (see Leasing definition for more information).

## P

**Pooled Funds:** established to support partnership working. A pooled fund will receive funds from a variety of sources and will be administrated by the host partner.

**Precept:** the charge determined by precepting authorities on billing authorities. It requires the billing authority to collect income from Council taxpayers on their behalf. In the case of North Tyneside Council, the precepting authorities are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.

**Prior Year Adjustments:** material adjustments to the accounts of earlier years arising from changes in accounting policies or from the correction of prior year errors. A prior year error may include the effect of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of fact, and fraud. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Provisions:** amounts set aside in the accounts for liabilities or losses which are certain or very likely to occur but where there is uncertainty as to the amounts involved or the dates on which they will arise.

**Private Finance Initiative (PFI):** public authority/private sector partnerships designed to procure new major capital investment resources for local authorities.

**Prudential Code:** The current system on financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate by.

**Public Works Loan Board (PWLB):** a central Government agency which lends money to local authorities at lower rates than those generally available from the private sector. Local authorities are able to borrow for their requirements to finance capital expenditure from this source.

### R

**Remuneration:** defined as 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 the employer are excluded.

**Replacement Cost:** cost of replacement of the asset at the balance sheet date.

**Reserves:** amounts set aside in the accounts to meet expenditure which the Authority may decide to incur in future period, but not allocated to specific liabilities which are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as balances, and usually arise as unplanned surpluses of income over expenditure.

**Retail Price Index (RPI):** measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.

**Revaluation Reserve:** records unrealised revaluation gains arising (since 1 April 2007) from holding property, plant & equipment. This reserve is matched by fixed assets within the Balance sheet; therefore they are not resources available to the Authority.

**Revenue Contributions:** method of financing capital expenditure directly from revenue.

**Revenue Expenditure Funded from Capital under Statute:** expenditure classified as capital for funding purposes but does not result in the creation of an asset (previously called deferred charges).

**Revenue Support Grant:** a central Government grant paid to each local authority to help to finance its general expenditure, as opposed to specific grants.

**Ring-fenced:** this refers to the statutory requirement that certain accounts such as the Collection Fund and Housing Revenue Account must be maintained separately from the General Fund.

### S

**Section 151 Officer:** the Council officer designated under Section 151 of the Local Government Act 1972 to take overall responsibility for the financial administration of the Council.

**Service Concession:** an arrangement whereby the Authority contracts with a private operator to develop (or upgrade), operate and maintain infrastructure assets (in this case Schools and Street Lighting). The Authority controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the contract.

**Strain on the Fund:** An early payment of retirement benefits for members aged 55 or over and under 65 generates a 'Strain on the Fund' cost. This results in the Authority

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reimbursing the Tyne & Wear Pension Fund for the loss of employer and employee contributions and investment income which results from the employee retiring early.

### T

**Tangible assets:** physical assets owned by the Authority, which can be seen or touched e.g. buildings and equipment.

### U

**Unuseable Reserves:** reserves earmarked for specific accounting treatments which are not available to fund general expenditure (see Reserves definition for more information).

**Useable Reserves:** reserves that can be applied to fund expenditure or reduce local taxation (see Reserves definition for more information).