

STATEMENT OF ACCOUNTS

Glossary



Accounting policies

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. Accounting policies do not include estimation techniques.

Accruals

The concept that income and expenditure is recognised as it is 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 (experience gains and losses), or the actuarial assumptions have changed.

Actuary

An expert on long term pension scheme assets and liabilities. Actuaries make recommendations every 3 years regarding the rate of employer contributions due to the local government pension scheme.

Amortisation

The writing down of a balance in the accounts over a specified period to signify the 'using up' of the benefit to the Council of the expenditure or income. For example assets might be written down over the number of years it is intended to use the asset.

Amortised cost

Amortised cost (in relation to financial instruments) is the carrying amount on initial recognition plus the interest taken to income and expenditure less cash paid or received for both interest and principal.

Annual Governance Statement (AGS)

The AGS is a statutory document that explains the processes and procedures in place to enable the Council to carry out its functions effectively.

Assets – available for sale

Available for sale assets are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

The Council has an investment where there are no fixed or determinable payments and therefore income (for example, dividends) is credited to the comprehensive income and expenditure statement when it becomes receivable by the Council. The investment relates to a financial instrument with a quoted market price and is therefore maintained in the balance sheet at fair value.

Changes in fair value are balanced by an entry in the available-for-sale reserve and the gain/loss is recognised in the surplus or deficit on revaluation of available for sale financial assets.

Assets under construction

The capital programme is a rolling programme, which means that all projects started in the financial year are not necessarily completed within the financial year. The Council does not recognise an asset as a fixed asset until financial completion. Until then these are classified separately as assets under construction.

Associate

For the purpose of the group accounts, an associate is an organisation in which the Council has an interest by way of an investment and is able to exercise significant influence, but not total control, usually determined by voting rights held by the Council on relevant Boards. A group will be classified as an associate if voting rights are less than 50 per cent but more than 20 per cent.

Bad debt provision

An amount set aside to cover money owed to the Council where it is considered doubtful payment will be received.

Billing authority

The billing authority is responsible for levying and collecting the Council Tax in its area, both on its own behalf and that of its precepting authorities.

Business Improvement District (BID)

The Plymouth Business Improvement District (BID) is a precisely defined geographical area within which businesses pay an additional tax (the BID levy) to fund projects within the BID area. Businesses in this area have voted to invest collectively in local improvements to enhance their environment. The purpose of the BID is to provide new or expanded works, services and environmental enhancements, funded by a BID levy charge which is payable by all business rate payers in the BID area, collected by Plymouth City Council and is ring-fenced.

Budget

A statement of the Council's plans for net revenue expenditure over a specified time period.

Capital adjustment account

This account contains the amounts to be set aside to repay debt and the amount of capital expenditure financed from capital receipts and revenue. It also contains the difference between the amounts provided for depreciation, the amount of minimum revenue provision, amounts of government grants amortised and revaluations prior to 1 April.

Capital expenditure

Expenditure on the acquisition of a fixed asset or expenditure, that adds to and not merely maintains the value of an existing fixed asset. The benefit to the Council of such expenditure is generally greater than one year.

Capital programme

The Council'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, plant and major items of equipment, as well as support to other organisations/residents for works of a capital nature.

Capital financing

This describes the various sources of money used to pay for capital expenditure. Capital expenditure can be funded from external sources, such as borrowing, capital grants and by contribution from the internal sources, such as capital receipts and reserves.

Capital receipts

Income from the sale of land and buildings or other assets and loan repayments. Capital receipts can only be used to finance other capital expenditure or to repay outstanding debt on assets financed from borrowing. In addition, a proportion of HRA capital receipts must be paid over to Central Government for redistribution via a 'pooling' arrangement.

Carrying amount / carrying value

These terms refer to the capitalised cost of a non-current asset, less accumulated depreciation and impairment.

Cash and cash equivalents

The Council defines the following deposits as cash and cash equivalents:

- Cash - cash in hand; On demand call accounts; money market funds
- Cash equivalents - notice accounts of 30 day duration or less; fixed term deposits of less than 1 month; Deposits with the Government Debt Management Office (DMO) for a period of less than 1 month.

Cash flow statement

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

Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the leading accountancy body for the public sector. The Statement of Accounts is prepared in accordance with the codes of practice published by CIPFA.

Collection fund

This is a separate statutory fund, which details the transactions in relation to non-domestic rates (NDR) and the council tax, and the distribution to preceptors and the General Fund. It is consolidated with the other accounts in the consolidated balance sheet.

Community assets

Assets that the Council intends to hold in perpetuity, that have no determinable and useful life (where useful life is defined as a period of time over which the Council benefits from the use of the asset) and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Componentisation

An asset may consist of several different and significant physical components for example separating the operating fixtures from the actual building itself. If these components have substantially different lives then each component is depreciated separately over its individual useful life.

Consumer price index (CPI)

The measure of inflation used for the indexation of benefits, tax creditors and public service pensions. The CPI is an internationally comparable measure of inflation and is used to compare inflation across the European Union.

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council 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 Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Council tax

A local taxation based on historic property valuations resulting in various banded charges chargeable on a property basis, collected via the Council and used in conjunction with other revenue income streams (revenue support grant) to fund local revenue expenditure.

Creditors

Amounts owed by the Council for goods and services provided for which payment has not been made at the end of the financial year.

Current assets and liabilities

Current assets are amounts owed to the Council and due for payment within 12 months, or items that can readily be converted into cash. Current liabilities are amounts that the Council owes to others and are due to be paid within 12 months.

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.

Debtors

Amounts owed to the Council at 31 March where services have been delivered but payment has not been received.

Dedicated schools grant (DSG)

A ring fenced grant given to Councils to meet expenditure directly incurred by schools and or held centrally to meet schools related expenditure.

Deferred liabilities

Money owed by the Council which by arrangement are payable beyond the next year at some point in the future or paid off by annual sum over a period of time. Most deferred liabilities relate to PFI or lease arrangements.

Depreciation

The measure of cost or revalued amount of an asset assumed to have been consumed during the period.

Consumption includes the wearing out, using up or other reduction in the useful life of the asset whether arising from use, passing of time or obsolescence through either changes in technology, or demand for the goods and services produced by the asset.

Derecognition

The term used for the removal of an asset or liability from the balance sheet.

Direct revenue funding

The amount of capital expenditure financed directly from revenue, rather than loans or other capital funds.

Effective interest rate (financial instruments)

The rate of interest that is necessary to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument.

Earmarked reserves

Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish a provision.

Fair value (financial instruments)

The amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

Fair value (fixed assets)

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. Depending on the asset, this could be interpreted to mean existing use value (EUUV) or market value.

Financial instrument

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The definition covers treasury management activity, including borrowing and lending of money and the making of investments. It also covers things such as receivables (debtors), payables (creditors) and financial guarantees.

General fund

The main revenue fund from which day-to-day spending on services is met.

Government grants

Sums of money paid 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 Council. Government grants fall into two categories; general (where the Council has discretion over their use), or specific (where they must be used for certain items of expenditure under the conditions of the grant).

Group Accounts

Where a Council has a material interest in another organisation (e.g. subsidiary organisation) group accounts have to be produced. These accounts report the financial position of the Council and all organisations in which it has an interest.

Heritage assets

A heritage asset is one with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained by the Council principally for its contribution to knowledge and culture. Heritage assets can be either tangible or intangible in nature.

Impairment

This is the term used to describe a reduction in the value of a fixed asset mainly due to a significant decline in its market value or evidence of obsolescence or physical damage.

Infrastructure assets

Fixed assets that by their very nature cannot be sold and therefore expenditure can only be recoverable by continued use of the asset created, for example coastal defences, highways and footpaths.

Intangible assets

Non-financial assets which do not have physical substance but are identified and controlled by the Council through legal rights for example IT software.

Inventories (stocks and work in progress)

Comprise the following categories, goods or other assets purchased for resale, consumable stores, raw materials and components purchased for incorporation into products for sale, products and services in intermediate stages of completion, long term contract balances and finished goods.

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 Council. 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.

Joint ventures

For the purpose of group accounts, a joint venture is an organisation in which the Council has an interest and is able to exercise significant influence but only with the unanimous agreement of the other parties with an interest in the organisation.

Lease

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not be eventually transferred to the lessee. An operating lease is a lease other than a finance lease.

Lender's option borrower's option loans (LOBOs)

Lenders option borrowers option loans (LOBOs) are loans where, after an initial period of fixed interest, and at agreed intervals thereafter, the lender has the option to increase the rate. The borrower then has the option to continue at the higher rate or repay the loan incurring no penalty.

Loans outstanding

Amounts borrowed to finance capital expenditure which is yet to be repaid.

Loans and receivables

Loans and receivables are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the balance sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

Local government reorganisation (LGR)

The 1997/98 change of local government boundaries resulted in the creation of unitary authorities. Plymouth City Council became a unitary council on 1 April 1998, taking over services within the city, which were previously administered by Devon County Council (the two main services being education and social services). There are some ongoing transactions between the two authorities, for Plymouth's share of liabilities pre-dating the 1 April 1998, including enhanced pension payments.

Long term debtors

Where the repayment period exceeds one year these are classified as long term debtors on the balance sheet. This debt is required to be reflected on the balance sheet at amortised cost and interest charged to the comprehensive income and expenditure account based on the effective interest rate method.

Market value

A method of valuing a fixed asset in relation to current market conditions.

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.

Non-domestic rates (NDR)

Local businesses are subject to a business tax, referred to as the national non-domestic rate. Poundage is set annually by the Government, collected by local authorities and paid into a national pool. The proceeds are then redistributed by Central Government as a grant to authorities in accordance with a government formula.

Net book value

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

Non-current assets

Expenditure that yields benefits for a period of more than one year.

Outturn

The final actual expenditure and income in a given period.

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 of Council Tax income required by precepting authorities (see below) to provide their services. It is levied on council tax billing authorities, who are required to collect income from council taxpayers on their behalf.

Precepting bodies

A body that sets a precept to be collected by a billing authority. Plymouth City Council collects precepts on behalf of Devon and Cornwall Police and Crime Commissioner, Devon and Somerset Fire and Rescue Authority and Central Government.

Private finance initiative (PFI)

PFI is a generic term used to describe a wide variety of arrangements under which assets and services are provided by the private sector and paid for by the Council under a long term performance related contract.

Property, plant and equipment (PPE)

PPE covers all tangible (physical) assets used in the delivery of services, for rental to others, or for administrative purposes, that are used for more than one year.

Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, usually a cash payment, or service potential, and a reliable estimate of the amount of the obligation can be made, but where the timing of the transfer is uncertain.

Prudential code

This refers to the CIPFA prudential code for capital finance in local authorities which outlines the guidance applicable from 1 April 2004 for the greater freedom for Councils to borrow to fund capital investment (under the Local Government Acts 2003), subject to compliance with the code.

Public Works Loans Board (PWLB)

PWLB is a statutory body operating within the United Kingdom, which provides long term loans to councils.

Related party

A third party involved with the Council where they are able to exert influence or control over the Council or are subject to influence or control by the Council.

Related party transactions

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

Reserves

Sums of money set aside to meet general or specific future liabilities.

Revaluation reserve

The revaluation reserve is an unusable reserve which contains the gains made by the Council arising from increases in the value of its property, plant and equipment which have not yet been realised through sales. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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 expenditure

Spending on day to day expenses consisting mainly of employees, running costs of buildings and equipment and capital financing costs.

Revenue support grant

A general grant from the Government received by the authority calculated by reference to a complex formula to support the delivery of the authority's services.

Section 106 receipts

Contributions from developers towards mitigating the effects of a development. These contributions may be, for example for additional education provision, playgrounds or transport infrastructure.

Section 151 Officer

The council's officer designated under section 151 of the Local Government Act 1972 to take overall responsibility for the financial administration of the local authority. In Plymouth this is currently the Strategic Director of Transformation and Change.

Short term debtors

Trade debtors fall within the definition of a financial instrument and are required to be measured using the effective interest rate method, unless they are of 'short duration with no stated interest rate' in which case they may be measured at original invoice value. Debtors included within the current assets section of the balance sheet are therefore measured at original invoice value, less a provision for uncollectability of debt.

Specific grants

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

Soft loan

A soft loan arises where an authority makes a loan to another entity at less than the prevailing rate of interest, where a service objective would justify the authority making a concession.

Subsidiary

For the purpose of group accounts, a subsidiary is an organisation over which the Council is able to exercise control in respect of its operating and financial policies, and from which the Council is able to gain benefits or is exposed to the risk of potential losses.

Temporary borrowing

Borrowing for a temporary purpose, for a period of usually less than 1 month, usually to cover cash flow.

Termination benefits (for example redundancy payments)

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy.

Trust Funds

Funds administered by the Council for such purposes as prizes, charities and specific projects.

Useful life

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