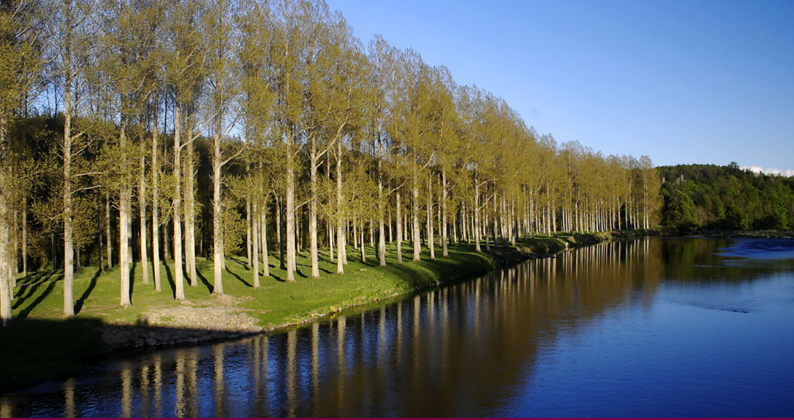

Glossary of FINANCIAL TERMS

We recognise that local government finance does, by its nature, need to include some technical terms and the purpose of this glossary is to explain some of the more important ones.

Scottish Borders COUNCIL

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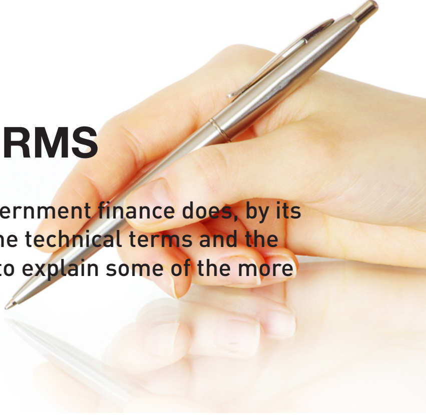


A

Admin Budget Working Group (ABWG): this is a group of members from the Council's ruling administration who have specific responsibility for the Council's Financial Strategy and Revenue and Capital Financial Planning. The ABWG make recommendations to full Council and only then do proposals become formal policy.

Accounting Period: the period over which the financial accounts refer, i.e. the financial year from 1 April to 31 March.

Accounting Policies: the main principles upon which our accounts are based as set out in the final accounts.

Accounts Commission: examines how Scotland's 32 local authorities and 34 joint boards manage their finances, helps them manage their resources efficiently and effectively, promotes value for money and secures the statutory audit of the annual Accounts. The Commission's members are appointed by Scottish Ministers.

Accrual: The Council accounts are prepared on an accruals basis. This means that expenditure and income are recognised in the accounts when incurred or earned – not when the money is received or paid.

Agency Work: work the Council undertakes on a formal agency basis for another body, e.g. collecting domestic water & sewerage charges for Scottish Water.

Aggregate External Finance (AEF): this is the term given to the total of funding provided by the Scottish Government. It comprises three parts, which are explained below:-

Revenue Support Grant (RSG): this is the largest part of AEF. It is a block grant which helps finance the overall cost of Council services.

Non-Domestic Rate Income (NDRI): local businesses pay rates based on a rateable value determined by the Assessor and a rate poundage determined by Scottish Government. The Council pays rates levied into a national pool and receives income from the pool based on a formula.

Specific Grants: the final part of AEF. As the name suggests these grants are paid to support specific services/ activities and can enable the Scottish Government to more directly influence service provision than with a block grant.

Amortisation: similar to depreciation but applied to intangible assets i.e. the measure of the value of an asset used during the year.

Asset: anything tangible or intangible that is owned by the Council, and reflected in the Council's Balance Sheet. These can be classified as 'Long Term Assets' or 'Current Assets':

Long term assets: these include Property, Plant and Equipment which are tangible and held for use in the production or supply of goods and services, for rental to others or for administrative purposes. Other assets held in this category are Intangible assets such as software, assets held for sale and long term debtors.

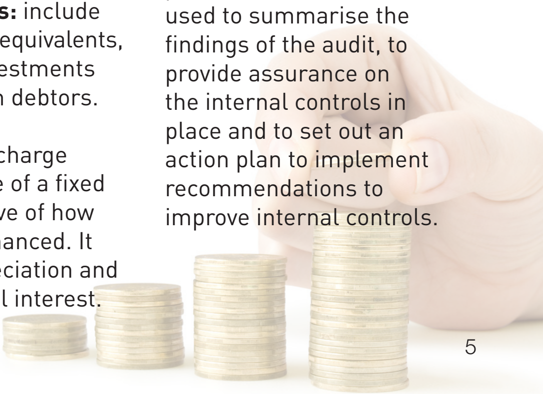
Current Assets: include cash and cash equivalents, short term investments and short term debtors.

Asset Rental: a charge made for the use of a fixed asset, irrespective of how the asset was financed. It comprises depreciation and formerly notional interest.

Audit Assignment: the pre-audit document used to outline the scope of each audit, auditor resources, timescales and key contacts with the aim to provide clarity on the audit activity to the client.

Audit Annual Plan: the document that sets out both the annual schedule of risk based audit coverage by department based on available resources and the improvement actions for the internal audit section (one year of the internal audit business plan).

Audit Report: the post audit document used to summarise the findings of the audit, to provide assurance on the internal controls in place and to set out an action plan to implement recommendations to improve internal controls.



Audit Scotland: support both the Auditor General and the Accounts Commission, carrying out audits to ensure high standards of financial management and value for money. Audit Scotland staff carries out around two thirds of local authority audits with private firms carrying out the rest.

Audit Strategy: the document that sets out the risk based audit coverage over a 3 year rolling period and the strategic direction for internal audit.

Auditor General: is independent, appointed by the Crown and reports to the Scottish Parliament, being accountable for Audit Scotland's work. They examine how public bodies spend public money, ensuring high standards of financial management and value for money.

B

Bad or doubtful debts: monies owed to the Council which it is uncertain can be collected and may need to be written off at some point.

Balance Sheet: a primary accounting statement that shows what the Council owns, what it owes and what is owed to it by others.

Balances: see 'Reserves'

Budget: the budget sets out what the Council intends to spend and how it will be paid for. Budgets are prepared and approved before the start of a financial year for both revenue and capital expenditure. Each financial year's budget is part of a 3 year Revenue or a 10 year Capital Financial Plan.

Budget Monitoring: a rigorous, structured approach to the regular comparison of budgets to forecasts (projected outturns) and the reporting thereof.

C

Capital Adjustment Account: provides a balancing mechanism between the different rates at which assets are depreciated and financed.

Capital Borrowing: this is the element of the Capital Programme not financed by capital and revenue resources (i.e. capital receipts, capital grants and revenues contribution). The capital expenditure will give rise to a borrowing need; however it is important to note that the need may not result in actual external borrowing, and the decision may be taken to finance borrowing from within the Council.

Capital Expenditure: spending on assets of lasting value, whose useful life exceeds the current year. Examples are building schools, major roadworks, improving social work and leisure facilities. Capital expenditure is financed principally from borrowing but can also be funded by capital receipts, grants and revenue contributions (CFCR).

Capital From Current Revenue (CFCR): This is expenditure on capital assets that is financed from the revenue account in the current financial year.

Capital Fund: Established under the Local Government (Scotland) Act 1975, this fund is credited with the receipts of property sales and developer contributions. It can be used to fund capital expenditure or make payments of loan principal.

Unapplied developer contributions have now been shown within Long Term Creditors.

Capital Grants: grants from bodies such as the European Union and Scottish Government can fund capital projects as can contributions from other organisations.

Capital Management Group: a member/officer working group, including representatives from all departments, charged with planning, monitoring and managing the Council's 10 year capital financial plan.

Capital Receipt: a capital receipt arises when the Council sells a surplus asset, e.g. a piece of land or a building and this can be used to finance further capital expenditure or repay existing debt.

Carrying Amount: the value of which an asset or liability is shown on the Balance Sheet.

Cash Flow: the movement of cash through the organisation, contrasting with accrued income and expenditure.

Central Support Services: internal services that support front line service delivery, e.g. finance, legal services and IT.

Chief Financial Officer (CFO): designated by Council as the officer responsible for the administration of the Council's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973.

CIPFA: the Chartered Institute of Public Finance and Accountancy. A major accountancy body specialising in the public services and providing major areas of guidance and good practice.

Code of Practice on Local Authority Accounting: also known as the Code. Professional Guidance based on the International Financial Reporting Standards (IFRS).

Commitment Accounting: a system that compliments and interfaces to FIS, enabling the early identification of financial commitments and their subsequent management and reporting.

Common Good Funds: common Good Funds have been accumulated by former burghs since their foundation from the 12th Century onwards. They are held by the Council as custodian for the benefit of residents of the 8 former burghs, Duns, Galashiels, Hawick, Jedburgh, Kelso, Lauder, Peebles and Selkirk. They are administered by the Council to have regard to the interest of the inhabitants of the area to which the Common Good formally related.

All of the Common Good Funds are registered as a single charity with OSCR.

Component Accounting: where fixed assets are valued and depreciated on the basis of individual components e.g. roof, heating system, etc. opposed to one overall value.

Contingent Liability: A possible future financial obligation which is reported as a specific note to the annual accounts because it cannot be judged as probable enough to warrant a provision.

Controller of Audit: works with Audit Scotland's directors of performance audit on investigations and reports into areas of public concern. The Controller of Audit also acts as Deputy Auditor General.

Council Tax: the major part of locally raised revenue income, based on a property being classified into one of eight bands. In the interests of consistency all Councils determine their Council Tax at the Band D level and the charges for properties in all other bands are expressed as a proportion of Band D.

Creditor: an individual or body to which the Council owes money for goods or services provided.

Current Assets: assets of a short-term nature, e.g. short term investments, inventories, short term debtors and cash and cash equivalents.

Current Liabilities: liabilities expected to be due within the next year, e.g. short term borrowing, short term creditors and provisions.

D

Debt Rescheduling: as part of the Council's proactive approach to treasury management occasions arise where it is beneficial to undertake debt rescheduling to take advantage of movements in interest rates. Loans previously taken to finance capital expenditure may be repaid early and a penalty paid, but with overall savings generated by re-borrowing at lower rates of interest.

Debtor: an individual or body that owes money to the Council for goods or services supplied.

Deficit: where expenditure exceeds income in an accounting period.

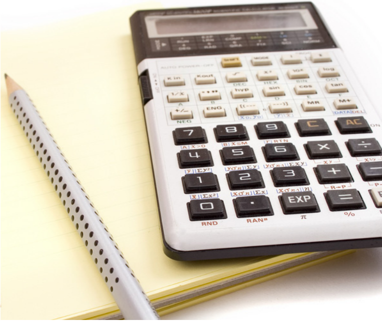
Depreciation: the measure of the value of an asset used during the year.

DSM: a scheme of Devolved School Management whereby the majority of a school's budget is delegated directly to the Head Teacher to plan, manage and control.

E

Earmarked Balance: a part of the General Fund Reserve may be 'earmarked' or put aside for specific purposes in the next or future financial years.

Efficiency Savings: savings in costs through service efficiencies, e.g. by



achieving the same outcome with less money.

Employer's On-costs: the extra costs associated with the direct salary and wage costs of employees, including employer's national insurance and pension contributions, insurances etc.

External Audit: an independent external examination of the Council's accounts, financial affairs and wider corporate governance and performance management arrangements, by an auditor appointed by the Accounts Commission.

F

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

Financial Instruments Adjustment Account: an account that enables the effects of accounting for financial instruments to be neutral in terms of Council Tax.

Financial Plans: the Revenue and Capital Financial Plans are the expression in financial terms of the Council's objectives and provide budgets for managers to work to. Revenue plans are currently prepared on a three year basis to assist medium term financial planning and capital plans are prepared over five years.

Financial Regulations: a framework of rules and procedures designed to ensure the highest standards of financial probity, management and stewardship within the Council.

Financial Strategy: a document setting out the arrangements that the Council has or will put in place to ensure that its financial targets are met. The strategy is a medium term document covering three financial years.

Financial Year: the period from 1 April to 31 March.

FIS: Financial Information System, the Council's main corporate system for recording financial transactions. This is an integrated system consisting of three modules, General Ledger (GL), Accounts Payable (AP) and Accounts Receivable (AR) and also other Council IT systems. The product that is FIS is Masterpiece Net 1.3, provided by SSA Global.

G

Grant Aided Expenditure (GAE): at a national level this represents the aggregate expenditure on service provision the Scottish Government is prepared to grant aid. For each local authority its GAE is a measure of relative expenditure need among Scottish local authorities based on client groups, e.g. numbers of primary school pupils. GAE is fundamental to the distribution of AEF.

General Fund: The principle usable reserve of the Council that covers most areas of activity, the principal exclusions being SBc Contracts and the Pension Fund.

Group Accounts: statements that reflect the Council's interest, if any, in subsidiaries, associates and joint ventures.

I

IAS 19: The International Accounting Standard (IAS) which lays down the disclosure and reporting requirements for Retirement Benefits paid from our pension fund.

IFRS: The Council's accounts are now governed by International Financial Reporting Standards.

Impairment: an asset is impaired when its carrying amount exceeds its recoverable amount.

Incremental Budgeting: an approach to budgeting which starts with the current budget and recognises incremental changes, e.g. pay awards, pay increments, price inflation etc. It contrasts with the zero based approach to budgeting.

Inflation: the general level of price increases in the economy of which there can be a number of different measures.

Infrastructure: assets of a general and supporting nature, e.g. the roads and bridges network, car parks, pathways, sea defences and water/drainage systems.

Insurance Fund: a fund that meets the cost of premiums for a range of external insurance cover, meets the cost of claims not covered by external insurance, and receives contributions from Council services.

Intangible Assets: purchased software can be capitalised as an intangible asset and written off to the revenue account over its estimated economic life.

Interest on Revenue Balances: the Council's loans fund acts as an internal banker and pays interest where it has utilised any internal credit balances, e.g. the General Fund Reserves.

Internal Audit: an independent review service available to management reporting directly to the Chief Executive and the Audit Committee.

Inventories: materials etc. that have been purchased but not yet been consumed in the delivery of Council services.

J

Journal: an accounting source document enabling the transfer of financial data in the general ledger.

L

LASAAC: Local Authority (Scotland) Accounts Advisory Committee. Its aim is to develop and promote proper accounting practice in Scottish local authorities in line with legislation and the Accounting Standards Board. It works closely with CIPFA in developing best practice, responses to current developments and approving the CODE.

Leases: a financial arrangement that provides for the use of an asset, e.g. vehicles without direct ownership. Leases can be either finance leases or operating leases.

Liability: a debt or obligation owed by the Council to another entity.

Loan Charges: sometimes called debt charges these are the annual repayments of principal, interest and expenses in respect of loans taken to finance capital expenditure.

Loans Equalisation Account: as part of its Treasury Policy the Council might, when circumstances are suitable, repay loans earlier than originally scheduled and incur a short-term premium (which would be more than offset by longer-term interest savings). These premia, or occasionally discounts, are written off to revenue over specified periods.

Loans Fund: established as part of the Local Government (Scotland) Act 1975, the Council's Loans Fund acts as an internal banker and makes use of internal funds as well as controlling the Council's external borrowing needs. These balances represent the sums held in the Loans Fund on behalf of these various funds.

Long-Term Borrowing: sums borrowed to finance capital expenditure and not yet repaid or due to be repaid within one year. The majority of this is borrowed from the Public Works Loan Board and can be for periods of up to 60 years.

N

Notes to the accounts: detailed supporting information to the principal accounts often of a statistical or comparative nature.

O

Outturn: the actual income and expenditure position at the end of the accounting period against budget for the same period.

Office of the Scottish Charity Regulator (OSCR): All charities in Scotland have to be registered with OSCR and comply with its regulation. The Council has 38 Trusts and all the Common Good Funds registered with OSCR.

P

Pension Fund: under relevant legislation the Council administers a Pension Fund for its employees (other than teachers, who are members of a national scheme) and employees of certain other 'Admitted Bodies'. It is what is known as a 'funded scheme' whereby all monies not immediately required to pay pensions and benefits are invested.

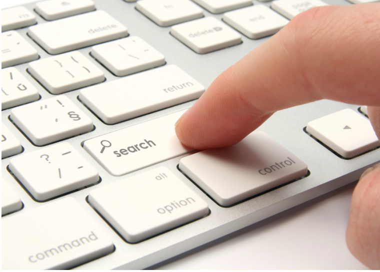
Pension Fund Sub Committee: consists of seven members of the Council, main function regards all matters relating to the management of the Councils Pension Fund investments.

Petty Cash: a small amount of cash kept on hand for incidental expenses.

Plant and Vehicle Replacement Fund: a separate fund in the Council's accounts designed to fund the periodic replacement of plant and vehicles.

Post Balance Sheet Event: a favourable or unfavourable event occurring after the Balance Sheet date but before the financial statements are finally 'signed off'. Dependent upon the circumstances the event may require an adjustment to the financial statements at the Balance Sheet date.

Prior Year Adjustments: an adjustment made to the previous year's financial statements due to a significant post balance sheet event.



Procurement: the acquisition of goods or services.

Provision: a liability of uncertain timing or extent for which an estimate must be included in our annual accounts.

Prudential Code: the Prudential Code for Capital Finance in Local Authorities published by CIPFA that underpins the Prudential Framework and which we are obliged by statute to conform with.

Prudential Framework: governs the framework for capital investment in local government replacing the previous complex regulatory framework in Scotland, England and Wales. It is based largely on self regulation where local authorities must show that their capital investment plans are affordable, prudent and sustainable.

Public Private Partnership (PPP): a general term for agreements between public sector and private sector parties to provide and fund public sector infrastructure. Private Finance Initiative (PFI) is a particular kind of PPP. Typically a private sector partner will finance and build assets, e.g. schools and the Council will, upon completion, repay through its revenue budget over, typically, 20 to 30 years.

Public Works Loan Board (PWLB): an Executive Agency of HM Treasury that lends money to local authorities and other prescribed bodies and collects the loan repayments and interest.

R

Ratios: financial analysis tools to support the evaluation of the financial health of the organisation.

Related Parties: an individual or body related to the Council because of a financial relationship or transaction. Such transactions, if considered material, are reported in the notes to the accounts.

Rents, Fees and Charges: add in charges for specific services; examples include home care charges, commercial property rents, hall lets and library fines.

Repairs and Renewals Fund: a separate fund in the Council's accounts that finances corporate property repairs.

Requisitions: the Council pays a contribution, or requisition, to the Lothian and Borders Joint Boards to cover the cost of Police and Fire services provided by the Boards in the Council's area.

Reserves: sometimes referred to as 'Balances' they are the accumulated surpluses/deficits generated by the various funds. They are split between 'usable' and 'unusable' reserves.

Usable Reserves: Capital Fund, General Fund Balance, Property Maintenance Fund and the Insurance Fund.

Unusable Reserves: Capital Adjustment Account, Financial Instruments Adjustment Account, Revaluation Reserve, Pension Reserve, STACA Statutory Mitigation Account and Icelandic Banks Statutory Adjustment Account.

Revaluation Reserve: the balance represents the difference between the depreciated revalued amount and the depreciated historic cost of fixed assets at 1 April 2007. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Revenue Collection: the collection of Council Tax, Non-Domestic rates and a range of sundry debtors.

Revenue Expenditure: the day to day recurring costs of providing services. It includes wages and salaries, property costs such as power and light, transport costs and supplies and services. It also includes the annual repayment of loans which have financed capital expenditure. Revenue expenditure is always paid for in full as and when it happens from a combination of Council Tax, rents, fees, charges and grants and distributions from the national Non-domestic Rates Pool from the Scottish Executive.

Ring-Fenced Grant: Ring-fenced Revenue Support Grant which must only be used to finance projects to improve the local environment or promote community wellbeing.

S

SeRCOP: Service Reporting Code of Practice, replaces BVACOP (Best Value Code of Practice). It provides a definition of the total cost of a service and a consistent expenditure analysis so that authorities can report on a consistent basis.

Short-Term Borrowing: sums borrowed due to be repaid within one year.

Significant Trading Operations: services provided in a competitive environment, which are charged for on a basis other than a straightforward recharge of cost, e.g. quoted lump sums, fixed rates etc.

Special Grants: grants received in respect of certain services/activities but not included in the specific grant element of AEF.

Specific Grants: see Aggregate External Finance (AEF)

Statement on Internal Control and Governance (SICG): a statement, included in the annual accounts, that reports on the effectiveness of internal control and governance arrangements in the year and on any planned improvements.

Surplus: when income exceeds expenditure in an accounting year.

T

Treasury Management Code of Practice: this document is produced by CIPFA and provides a basis for public sector organisations to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

Treasury Management: the arrangements around the control and management of the Council's cash flows, borrowing and debt portfolio.

Treasury Policy: the medium term framework for the Council's treasury operations, identifying policy, procedures, controls, and limits.

Treasury Strategy: an annual strategy within the medium term treasury policy that sets out the short term targets and likely actions for the year ahead.

Trust Funds: The Council administers 290 Trust Funds and Bequests, held for the benefit of specific functions or groups or beneficiaries, 38 of which have charitable status and are registered with the Office of the Scottish Charity Regulator (OSCR).

V

Virement: because circumstances change, budgets need to remain flexible. Virement is the approved transfer of resources from one area of the budget to another, the creation of new budgets to reflect additional income and related expenditure or the transfer of budget from one financial year to the next.

W

Whole Life Costing: an approach to costing that recognises the costs associated with an items whole useful life, rather than merely the upfront costs of acquisition.

Whole of Government Accounts: a project driven by HM Treasury that attempts to combine the accounts of all public sector bodies to produce a set of accounts for "UK plc".

Z

Zero Based Budgeting: a method of budgeting that starts with a blank piece of paper or 'zero base'. The principle is to budget, from a clean start, for the service envisaged and not to merely increment existing budgets

Scottish Borders COUNCIL

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