

# Annex B

## Glossary and index of terms

This glossary covers the main terminology used for the finance systems in existence since 1 April 1990.

**Accruals basis** - an accounting convention in which transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received. From 1994/95 local authority accounts are compiled on an accruals basis.

**Aggregate External Finance (AEF)** - central government support towards Total Standard Spending. It comprises RSG, NNDR, and certain specific, supplementary and special grants.

**Billing authority** - a local authority empowered to set and collect council taxes, and manage the Collection Fund, on behalf of itself and local authorities in its area. In England, shire and metropolitan districts, the Council of the Isles of Scilly, unitary authorities, London Boroughs and the City of London are billing authorities. The same authorities were **charging authorities** under the community charge system.

**Budget requirement** - an amount calculated, in advance of each year, by each billing authority, by each major precepting authority and by each local precepting authority. It is broadly the authority's estimated net revenue expenditure allowing for movement in reserves. It is, therefore, the estimate of the amount to be met from revenue support grant, redistributed non-domestic rates and any additional grant, and from council tax income.

**Capital expenditure** - the statutory definition extends to:

- the acquisition, reclamation, enhancement or laying out of land, exclusive of roads, buildings and other structures;
- the acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures;
- the acquisition, installation or replacement of movable or immovable plant, machinery and apparatus and vehicles and vessels;
- the making of advances, grants or other financial assistance to any person towards expenditure incurred or to be incurred by him on matters mentioned in the three categories above or in the acquisition of investments;
- the acquisition of share or loan capital in any body corporate.

**Capitalised current expenditure** - expenditure which would normally score as current expenditure but which a local authority has been allowed to capitalise, with the permission of the Secretary of State (eg redundancy payments).

**Capital receipts** - sums received from the sale of assets where expenditure on those assets would be expenditure of a capital nature.

**Capping** - the Secretary of State has the power to 'cap' the budgets of local authorities which he considers to be excessive, see page 5.

**Cash basis** - an accounting convention in which transactions are recorded in the period in which payment is made or received as opposed to the period in which the transaction took place (accruals basis). Capital expenditure and receipts were, for many years, recorded on a cash basis but local authorities now account for them on an **accruals basis**.

**Charging authority** - between 1 April 1990 and 31 March 1993, a local authority empowered to set and collect community charges, and administer the Collection Fund, on behalf of itself and local authorities in its area. In England, shire and metropolitan districts and London Boroughs are charging authorities. The charging authority becomes a **billing authority** under the council tax system.

**Community assets** - are assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal, eg parks and historic buildings.

**Collection Fund** - the fund administered by a **billing authority (from 1 April 1993)** into which council taxes are paid, and from which payments were made to the General Fund of billing and precepting authorities. Under the community charge system, billing authorities were known as charging authorities, and community charges, revenue support grant, non-domestic rate entitlements and special grants were all paid into their collection fund.

**Community charge** (popularly called the 'poll tax') - a personal local charge (or charges) which was set by the **charging authority** and precepting authorities to collect sufficient revenue to meet their demands on the collection fund. The charge was introduced in place of the domestic rates on 1 April 1990 and was replaced by the council tax on 1 April 1993.

**Community charge benefit** - people with low income were helped to meet their remaining community charge liability through a rebate of up to 80% of the charge under the provisions of the community charge benefit scheme. They may be further assisted by the extra sum provided as liability not covered by the rebate. Community charge benefit replaced rate rebates on 1 April 1990 and was itself replaced by Council Tax Benefit on the introduction of the new tax.

**Community Charge grant** - a special grant in 1991/92 announced by the Chancellor of the Exchequer in the 1991 budget. It was paid to local authorities and reduced the community charge by £140 per person.

**Community charge reduction scheme** - this scheme paid an amount to all personal community chargepayers within a community area if the 1990/91 community charge was more than a certain threshold amount above the notional average domestic rate bill per adult for that community. The CCRS paid to each personal community chargepayer equalled the amount by which the actual community charge for 1990/91 exceeded the threshold level.

**Council tax** - a local charge (or charges) set by the billing authority and the precepting authority in order to collect sufficient revenue to meet their demand on the Collection Fund. It replaced the community charge on 1 April 1993 and is based on the value of the property and the number of residents. The Valuation Office Agency assesses the properties in each district

area and assigns each property to one of eight valuation bands; A to H. The tax is set on the basis of the number of Band D equivalent properties. Tax levels for dwellings in other bands are set relative to the Band D baseline.

**Council Tax Benefit** - Council Tax Benefit is an income related social security benefit designed to help people in low income pay their Council Tax. Council Tax Benefit Replaced Community Charge Benefit on 1 April 1993.

**Council Tax for Standard Spending (CTSS)** - the level at which council tax can be set for local authority spending at SSA level. Under the Community Charge System, the equivalent concept was Community Charge for Standard Spending.

**Council tax transitional reduction scheme** - this scheme limited the increase in a household's bill as a result of the change from community charge to council tax to a fixed amount for each band. Relief was withdrawn at a fixed rate in 1994/95 and 1995/96. There was no further relief from 1996/97.

**Credit approvals** - can be used as authorisation given by government departments not to have to charge expenditure to a revenue account or as a means of providing credit cover. Credit approvals can be issued as either: an unhyponthecated Basic Credit Approval (BCA) before the beginning of the financial year to which they relate; or a Supplementary Credit Approval (SCA), relating to a particular programme or project. SCA's may be specified for any period, but from June 1998, the presumption is that all SCA's will have effect for a period of two years.

**Credit arrangements** - forms of credit which do not involve the borrowing of money by a local authority. Eg leases of land (including buildings) or other property and contracts which provide for external credit (in the sense that there is more than a full financial year gap between the giving of value to the authority and the payment for that value).

**Credit cover** - resources which need to be found to meet the initial cost of a credit arrangement (eg the capital value of payments made under a lease). Credit cover can be provided by setting aside as PCL usable capital receipts or revenue account sums or by using a credit approval.

**Current expenditure** - a general term for the direct running costs of local authority services including employee costs and running expenses but excluding debt charges. Particular definitions include 'net current expenditure' (see below).

**Demand on the Collection Fund** - after 1 April 1993, represents the amount calculated by a billing or precepting authority to be transferable from the billing authority's Collection Fund to its General Fund. Between 1 April 1990 and 31 March 1993, represented the amount required from the Collection Fund by a charging authority in order to finance its own expenditure, and funded by revenue support grant, non-domestic rates and community charges.

**Direct Labour Organisation (DLO)** - an organisation which consists of workers directly employed by a local authority to carry out construction and/or maintenance work.

**Direct Service Organisation (DSO)** - an organisation which consists of workers

directly employed by a local authority to carry out work specified under the Local Government Act 1988.

**General Fund** - the fund, since April 1990, within which most transactions of a local authority take place. Other funds held by a local authority may include a Collection Fund, Superannuation Fund and trust funds held for charitable purposes. See figure 2 in chapter 1.

**Gross Expenditure (excluding double counting)** - see table 2.1.

**Gross Expenditure on individual accounts** - eg General Fund revenue account gross expenditure. Double counting of flows between services, accounts and other authorities is not excluded. In some tables, such as table 3.1, this is represented by the 'Total' expenditure column.

**Gross Revenue Expenditure** - is derived from net current expenditure by adding on net capital charges, capital expenditure charged to revenue, gross expenditure on community charge benefit, expenditure funded by community charge reduction scheme, and other non-current items. It is net of expenditure met by sales, fees and charges and interest receipts.

**Housing benefit** - financial help given to local authority or private tenants whose income falls below prescribed amounts. Central government finances about 95% of the cost of benefits to non-HRA tenants ('rent allowances') and the whole of the cost of benefits to HRA tenants (through the rent rebate element of housing subsidy). Some local authorities operate 'local schemes' whereby they finance allowances in excess of the standard payments. Detailed figures for 1995/96 are given in Table A1.

**Housing Revenue Account (HRA)** - a local authority statutory account, within the General Fund, covering current income and expenditure on its housing services relating to its own housing stock.

**Local precepting authority** - since 1 April 1993, parish councils, chairmen of parish meetings, charter trustees and treasurers of the inner and Middle Temples. These are some of the local authorities which make a precept on the Collection Fund. Between 1 April 1990 and 31 March 1993, these authorities were classified, together with those authorities now known as **major precepting authorities**, as **precepting authorities**.

**Major precepting authority** - since 1 April 1993, county councils, metropolitan county police, fire and civil defence authorities, the London Fire and Civil Defence authority and the Receiver for the Metropolitan Police district. These are some of the local authorities which make a precept on the Collection Fund. Between 1 April 1990 and 31 March 1993, these authorities were classified, together with those authorities now known as **local precepting authorities**, as **precepting authorities**.

**National non-domestic rates (NNDR)** - are a means by which local businesses contribute to the cost of local authority services. On 1 April 1990 the rating of non-domestic (mainly commercial and industrial) properties was substantially reformed. Prior to 1990/91, rate poundages were set individually by local authorities and varied from authority to authority. Since 1 April 1990, a single national poundage has been set by the Government.

**Net Revenue Expenditure** - is derived from Revenue Expenditure by deducting specific grants inside AEF. See Table 4.1. It also represents spending other than the use of reserves, to be funded by the demand or precept on the Collection Fund, or the budget requirement for year 1993/94 onwards.

**Net Current Expenditure** - is, essentially, spending on services. It is defined as expenditure on employees and running expenses net of sales, fees and charges, internal recharges, other non-grant income (such as receipts from other authorities), but gross of specific grants and interest receipts. See Tables 4.1 and table A1.

**Non- Operational assets** - are fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

**Operational assets** - are fixed assets held and occupied, used or consumed by a local authority in the direct delivery of those services for which it has either a statutory or a discretionary responsibility.

**Pension Funds** - see table 8.1.

**Precept** - represents the amount required to finance the expenditure of a local or major precepting authority.

**Precepting authority** - between 1 April 1990 and 31 March 1993, a local authority which made a precept on the Collection Fund. Counties, joint police authorities, the metropolitan police, fire authorities and parishes were precepting authorities.

**Provisions** - amounts set aside by an authority. The main category is estimates of liabilities or losses already incurred but whose exact amount will be determined in the future (eg bad debts, stock obsolescence). Movements to provisions - rather than payments from provisions - score as expenditure (as a running expense).

**Reserves** - under the community charge and council tax systems, reserves fulfil the same function as balances and special funds. Reserves can be amounts for general contingencies and to provide working balances or they can be earmarked to specific future expenditure. LMS (Local Management of Schools) reserves are reserves of schools balances, held at individual schools under the LMS scheme. From 1999/00, these will be known as School Financial Reserves.

**Revenue Expenditure** - in a general sense, expenditure on recurring items including the running of services and capital financing. A particular definition 'revenue expenditure' is that derived from Gross Revenue Expenditure by deducting spending met by grants outside aggregate external finance (AEF) (including rent allowance grant, mandatory student awards grant and community charge benefit grant) and income from licence fees etc. Alternatively, it is derived from net current expenditure by adding net capital charges, capital expenditure charged to the revenue account and non-current items (mainly gross expenditure on community charge benefit). See Table 4.1.

**Revenue support grant (RSG)** - replaced rate support grant. It does not vary with a local authority's spending and is distributed so that if each authority were to set its budget requirement at the level of its Standard Spending Assessment, its council tax could be set at Council Tax for Standard Spending.

**Settlement** - "Local Government Finance Settlement" is the annual determination made in a Local Government Finance Report by affirmative resolution of the House of Commons in respect of the following year of: the provision for local authority expenditure; the amount of central government support for that expenditure; how that support will be distributed; and the support for certain other local government bodies.

**Special funds** - until 1990, local authorities operated a number of internal funds ('special funds') which were not generally related to specific services but were used to assist the authority in running its service as a whole.

**Special grants** - these are grants paid by various government departments for use on specific services.

**Standard Spending Assessment (SSA)** - provide a basis for distributing grant. An authority's SSA is its share of the national total of SSAs, which is TSS, net of specific grants. It is calculated using information reflecting the demographic, physical and social characteristics of each area.

**Total Gross Expenditure** - gross spending, taking all local authority accounts together (except Superannuation), after eliminating double counting of flows between services, accounts and other authorities, where this is possible. Total gross expenditure is divided into gross revenue expenditure and gross capital expenditure - see Table 2.1. The definition used in Table 2.1 excludes payments of rent rebates, rate rebates, community charge benefits and transitional relief/community charge reduction scheme to individuals because the purpose of such payments is to finance local authority expenditure rather than to increase it.

**Total Standard Spending (TSS)** - this is the amount of local authority revenue spending to which the government is prepared to contribute grant support.

**Trading services** - local authority services which are, or are generally intended to be, financed mainly from charges levied on the users of the service.