

# Annex D

## 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 (e.g. redundancy payments).

**Capital charges** - see Gross total cost

**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 for Transport, Local Government and the Regions has the power to 'cap' the budgets of local authorities which set an excessive council tax or budget increase. In 1999, the Government replaced the previous system of crude and universal capping with new reserve powers. Under the previous system, the Government pre-announced the levels above which budgets would be capped. The present reserve powers are more discriminating in determining whether an increase is excessive. Ministers can consider increases in budget requirement in a single year, or any number of years since 1998/99, or other factors they consider to be relevant. The powers are also more flexible: in addition to in-year capping, Ministers may set a notional budget requirement to be used for future comparisons, or can cap the following year's budget. The reserve powers have not so far been used.

**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**.

**Central support protection grant** - introduced for 1999/2000 to provide minimum increases in the level of central government support (principally revenue support grant plus redistributed national non-domestic rates). It ensured that authorities with education and social service responsibilities received at least a 1.5% increase in support and that other authorities did not experience a year-on-year fall in support. For 2001/02 damping of grant changes for authorities with education and social service responsibilities was provided via the floor and ceiling mechanism (see paragraph 1.4.8).

**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 became a **billing authority** under the council tax system.

**City offset** - an amount of NNDR that the City of London is permitted to retain due to its unique circumstances. It was £6.5m in 2001/02.

**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, e.g. 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 benefit subsidy limitation (CTBSL)** - this scheme was introduced in 1999/2000 to ensure that large increases in council tax and thus council tax benefit were increasingly met locally rather than by the national taxpayer. By 2001/02, local authorities were contributing on average 9% of the costs of council tax benefit, compared with 5% before the scheme was introduced. See Table 5.3.

**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 unhypothecated 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. SCAs may be specified for any period, but from June 1998, the presumption is that all SCAs 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 (e.g. 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.

**General grant** - there are no restriction on how this grant is spent. This includes RSG, redistributed non-domestic rates, police grant allocated under principal formula and SSA reduction grant.

**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 council tax 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.

**Gross total cost** - includes all expenditure relating to a service/activity, including employee costs, expenditure costs, expenditure relating to premises and transport, supply and services, third parts payments, transfer payments, support services and capital changes. Specifically it includes capital charges calculated in accordance with existing capital account guidance, but with certain aspects changed. Capital charges are limited to depreciation and the interest element calculated using the specified notional percentage.

**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 1999/00 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.

**Joint Arrangements** - refers to the transfer of money between one local authority and another, as distinct from joint arrangements between local authorities and health authorities, fishery boards or any outside bodies. This includes situations where two or more authorities join by finance as enterprise, or when one authority carries out work on behalf of another.

**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.

**National non-domestic rates (NNDR) multiplier** - The factor by which a (hereditament) property's rateable value is multiplied in order to calculate its gross rateable

value.

**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 4.2, 4.3 and table A2.

**Net revenue expenditure** - is derived from revenue expenditure by deducting specific grants inside AEF. See Table 4.2 and 4.3. 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 1994/95 onwards.

**Net total cost** - gross total cost less income, with income defined to include income from fees and charges and all specific, special and supplementary grants (i.e. all grants except for redistributed non-domestic rates and the block grants).

**Net total cost excluding specific grants** - gross total cost less income other than specific grants. This is equivalent to net current expenditure plus capital charges.

**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 (e.g. 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 are 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 license 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 4.2, 4.3 and A2.

**Revenue support grant (RSG)** - replaced rate support grant. It does not vary with a local authority's spending and is distributed, subject to damping arrangements, so that if all authorities were to set their budget requirement at the level of its standard spending assessment, then broadly the same level of council tax could be set in every area.

**Ring - fenced grant** - can only be used for the specified purposes. This is equivalent to specific, special and supplementary grants inside AEF, with the exception (in 2001/02) of neighbourhood renewal fund grant.

**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.

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

**Specified body** - this is the term used for bodies (such as the Local Government Improvement and Development Agency and the National Youth agency) that are directly funded from revenue support grant, and that centrally provide services for local government as a whole.

**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.

**Taxbase** - The number of Band D - equivalent properties in a local authority's area. An authority's taxbase is taken into account when it calculates its council tax, and when central government calculates entitlement to revenue support grant.

**Total cost** - see gross total cost and net total cost

**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, council tax benefits and transitional relief/council tax 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 (please refer to 1<sup>st</sup> page of Annex A).