



## SSN Finance Action Group - Public Finance: A glossary of terms<sup>1</sup>

This short Financial Glossary has been produced to provide a succinct explanation of many commonly used financial and related terms that occur in public finance. A number of these terms can be complicated and the glossary balances succinct definition with sufficient detail by providing additional hyperlinks to expand on the description and point to further detail. Content in bold has a corresponding definition. A useful list of common finance related acronyms is also appended.

The descriptions and links in this document are current to the best of our ability at the time of launching and every effort has been made to ensure that the hyperlinks are 'live'. Recognising that this may change over time the glossary shall be reviewed and updated annually. Any changes/omissions or inaccuracies discovered should be communicated to [info@sustainablesotlandnetwork.org](mailto:info@sustainablesotlandnetwork.org) to assist in that process.

### **BASE YEAR**

Year immediately prior to first year of spending review period. The comparator year, starting point for measuring change.

### **BEST VALUE**

Arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost), and in doing so, to have regard to economy, efficiency, effectiveness and equal opportunities requirements and to the achievement of sustainable development. This official definition of [Best Value](#) was placed on a statutory basis via the Local Government in Scotland Act (2003).

### **BONDS**

Device used to fund some public expenditure. Bonds' refers to gilts, which are UK Government bonds. Bonds are essentially tradable securities, which means they have a market value, so pricing depends on the perceived risk associated with them. Bonds provide an annual fixed income and can have a fixed life.

<sup>1</sup> With thanks to the Scottish Parliament Information Centre (SPICe) Financial Scrutiny Unit Briefing 11/75 Public finance: A glossary of terms. [http://www.parliament.scot/S4\\_FinanceCommittee/General%20Documents/PublicFinanceGlossary.pdf](http://www.parliament.scot/S4_FinanceCommittee/General%20Documents/PublicFinanceGlossary.pdf) which formed the backbone of this publication.

## **BUDGET EXCHANGE MECHANISM (BEM)**

End Year Flexibility (EYF) has been replaced with the Budget Exchange Mechanism (BEM). In summary, under the BEM, the devolved administrations will be able to carry forward underspends, up to an agreed cap. Unlike Whitehall departments, there will be no requirement to inform the Treasury in advance of the following year of the expected underspend in order to carry over the funding. However, if the devolved administration chooses to inform Treasury of its planned underspend (by early December) then it will be able to access the carry over earlier in the next financial year.

## **BLENDED FINANCE**

The use of public or philanthropic capital to spur private sector investment in projects. See also **Match Funding**.

## **CAPITAL EXPENDITURE**

Spending which creates longer-term assets, whose benefits will last over a period of years such as spending on the purchase, construction or improvement of land or buildings.

## **CASH LIMITS**

Restrictions on the amount of money the Government proposes to spend or authorise on certain services or blocks of services in one year.

## **COST BENEFIT ANALYSIS (CBA)**

Cost-benefit analysis, sometimes called benefit costs analysis, is a systematic approach to estimating the strengths and weaknesses of alternatives used to determine options which provide the best approach to achieving benefits while preserving savings. There are many differing economic methods of measuring both costs and benefits taking into account non-monetary values and monetary costs and benefits. See also **Green Book**.

## **CROWD FUNDING**

The practice of funding a project or venture by raising money from a large number of people who each contribute a relatively small amount, typically via the Internet. The reward can be a share of the profits or just the feel good factor of having contributed. Largely unregulated it can be risky if seen as a financial investment but it can be a useful means of securing funding for a small project especially local in scale.

[http://www.toolsforbusiness.info/success/crowdfunding\\_kinds.pdf](http://www.toolsforbusiness.info/success/crowdfunding_kinds.pdf)

See also **Enterprise Investment Scheme (EIS)** and **Seed Enterprise Investment Scheme (SEIS)**.

## **CURRENT EXPENDITURE**

Includes most direct expenditure on public sector pay and providing services, e.g. health or education, reflecting continuing programmes financed each year. It does not include the purchase of tangible, physical assets.

## CURRENT PRICES

Expenditure and income data presented in the cash value of the relevant year. Not adjusted for inflation.

## DISCOUNT RATES

The rate used to take account of risk and time in forming a value of future income today. A rate of interest that is used to calculate the **present value** of an amount of money that you receive or pay in the future. The official **Green Book** rate is 3.5%, while different rates can be used they will be compared against a 3.5% rate. This makes for greater transparency.

## END YEAR FLEXIBILITY (EYF)

EYF has been replaced with the **Budget Exchange Mechanism (BEM)**. Please see that definition.

## ENERGY PERFORMANCE CONTRACT

A low-risk method of financing and delivering energy efficiency improvements and renewable projects. The EPC is formed between the client and an Energy Services Company (ESCO), with the upgrades funded through cost reductions.

*Note: An energy service company (ESCO) is a business that provides a broad range of energy solutions including designs and implementation of energy savings projects, retrofitting, energy conservation, energy infrastructure outsourcing, power generation and energy supply, and risk management. Super ESCO as an entity that is established by the Government and functions as an ESCO for implementing projects in public facilities and supports capacity building and project development activities of existing private ESCOs.*

## ENTERPRISE INVESTMENT SCHEME (EIS) and SEED ENTERPRISE INVESTMENT SCHEME (SEIS)

Two main schemes of gaining tax breaks for investment; both schemes let you offset a percentage of the amount invested against your tax bill and any profits are tax free. Check eligibility:

<https://www.gov.uk/guidance/venture-capital-schemes-raise-money-by-offering-tax-reliefs-to-investors>.

## EQUITY INVESTMENT

A financial transaction where an individual or company invest money into a private or public company to become a shareholder. To take an equity share.

## FINANCIAL INTERMEDIARY

Acts as the middleman between two parties in a financial transaction, such as a commercial bank, investment banks, mutual funds and pension funds. Usually for a commission or fee.

## GRANT AIDED EXPENDITURE (GAE)

An assessment by the Scottish Government of each local authority's spending needs, in order for each to provide a broadly consistent level of services across

Scotland. It is not, as sometimes misunderstood, the level of actual support provided by central government (this is referred to as *Total Revenue Support*).

## GRANT IN AID

A payment by a government department to finance all or part of the costs of the body in receipt of the grant in aid. It applies where the Scottish Government has decided, subject to the necessary Parliamentary controls, that the recipient body should operate at arm's length from government. Most bodies in receipt of grants are non-departmental public bodies (NDPBs).

## GREEN BOOK

The official HM Treasury guidance on how to appraise and evaluate policies, projects and programmes. Provides a useful guide to the 'official' means of design and use of monitoring and evaluation before, during and after implementation. <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> See also **Cost Benefit Analysis**.

## GROSS DOMESTIC PRODUCT (GDP)

The value of goods and services produced by United Kingdom residents, including taxes on products, the expenditure on both home produced and imported goods and services and the effect (at market prices) of subsidies. No deduction is made for depreciation of existing assets. Figures are also available at a Scotland-level.

## GROSS NATIONAL PRODUCT (GNP)

GDP adjusted for net income to/from abroad. This is a harder figure to produce for Scotland and no official figure exists.

## GROSS VALUE ADDED (GVA)

GVA is essentially GDP without taxes or subsidies, sometimes known as GDP at basic prices.

## HOUSING REVENUE ACCOUNT (HRA)

Funded separately from other local authority services. All local authorities must maintain a –*ring fenced* housing account known as the Housing Revenue Account (HRA). The HRA is a record of income (mainly rents) and expenditure derived from local authorities' landlord function. Other housing-related expenditure such as renovation grants for home-owners is classed as non-HRA expenditure. The HRA is divided into *revenue* and *capital* expenditure. Housing revenue expenditure is funded mainly from income from tenants' rents and charges with a very small number of local authorities receiving Housing Support Grant (HSG). Housing capital expenditure is funded through two main elements: a spending consent issued by Scottish Ministers (often referred to as –consent to borrow because the bulk of it is funded by borrowing) and receipts from the sale of council housing or land.

## INPUTS/OUTPUTS/OUTCOMES

**Inputs:** Resources needed to develop and implement projects, programmes or policies (e.g. funding for school education).

**Outputs:** Products resulting from inputs (e.g. number of teachers). Outputs should facilitate the meeting of outcomes.

**Outcomes:** Benefits resulting from outputs. They should correspond to ultimate objectives - the impact of a policy intervention on the welfare of producers or consumers (e.g. better educated school students).

## LOCAL AUTHORITY SELF-FINANCED EXPENDITURE (LASFE)

The proportion of local authority expenditure funded from the council tax is known as Local Authority Self-Financed Expenditure (LASFE) and counts towards total public expenditure at a GB level, but is not part of the Assigned Budget. It is for each local authority to set its council tax level, based on its own spending decisions and following consultation with its local electors but following the signing of the Concordat the Scottish Government has provided additional funding to allow local authorities to freeze their council tax levels at 2007-08 levels.

## MATCH FUNDING

Match funding is funds that are set to be paid in equal amount to funds available from other sources. This particularly common with European funding. The terms cost sharing, in-kind, and matching can be used interchangeably but do refer to different types of donations.

## MUNICIPAL BONDS

A debt security issued by or on behalf of a local government. It is generally used to finance public capital projects such as roads, schools and airports, and infrastructure-related repairs

Until the launch of the UK Municipal Bonds Agency Plc, (<https://www.ukmba.org/>) 75% of local authority borrowing came from the Public Works Loan Board (PWLB), part of the Debt Management Office (DMO). The UK Municipal Bonds Agency Plc provides competition and diversity of finance, which improves efficiency and means more money can be invested in the real economy. This is attractive to institutional investors who want to invest in local government infrastructure.

## NET PRESENT VALUE (NPV)

Net present value (NPV) is the difference between the **present value** of cash inflows and the present value of cash outflows over a period of time. NPV is used in capital budgeting and investment planning to analyse the profitability of a projected investment or project and/or to compare different options

## NON-PROFIT DISTRIBUTING MODEL (NPD)

A form of *public-private partnership*, and a variant of PFI, but under NPD returns to the private sector are capped, surplus profits are reinvested and it does not contain dividend-bearing equity.

## ON/OFF BALANCE SHEET

Means just what it says, off balance sheet items are asset or debt or financing activity not on the company's financial balance sheet. It can mean items that the company manages or controls but does not necessarily (technically) own. Examples

of off BS would include R&D partnerships, joint ventures and operating leases.  
<https://www.investopedia.com/terms/o/off-balance-sheet-obs.asp>

## **OUTTURN/ESTIMATED OUTTURN**

Expenditure actually incurred or estimates made on the basis of actual expenditure to date.

## **PATIENT CAPITAL/PATIENT FINANCE**

Patient in this case means longer term, defined as 10-15 years. Many lenders seek a faster **Return on Investment (ROI)** than that, making raising funding problematic.

## **PLANS**

Planned expenditure, usually recorded in budget and spending documents for current and future years. Will differ from final amounts spent, which are known as **outturn** figures and are only confirmed at a later date. This sometimes creates difficulties in comparing expenditure data between years because a comparison may not be like with like.

## **PRESENT VALUE**

An amount of money today that would be equivalent to the future income stream. E.g. £40 next year and £60 in two years' time might have a present value of £75; meaning you would be indifferent between the two options. Present value is calculated by using a **Discount Rate**; the preferred official **Green Book** rate is 3.5%.

## **PRIVATE FINANCE INITIATIVE (PFI)**

Means of using private finance and skills to deliver capital investment projects traditionally provided by the public sector (e.g. capital projects such as schools, hospitals, roads, and water facilities). Instead of the public sector body directly procuring capital assets and subsequently owning, operating and regulating them, PFI involves the private sector owning and operating, but the public sector having a larger role in regulation. The public body enters into a contract with the successful private sector consortium to deliver the project. Part of the contract specifies that the private consortium must take on a considerable degree of the risk associated with the project. Risks include possible cost over-runs and lower than expected usage. The public sector body contracts with the private consortium to deliver some or all of the services associated with the investment over a number of years. The devil is in the detail with PFI and close attention should be paid to maintenance responsibilities and payments.

## **PUBLIC PRIVATE PARTNERSHIPS (PPPS)**

Arrangements whereby the public and private sectors form joint ventures to deliver public services. They can be classified in national accounts to either the public or private sectors depending on which party has the larger share.

## **PUBLIC WORKS LOAN BOARD (PWLB)**

The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments. At present nearly all borrowers are local authorities requiring loans for capital purposes.

## **REAL TERMS FIGURES**

Amounts adjusted for the effect of general price inflation as measured by the GDP market price deflator. Enables comparisons of spending across years without the distortion caused by price changes.

## **RETURN ON INVESTMENT (ROI)**

The time period taken to repay or recover funding or outlay. Many commercial lenders are seeking a ROI of 3 to 5 years. Longer term or **Patient Funding** can be harder to obtain.

## **REVENUE EXPENDITURE**

Recurring expenditure that is financed from current income (i.e. not through borrowing). It consists of the day to day running costs of a local authority including staff wages and salaries. Loan charges, repaying money borrowed for capital expenditure, are also part of revenue expenditure.

## **RING-FENCED**

Expenditure that is specific to a particular policy or programme and cannot be used for any other purpose without the prior agreement of HM Treasury. Shortfalls in expenditure on ring-fenced items are surrendered to the *United Kingdom Consolidated Fund*.

## **SCOTLAND'S NATIONAL INVESTMENT BANK (SNIB)**

New public-owned Investment Bank that will seek to provide long-term, patient capital to projects which meet the outcomes in Scotland's Economic Strategy <https://www.gov.scot/policies/economic-growth/scottish-national-investment-bank/>

## **SCOTTISH FUTURES TRUST (SFT)**

The SFT is an independent company, established by the Scottish Government in 2008, with a responsibility to deliver value for money across all public infrastructure investment. SFT operates at arm's length from the Government but works closely with the public sector to seek and deliver improved value for taxpayers. <https://www.scottishfuturestrust.org.uk/>

## **SCOTTISH PUBLIC FINANCE MANUAL**

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance on the proper handling and reporting of public funds. <https://www.gov.scot/publications/scottish-public-finance-manual/local-government-finance/housing-revenue-account/>

## SOCIAL COST OF CARBON

The social cost of carbon (SCC) measures the full cost of an incremental unit of carbon (or greenhouse gas equivalent) emitted now, calculating the full cost of the damage it imposes over the whole of its time in the atmosphere. The methodology used is discussed in the **Green Book**. Information on Carbon Valuation can be found here: <https://www.gov.uk/government/collections/carbon-valuation--2#update-to-traded-carbon-values:-2018>

## SPENDING REVIEW

Review of all Departmental objectives, policies and spending that sets out spending plans for the three years following its publication. Spending Reviews replaced the previous system of annual Public Expenditure Surveys (PES). It is conducted by HM Treasury for all UK spending departments. The aim of a spending review is to develop a longer term spending plan for Scotland. A spending review will be tailored in its approach including the period which it covers. In the past, spending reviews have commonly covered a three year period although they can cover shorter or longer periods.

## STATE AID/STATE AID RULES

State aid is a European Commission (EC) term which refers to forms of public assistance, given to undertakings on a discretionary basis, which has the potential to distort competition and affect trade between Member States of the European Union. <https://www.gov.scot/publications/state-aid-guidance/>

## TAX INCREMENTAL FINANCING (TIF)

TIF allows borrowing through the **Public Works Loan Board** to fund regeneration infrastructure in a local authority area. The borrowing is authorised on the basis of predicted future non-domestic rate revenues and then repaid through these revenue streams. TIF allows a local authority, with or without a private sector partner, to borrow money for specific infrastructure projects. The idea is that the new project will attract new businesses/regeneration to an area, which will result in additional tax revenue such as non-domestic rates. TIF is led by SFT <https://www.scottishfuturetrust.org.uk/page/tax-incremental-financing>

## UNITED NATIONS ENVIRONMENT PROGRAMME - FINANCE INITIATIVE (UNEP FI)

A global partnership established between the [United Nations Environment Program](#) (UNEP) and the financial sector, created in 1992 to mobilize private sector finance for sustainable development. <https://www.unepfi.org/>

## VENTURE CAPITAL

Capital invested in a project in which there is a substantial element of risk, typically a new or expanding business. A form of private **equity** and a type of financing that investors provide to start-up companies and small businesses that are believed to have long-term growth potential. ... Though it can be risky for investors who put up **funds**, the potential for above-average returns can be an attractive payoff.



## **ABBREVIATIONS**

<b>BEM</b>	Budget Exchange Mechanism
<b>CBA</b>	Cost Benefit Analysis
<b>EPC</b>	Energy Performance Contract (not to be confused with Energy Performance Certificate)
<b>ESCO</b>	Energy Services Company
<b>EYF</b>	End Year Flexibility
<b>GAE</b>	Grant Aided Expenditure
<b>GDP</b>	Gross Domestic Product
<b>GNP</b>	Gross National Product
<b>GVA</b>	Gross Value Added
<b>HRA</b>	Housing Revenue Account
<b>LASFE</b>	Local Authority Self-Financed Expenditure
<b>NPD</b>	Non-Profit Distributing Model
<b>PFI</b>	Private Finance Initiative
<b>PPP</b>	Public Private Partnership
<b>PWLB</b>	Public Works Loan Board
<b>SFT</b>	Scottish Futures Trust
<b>SNIB</b>	Scotland's National Investment Bank
<b>TIF</b>	Tax Incremental Financing
<b>UNEP FI</b>	United Nations Environment Programme Finance Initiative