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M.A., D.P.A., SOLR.

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THE FINANCE OF LOCAL GOVERNMENT

ENGLAND AND WALES

by

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CHAPTER I

Introductory

READERS of two earlier books in this series, 'The English Local Government System,' by J. H. Warren, and 'A History of Local Government,' by K. B. Smellie, will have found in them a general description of the financial basis of local government and the development over a long period of years of the financial relationship between the State and the local authorities. Finance is so vital a part of any process of government—in essence it resolves itself into the spending of the electors' money by their elected representatives on services needed by the community—that a consideration of local government which did not include the financial aspect would be incomplete. The aim of the present volume is to furnish a more detailed outline of the principles and practice of local government finance in England; and although the book is complete in itself, it may be regarded as a continuation of the study of local government in this country.

In designing the scope and method of presentation of this work, the author was, at the outset, confronted with a major difficulty. Clearly, the keynote had to be conciseness if such a wide field as the finance of local government were to be covered in a small volume. Complete books have been written about aspects of the subject to which not even a whole chapter could be devoted here. But those are technical works and these pages are intended primarily, not for the practitioner, but for the lay-reader, or the student who desires to further his knowledge of local government, perhaps with an examination in mind. The object, therefore, must be to provide a concise survey which omits nothing of major importance, but avoids that extreme compression which can make a text so difficult to read and understand. These considerations postulate that the reader must be assumed to have some knowledge of the various local government services which

will form the background for an appreciation of the financial aspect. A comprehensive list of the services and the responsible authorities is given in an appendix to Mr. Warren's book. So far as possible, the treatment is on broad lines, differences resulting from the varying functions of the different types of authority being introduced only where they are important or essential to precision in the information being conveyed.

The approach to the subject being mainly of a descriptive and expository nature, the reader will not find himself confronted with a mass of financial tables and statistics. Nevertheless, at the outset an impression of the importance and the wide range of the services now administered by the local authorities may be gained if some figures indicating the growth in local government expenditure in England and Wales since the first world war are provided. In the financial year 1913–14 the total expenditure was £169,000,000, of which £21,000,000 related to capital works. In 1947–48 the expenditure reached the huge total of £1,252,000,000, of which £292,000,000 was spent on capital works. The outstanding loan debt of all the local authorities in respect of capital works had grown from £562,000,000 in 1914 to £1,713,000,000 in 1948: and this large sum does not represent the total value of the capital assets owned by the authorities, as much of the original debt has been paid off and many valuable assets are held completely free of debt. Judged by any standard these are formidable amounts—even though allowance must be made for changes in monetary values over the period involved—and the expenditure is growing every year with the development of housing, educational and other services. A comprehension by all concerned with local government of the financial implications of its activities, and a careful watch over the expenditure of public monies on such a vast scale, is clearly desirable in both the local and national interests.

There are many matters of financial and accounting practice common to the central government, local government and the commercial world, of which control of expenditure by means of estimates prepared in advance, known as 'budgetary control',

may be given as an instance. In general, such matters relate to financial technique rather than to fundamental issues. There is, however, one feature of prime importance which is peculiar to local authorities, and that is the distinction drawn between capital and revenue finance. The reader should have this distinction clearly in mind from the beginning. Expenditure of a capital nature may be described as that which is incurred on some object of lasting value, even though that value may diminish in the course of time, whereas revenue expenditure is usually of a constantly recurring nature and produces no permanent asset. The cost of erecting a school by a local authority is an example of capital expenditure producing an asset with a 'life', whilst the expenditure on the general maintenance of the school—teachers' salaries, cleaning, heating and lighting, etc.—is of a revenue nature. This is a clear-cut distinction in all local authority transactions and its significance lies in the fact that a local authority may be empowered by the appropriate Government department to borrow the money required for capital works. The local authority is thus enabled to meet heavy expenditure in one year without financial difficulties and, by repayment of the amount borrowed over a period related to the life of the asset, some of the burden is transferred to the ratepayers of the future, who may be expected to derive benefit from the expenditure. The whole procedure may be likened to the purchase of a house by an individual with the aid of an advance from a building society. There is no such clear distinction between capital and revenue in the central government's accounts, as the Exchequer borrows to cover deficits and not for the purpose of meeting the cost of capital assets. And it will be seen that the capital of a local authority is quite different from that of a commercial concern. The latter has capital which is normally fixed and irredeemable, and available generally for the purposes of the concern without regard to the period over which benefit will accrue from the expenditure.

Not all of the capital expenditure of a local authority is met by borrowing. It is a fairly common practice to meet the cost of

capital items out of current income, the extent to which this can be done depending upon the financial resources of the authority concerned. Many authorities, for example, do not borrow money for the purpose of buying comparatively inexpensive and short-lived assets such as motor vehicles, ambulances and concrete mixers. And even the smallest authority would hesitate to borrow the money for a typewriter! As a generalisation, however, we may assume that the capital expenditure of a local authority is met by borrowing the money required, and that the general revenues are used to meet the running expenses of the various departments in the shape of salaries and wages, materials, haulage, and so on, along with the yearly charges for interest and repayment of the debt incurred for capital purposes. The general revenues are derived mainly from charges for services rendered, such as the provision of tennis courts and bowling greens, the rents from property and estate, government grants towards the cost of the local services, and, in particular, the proceeds of a rate levied upon the occupiers of property. Some authorities also provide trading services such as tramways and omnibuses, water, markets and restaurants: any electricity and gas undertakings formerly owned by local authorities have now been transferred to area boards under nationalisation schemes. The trading services are generally run on commercial lines, except that the object is rather to provide the service at around cost than to make substantial profits, and the local rate is affected only to the extent that any profit or loss may be carried to the general fund.

The main source of revenue for local authorities is the rate levied upon the annual value of the occupied property in the area. The main fund is that to which the proceeds of the rate are carried and out of which the expenditure on the various services, other than trading, is met. To state the matter in simple terms, therefore, we find that the income from charges for services rendered, rents of properties and government grants, together with any miscellaneous income, is deducted from the expenditure and the balance is charged to the ratepayers in the form of a local tax called 'the rate'. The making of the rate and the valuation of

property for rating purposes is considered at some length in Chapter II.

The fundamental problem of local government finance may now be stated quite simply. It is how to provide the money necessary to meet the cost of the services carried out without imposing an intolerable burden upon the ratepayers, and without the local authorities becoming unduly dependent upon assistance from the national exchequer. Unlike the individual, whose expenditure is normally limited by his income (and his capital if he chooses to live on that also), a local authority fixes its income according to its expenditure ; in other words, the authority first determines the expenditure necessary for the maintenance and development of its services, and then levies a rate sufficient for its requirements. But it would be wrong to conclude from this that the expenditure can in practice be unlimited. The authority must have regard to what the community can afford to pay; otherwise, it might prove difficult to collect the revenues required. The problem has become more acute with the growth of expenditure since the end of the second world war, and although transfers of certain functions from local authorities to the State have reduced the pressure to some extent, the constantly increasing cost of the services which remain with the local authorities, such as education, is likely to intensify the search for additional revenues. The solution of increased assistance by way of government grants is not regarded with universal favour by the local authorities. It is argued that State aid goes hand in hand with State control and that responsibility for local government should carry with it financial responsibility. The rate provides the local authorities with an independent source of income the amount of which they are free to vary at will and the proceeds of which they may use at their discretion for any lawful purpose. This is important to the authorities, because not only do they value their independence, but there is great diversity in the requirements of different authorities and in the development of their services. A seaside resort may wish to spend considerable sums on facilities for entertaining visitors, whilst an inland

town may have a serious highways or town planning situation to tackle.

Local government is associated in the minds of most of us with the payment of rates, and it seems best in a survey of local government finance to get to grips at an early stage with the twin subjects of rating and valuation. Chapter II, therefore, contains an outline of the rating system and of the procedure for valuing properties, or 'hereditaments' as they are called in this connection, for rating purposes. The incidence of the rate is discussed and some comments are offered upon the merits and defects of rating as a method of local taxation. We have already seen that the main fund of an authority is that to which the proceeds of the rate are carried. In the county boroughs, boroughs, urban districts and rural districts, this fund is called the general rate fund. County councils obtain their requirements from the boroughs and urban and rural districts, who collect from their ratepayers both the amount called for by the county and their own requirements. The county councils, therefore, operate what is called the county fund instead of the rate fund. Having discussed the rate in Chapter II, a consideration of the finances of the general rate or county fund follows in Chapter III. A long list of the services carried out by the various classes of local authorities and the financial details of each service would doubtless prove very wearisome to the reader. Moreover, many services are alike in principle and differ only in detail. The best approach, therefore, seems to be to deal with the services generally, elucidate the principles, and select the points of greatest interest or importance. Although reference to legislation will be avoided as far as possible, a local authority cannot do anything it is not expressly authorised to do by Act of Parliament and this naturally involves some consideration of the legal position when financial questions are being discussed.

The next two chapters, IV and V, deal with one of the most important aspects of finance—control. There is great misunderstanding on this question even in informed local government circles and this misunderstanding frequently results in resentment

of any 'interference' by finance committees or financial officers. The prevalent use of the term 'financial control' may be responsible in some measure for this position, as it may imply that all activities are subordinated to financial considerations, whereas the aim is rather to establish an orderly regulation of an authority's finances; or to put the matter in a homely way, it is a question of good housekeeping. In this orderly regulation, the preparation of estimated income and expenditure statements and the determination of the rate to be levied play a vital part. Taken together, these statements or rate estimates form what is called the authority's 'budget'. They show for each service, usually in considerable detail, the estimated income and expenditure for the following financial year commencing on 1st April, the total net expenditure for each committee and the services under its control being thus authorised by the Council. The activities of the authority for a year ahead are, therefore, largely governed by the budget—hence its importance. Chapter IV outlines the legal provisions relating to the preparation of the rate estimates, the methods of compiling the figures and presenting them, the position regarding the working balances which are needed to meet expenditure before the rate moneys come in and the question of preparing estimates of projected capital schemes. With this as a background, the way is clear for a consideration in Chapter V of the use of the budget as an instrument of financial control and of further methods of regulating the finances. The need for an audit of the accounts and for careful accounting for stores will scarcely need emphasising—such matters are not peculiar to local authorities. The place of the Finance Committee in the scheme of things and its relationship with other committees are important aspects of local government administration and are dealt with as fully as space permits. Control by means of financial regulations is also discussed, and the chapter concludes with a description of the varied ways in which the central government itself exercises supervision over local finances.

Government grants, state subventions or exchequer contributions, as they are variously called, have long provided an

intriguing and controversial study for those interested in the financial affairs of local authorities. Indeed, the growth of the financial relationship between the State and the local authorities is part of the history of local government over the past century. The subject is admirably dealt with in Prof. Smellie's work. It is probably true to say that the local councils welcome the financial assistance afforded—in fact it is difficult to see how they could do without it—but dislike the resultant control of their activities. The various grants which are made are fully discussed in Chapter VI and we shall see to how great an extent the ratepayer is relieved at the expense of the taxpayer. This is an important point, as one of the main criticisms levelled at the rating system is that, unlike the national income tax, it is not based upon the individual's ability to pay but upon the kind of house he lives in. To the extent that local expenditure falls on the taxpayer through government grants to local authorities it is met according to ability to pay and any hardship created by the method of charging rates is relieved. The search for the ideal grant still goes on and nothing is more certain than that we shall see further changes in the form and method of State-aid to local authorities.

The later chapters are devoted to further aspects of local finance which, it is hoped, will be both interesting and instructive. The distinction between capital and revenue expenditure has already been noted, and in view of the importance of public expenditure on capital account, not only to the local authorities but also to the national economy, the whole of Chapter VII is given to an outline of the methods of financing capital projects and the way in which a local authority manages its borrowings. This is probably the most technical chapter in the book and care has been exercised in an endeavour to give a clear exposition, which will be intelligible to the reader. The student who has also given some thought to industrial and commercial practice in relation to the accounting treatment of capital expenditure and depreciation will be interested to note the difference in local authority practice and the reasons therefor. There is more than one school of thought on whether a local authority should invest

its superannuation and other funds or use them to finance its own capital requirements. This, also, is discussed and the presentation of the arguments for and against investment will, it is hoped, assist the reader to form a judgment upon this issue.

Chapter VIII deals with those major services of a trading nature which are still, at the time of writing, carried on by some, but not all, authorities. Gas and electricity undertakings have been nationalised, but the other important public utilities, water and passenger transport services, are frequently owned by local authorities and provide material for a discussion upon the financial aspects of municipal trading. Markets are well established as a trading service—outside London they are almost monopolised by local authorities—but civic restaurants are in the formative stage and for the present must be regarded as an interesting experiment which is being watched by most of the owners with some degree of anxiety.

Chapter IX sets out the place of the chief financial officer in the administrative picture and draws attention to the salient points in the organisation of the finance department, and gives some information about the statistics available to the student who is interested in further research. The concluding Chapter X contains items of importance which do not fall within the scope of the earlier chapters and a brief outline of a few alternative sources of local revenues which have been considered from time to time. The bibliography included as appendix 'A' should help the reader who wishes to delve more deeply into any particular aspect of the subject, and the list of government grants in appendix 'B' may prove useful.

In this introduction to the scope of the following chapters, the object has been to generalise on questions without confusing the reader by distinguishing between the various types of local authority. And, indeed, the basic principles outlined apply to all authorities, large or small, and irrespective of the particular functions or services carried out. But it is essential at this stage to explain the financial relationship of the county councils and what are known as the county districts. The county districts may be

municipal boroughs, urban district councils or rural district councils; county borough councils within the geographical area of a county are not parts of the county for administrative purposes and have complete autonomy within the county borough. Broadly then, the position is that the county council is responsible for the major local government functions, or functions that are best carried out over a larger area or in relation to a larger population than is found in one county district alone, whilst the district councils carry out the purely local services which can be performed efficiently by a smaller unit than the county. Examples of the services carried out by the county council are education, police, classified roads and fire brigade, whilst examples of the services for which the county districts are solely responsible are sewage disposal, street cleansing, unclassified roads and streets, baths and wash-houses, and public lighting. Some of the county councils' functions may be carried out by delegation of the work to district councils, but, nevertheless, the cost is met by the county and spread over all the authorities composing the administrative county. Parish councils or parish meetings carry out certain minor functions within the rural districts.

The financial position of the various types of authority then, broadly, is that the county borough decides upon its own requirements and levies a rate upon its own ratepayers; the county council obtains its moneys by issuing what are known as 'precepts' calling upon the district councils to pay their proportions of the county's requirements; and the district council levies a rate in its area to meet its own requirements together with the county precept. The services administered by a county which are chargeable over the whole county are known as 'General County Purposes' and should be distinguished from 'Special County Purposes', which are charged to particular district councils only. Examples of special county purposes are public libraries and the weights and measures service, for which the county council may be the authority for part only of the administrative county. It would obviously be unfair to, say, the ratepayers in a borough or an urban district if they were called upon to pay their council

for their own libraries and also for those provided in other areas, but not in their own, by the county council. A somewhat similar position exists in rural areas, where parish councils carry out certain minor functions, such as street lighting. The parish councils obtain their requirements from the rural district council, which may levy a special rate upon a particular parish or particular parishes only, to meet the expense of some service of purely local benefit. The position in London is not dissimilar to that in the provinces, the London County Council precepting upon the City of London and the Metropolitan Boroughs in order to finance its expenditure.

To conclude the discursive survey contained in this introductory chapter, the reader's attention is drawn to one outstanding feature of the historical trend in local government and its effect upon finance. We have seen that there are minor services which are specifically charged upon a parish, more important services or services with a wider area of benefit which are charged over a county district, and major services charged over the whole of an administrative county. The tendency in modern legislation has been to *widen the area of charge* for local government services by the transfer of functions either to the large local authorities or the State. This trend is probably most clearly seen in the relief of the poor, where the area of charge has progressively widened from parish to Union of parishes under a Board of Guardians, from Guardians to County Councils and County Boroughs, and ultimately from those authorities to the State—and the taxpayers. Another example is the fire brigade service, which before the second world war was in the hands of county boroughs and county districts, but is now carried on by the county boroughs and county councils. In the counties, local variations in the rate levied for fire brigade purposes have thus been removed by a widening of the area of charge. Prolonged discussion of this aspect of local government is impossible in these pages, but it may be commented that it is mainly the search for the most efficient units of local government which has produced these changes, and the assumption that the existing counties and county

boroughs merit this description is questionable. They vary enormously in size, population and financial resources; and there is no logic in, for example, allowing Chester (population 47,000), as a county borough, to have its own fire brigade, whereas Luton (population 108,000), as a borough and therefore a county district, is serviced by the county fire brigade. The designing of the most efficient units for the various functions of local government would entail considerable alteration of the present structure, but in recent years the procedure has been either to alter the functions by the transfer of services from county districts to county councils or to transfer services to the State. The defects in the structure of local government still provide us with a problem to be solved.

Nor should it be assumed that in any solution the sole criterion should be efficiency, whether measured in terms of cost or standard of service. For, as a Minister of Health stated in a House of Commons debate on local government 'local government is part of the emotional, spiritual and æsthetic equipment of modern society, and, therefore, it is something to which we cannot only apply the test of efficiency, because if we apply that test to the ends of life as well as to the means of life, then we have a soulless and stereotyped community'.

For the reader of this book, the main object is that he should have a clear conception of the financial implications of the changes that have been or may be made, and it is hoped that these pages will assist him to this end.

As this book was in type before the title of the Ministry of Local Government and Planning was altered to Ministry of Housing and Local Government I have left the earlier form, but would draw the reader's attention to the change.

CHAPTER II

Rating and Valuation

IT is strange at this time, when the responsibility for the relief of the poor has finally passed from local authorities to the State, to reflect that the English rating system is founded upon the Poor Relief Act of 1601. There is evidence of the beginnings of a rating system, in the shape of legislation relating to the collection of contributions for relief of the poor, in various enactments before 1601, but it was the Act passed in that year which made the parish the administrative unit for rating and placed in the hands of the overseers the power to tax the inhabitants in such sums as they thought fit. The overseers were the churchwardens of the parish and 'four, three, or two substantial householders', and the liability to be rated was imposed upon 'every inhabitant, parson, vicar and other of every occupier of lands, houses, tithes impropriate or propriations of tithes, coal mines or saleable underwoods'. Since 1601, nearly a hundred Acts affecting the levying of rates have been passed and many of these are still in operation, at least to some extent. At first, poor relief was the only purpose for which the rate could be made, but as other local government services developed and the present local authorities were created, fresh charges were added to the poor rate and new rates were levied which were usually but not invariably based upon the same valuations as the poor rate: the poor rate thus became a misnomer, as it was levied for many other local government services. The other principal rate was the general district rate, which was levied chiefly to meet the expenditure of town councils and urban district councils under the Public Health Acts.

It is not surprising that after more than three hundred years of rating legislation, and with the creation of the modern local government units, the position became so confused that fresh legislation was urgently needed. This was forthcoming in 1925,

when the Rating and Valuation Act of that year was passed. Under this Act, the office of overseer was abolished and the present general rate was inaugurated. County boroughs, boroughs, urban districts and rural districts were substituted for the parish as the units of rating, and were called 'rating authorities'. The main objects of the Act were the simplification of the making and collecting of the rate, and the promotion of uniformity in the valuation of property for rating purposes. These changes mainly related to the machinery of rating; the underlying *principles* laid down in the 1601 Act are still operative. In fact, much of that Act is unrepealed.

The General Rate

The rate we shall now proceed to consider is the general rate introduced by the 1925 Act to take the place of the poor rate and any other rate which could formerly be made. It is levied to meet the cost of local government services and should be distinguished from rates for special purposes such as (1) a water rate, which is often collected along with the general rate where a local authority is the supplier, but is a quite separate rate charged upon water consumers as such, and (2) a drainage rate, which may be separately levied upon persons benefiting from the operations of a drainage board. The general rate is calculated at an amount in the pound on the rateable value of each hereditament in the rating area and is made, levied, collected and recovered, in the same manner as the former poor rate. Although the Act provides that the rate is to be levied at a uniform amount in the pound, it has sometimes been necessary to introduce differential rating *within* a rating authority's area owing to special circumstances, such as those in which an area adjacent to a county borough has been incorporated in the borough and the rate formerly levied in that area was lower than the borough's rate. In such cases it is usual to provide for a time limit for the differential rating, during which it is assumed that the services provided in the area absorbed will be brought up to the town's standard, thus justifying a progressive increase in rates. A county council levies its precept upon the

county districts, who are the rating authorities in the administrative county, at so much in the pound and not for a lump sum, and there are regulations as to the manner in which the product of the rate is to be calculated for this purpose. A borough may thus levy a rate of 17*s.* 6*d.* in the pound, of which a rate of 11*s.* may have been precepted by the county, the balance being for the borough's own purposes. In rural districts, there may be parishes which are subject to special charges, usually for public lighting; upon such parishes a 'special' rate is levied, unless the amount involved is trifling, when it is levied together with the general rate.

The Person Liable

We have seen that the Act of 1601 placed the liability to pay rates upon the *inhabitants*. It became established law that the personal property of every inhabitant was rateable; even ships were rateable in the parish to which they belonged! It can well be imagined that the amount of personal property of an inhabitant would be difficult to ascertain and that in time the overseers would tend to ignore it. Such was the case, and eventually in 1840 the position was made legal by an Act which excluded personal property from assessment and introduced the principle, still in operation, of rating the *occupiers* of lands, houses, etc., instead of the inhabitants generally. On the face of things, it ought not to be difficult to define what is meant by an 'occupier', but many cases have been fought in the Courts to determine what constitutes occupation in the rating sense and, from these cases, certain principles have emerged. For instance, it has been established that the occupation must be *beneficial*, in that there must be some pecuniary benefit or personal advantage or convenience gained by the occupier. Legal possession does not of itself constitute occupation, as the owner of a house which is vacant has possession but is not rateable so long as it is quite empty. On the other hand, a person may be liable for rates if he is the occupier, even though he is a trespasser. It is necessary that the person to be rated as occupier shall have *exclusive possession* and control, an illustration of this principle being that of a lodger, who, because

of the control exercised by his landlord, is not rateable. And 'exclusive' does not mean that no one else has any right to use the property, as the case of landlord and lodger shows. An interesting aspect of this question of possession is that relating to husband and wife, where the husband may own or rent the house whilst the wife owns the furniture. It might be thought that the wife occupied the house by virtue of her furniture, but the accepted view is that the husband has exclusive control of the house and that the wife has no legal right to keep the furniture there. Another element of occupation which has frequently been considered in the Courts is that of how far *permanence* of occupation is necessary in order to create liability to pay rates. The principle which emerges from the legal decisions is that occupation must be permanent in its nature, but that 'permanent' in this connection refers to continuous physical possession of the hereditament rather than to the actual duration of the occupation.

In order to avoid liability to pay rates, the premises must be completely empty. Even though not actually occupied in the personal sense—for example, the owner or tenant may be abroad—the premises are rateable if there is furniture in them. And even if a person is occupying only one room in a house, he is liable to pay rates on the whole, as the assessment cannot be apportioned unless there is complete structural severance. Where a factory is equipped and in a condition to start operations, there is beneficial occupation and therefore liability to pay rates, even if it is standing idle owing to a strike or trade depression. It was at one time thought that if business premises were kept as a stand-by, for use if required, rates were payable although the premises might be empty and unused for the whole period of the rate, the argument being that if the premises were reserved and not available for letting to some other prospective occupier, this constituted a permanent user which created a rateable occupation. In a case decided in 1944, however, it was determined that in these circumstances rates were not payable. When premises are occupied for only part of the rate period, the amount charged is in proportion to the number of days of occupation.

Exemptions

The question of what constitutes occupation for rating purposes has been discussed at some length, although by no means exhaustively, because of its fundamental importance. Before we leave the subject of liability to pay rates, however, there are some exemptions which should be mentioned. To begin with, property owned or rented by the Crown and occupied for Crown purposes is exempt from assessment. This is on the general principle that the King is not bound by any Statute unless expressly stated to be bound. The property covered by this exemption includes that occupied by government departments; the Royal palaces and parks; land and premises occupied by the naval, military and air force authorities; courts for the administration of justice; and so on. It is the practice of the Treasury to compensate the rating authorities by making what are called 'contributions in lieu of rates' in respect of these properties, these payments usually being based upon what would normally be the rateable value. Other properties which have been exempted by Act of Parliament at various times are churches and other buildings used exclusively for religious services; premises belonging to scientific and literary societies exclusively occupied for such purposes; schools not provided by the local authority, i.e. those commonly known as 'church' schools; lighthouses, buoys and beacons of lighthouse authorities or the Board of Trade; houses occupied by ambassadors and their staffs; agricultural land and buildings; railways and canals owned by the British Transport Commission, except premises such as hotels and dwelling-houses; and the electricity undertakings of the British Electricity Authority, except premises used as dwelling-houses. Payments in lieu of rates are made in respect of railway, canal and electricity properties. Before these undertakings were nationalised, it was necessary for aggregate rateable values to be determined and apportioned over the various rating areas concerned, the provisions relating to railways being particularly complicated. The payments now made in lieu of rates are not allocated to the rating authorities according to the value of the railway or electricity properties in their areas, as in the case

of Crown properties, but according to the total rateable value of the area as a proportion of that for the whole of England and Wales. In counties, the payments are allocated as to one-third to the rating authorities—the boroughs, urban districts, and rural districts—and as to two-thirds to the county council itself.

There is a partial exemption from rates in respect of industrial and freight-transport hereditaments, in the form of a 75 per cent allowance. Thus, in the case of a factory, if the amount upon which rates would, but for the allowance, have been charged is £4,000, the rateable value will be £1,000. This exemption is frequently referred to as the 'de-rating' of industry and was intended to lighten the burden of rates at a time of industrial depression. Incidentally, the complete exemption of agricultural land and buildings took place at the same time and is included in the term 'de-rating'. There has been considerable dissatisfaction on the part of the local authorities at the loss of revenue involved and they contend that rates form an almost negligible factor in the cost of production and should be paid on the full annual value of the property. In times of industrial depression, the relief from de-rating is possibly of some slight importance to the heavy industries, such as iron and steel, but the evidence as to the percentage of rates to the selling prices of the products of the light industries tends to show that the case for de-rating has never been very strong. We may conclude that if on occasions some assistance is needed by certain heavy industries, it would be better to give this in a way that would not both deplete local revenues and provide relief to other industries which do not really need it.

Making and Collecting the Rate

The financial year runs from 1st April to 31st March and the general rate is normally made for a period of a year or a half-year, although there appears to be nothing to prevent a local authority choosing a shorter period if it so desires. When levied for a year, it is the usual practice to charge the rate in two equal instalments, although there are a few exceptions to this. Authorities which

levy a half-yearly rate usually prepare estimates of their expenditure for the full year and fix the rate for the first half-year at half the rate poundage shown by the estimates. The estimates are then revised immediately prior to the second half-year and a decision reached as to the further rate to be levied. It is, however, exceptional for the rate to be changed during a financial year, and there is a lot to be said in favour of keeping the rate stable for a year at least, though county districts may think it advisable to provide the machinery for a half-yearly rate; otherwise, an increase in the county council's precept for the second half-year might place them in some difficulty.

The rate is made merely by the passing of a resolution of the council as rating authority. It has effect from the expiration of the last preceding period for which a rate was made, and terminates on the date specified in the resolution. In the case of the last rate made for any financial year, the date of termination must be the last day of that year. This means that whatever the number of rates the period covered is the whole of the financial year. Notice of the rate having been made must be given and this is done by affixing a notice on or near the doors of churches and chapels, or in some conspicuous place in each parish or by publishing it in one or more local newspapers.

Following the making and publication of the rate, the authority issues a demand note to each ratepayer requiring him to pay the amount due according to the rateable value of the property he occupies. The demand note must be in a prescribed form, although minor variations are allowed, and it furnishes the ratepayer with details of the rate poundage required for each main service. The duty of supplying information thus placed upon the authority is of some importance, in that apart from any reports appearing in the local newspapers, the demand note is usually the only direct means used to convey financial particulars to the ratepayers. The rate is legally payable within seven days of demand, but this rule is not enforced and practice is so far at variance with the legal position that many authorities encourage early payment by allowing a discount. Under the general law, the discount must

not exceed two and one-half per cent, but a few authorities may make larger allowances under powers contained in local Acts. The purchase of materials, payment of salaries and wages, and other expenditure must be met from the first day of the financial year, whether or not funds are available, and the earlier receipt of money may enable an authority to avoid incurring a bank overdraft and resultant charges for bank interest. On the other hand, an amount sufficient to pay the total discount allowed must be included in the rate levied, the discount in effect being charged to the ratepayers who do not pay early enough to obtain the discount themselves, and it is sometimes argued that this is unfair to those in poor financial circumstances who are unable to take advantage of the allowance.

As previously explained, the owner of the premises is in general not responsible for payment of rates unless he is also the occupier. A rating authority may, however, require the owner, instead of the occupier, to pay the rates in respect of property which does not exceed a specified limit of rateable value, subject to an allowance of ten to fifteen per cent of the amount payable. In order to qualify for the allowance, the owner must pay the amount due before the date specified, which must be not earlier than the date of expiration of one-half of the period for which the rate was made. This process of rating the owner is known as 'compounding'. The owner is entitled to recover the amount paid from the tenant and usually does so by collecting a weekly rent which is inclusive of rates. This method is convenient for the tenant, who is usually a weekly wage-earner and is relieved of the necessity for finding a large sum of money at one time, and also to the authority, who would otherwise find the collection of rates from the tenants difficult at times, with a possibility of bad debts. A very few authorities do not rate the owners in this manner, preferring to collect in all cases from the occupiers even if arrangements for payment by instalments are needed: this method is known as 'direct rating'.

In addition to the compulsory rating of owners, the rating authority may also agree with an owner of any hereditament, the

rent of which becomes payable or is collected at intervals shorter than quarterly that he will (*a*) pay the rates whether the premises are occupied or not, (*b*) pay the rates chargeable while the premises are occupied, whether or not the occupier pays him, or (*c*) collect the rates on behalf of the authority; for which allowances may be made not exceeding (*a*) 15, (*b*) $7\frac{1}{2}$ and (*c*) 5 per cent, respectively. No discount for prompt payment can be allowed to an owner who qualifies for a compounding allowance whether compulsorily or by agreement.

The statutory remedy of the local authority for non-payment of rates is to apply to the local Justices for the issue of a distress warrant, authorising the rating authority to seize the defaulting ratepayer's goods and sell them. The usual procedure is for the items unpaid at a certain date, probably three or four months after the service of the demand notes, to be entered in a summons book and then for application to be made to the justices, or the stipendiary magistrate, for a summons. Upon satisfactory evidence that the rates have been demanded and are unpaid, the summonses are granted by the Court and are served by the police, the rate collector, or through the registered post. This is usually sufficient to produce payment of the rate or a promise to pay by a certain date, or perhaps an arrangement for payment by instalments. If, however, the rate still remains unpaid, the authority may apply for the issue of a distress warrant for the amount of the rate and the cost of the summons. Where a rating authority has obtained a distress warrant, and has employed an outside bailiff or a member of its own staff to exercise the warrant, it may be found that there are no goods belonging to the ratepayer which can be seized, or that the proceeds of sale are insufficient to meet the rates due. The authority may then apply for the commitment of the defaulting ratepayer to prison. If such an application is made, the court must enquire in the ratepayer's presence whether his failure to pay is due either to his wilful refusal or culpable neglect, and if not they cannot order his commitment to prison. The general effect is that the authority must show that the ratepayer has the means to pay before the serious

action of ordering him to be sent to prison is taken. The justices may remit the payment of the rates, or part of them, at this stage, and the rating authority itself has power to excuse payment at any time on the ground of poverty. Rates may also be recovered by a notice addressed to a tenant or lodger of the person rated, requiring future payments of rent to be made to the rating authority until the rate arrears are paid off. In addition, there is provision for a limited amount of rates to be given priority of payment in cases of bankruptcy of individuals or the liquidation of companies.

Valuation and Assessment

All properties liable to be rated—and we have already seen that there are certain exemptions from liability—are entered in a valuation list, which constitutes the official record of the values of the hereditaments in the rating authority's area. There are three 'values' to be considered: gross, net annual and rateable. The general principle is that the rateable value is to be arrived at from the rent at which the premises might reasonably be expected to let if the landlord were responsible for repairing and insuring the property, and the tenant paid the usual tenant's rates and taxes. In the case of premises such as factories and gas and water undertakings it is not necessary to arrive at a gross value, as the normal type of dwelling-house tenancy could scarcely apply, and the calculation proceeds direct to a net annual value. Generally, however, the gross value is ascertained and from that value a specified deduction is made for the cost of repairs and insurance in order to arrive at the net annual value. The rateable value is the same as the net annual value except in cases where there is a special deduction, such as the 75 per cent allowed to the industrial and freight-transport hereditaments previously mentioned.

New methods of valuing dwelling-houses and flats are laid down by the provisions of the Local Government Act, 1948, and these are explained later. The law operating at present for these premises is not difficult to comprehend—the valuer is required to

ascertain the rent which would be offered in a free market assuming there are no legal restrictions upon the rents which may be charged. This is not necessarily the same as the actual rent being paid in any individual case, but when preparing the first list, information obtained as to all rents being paid in an area enabled standards to be fixed from which valuation proceeded by comparison of the properties in each road or district. Obviously, the general level of valuation in an area will depend upon the standards adopted and the main criticism of the present system has been that it has not produced the uniformity in valuation as between one area and another which it was intended to achieve. This uniformity is of importance because county districts contribute towards the county expenditure on a rateable value basis, and because there is a rateable value factor in the calculation of certain government grants to local authorities. In general, the valuations of dwelling-houses have been below what would be the true valuations based upon 'the rent at which the premises might reasonably be expected to let'. Under the Rating and Valuation Act of 1925, a new valuation list was to be made every five years and in 1937 a new list was in prospect, to take effect in 1939. Protest against a probable sharp increase in assessments was so vigorous, however, that the Government agreed to a postponement of the re-valuation and no new lists have in fact been prepared since 1934.

It will be readily understood that the definition of gross value for rating purposes, which is so well framed in relation to dwelling-houses, is not so easily adapted to the valuation of other properties such as cinemas, licensed premises, factories, schools, etc. And yet the principle is the same in all cases; the valuer is required to find the answer to the question 'What is the rent at which the hereditament might reasonably be expected to let. . . .' There are no prescribed methods or systems of valuation but naturally various methods of valuing different classes of property have evolved and become recognised by the Courts in litigation on rating matters. The process of obtaining information as to rents actually passing and deducing a basis capable of application

to all properties of similar character is known as the 'rentals' method. In addition to its application to dwelling-houses, this method is used principally for the valuation of premises such as shops, offices, banks and, perhaps, small industrial premises. The other main methods are the 'structural' and the 'accounts'. The structural method is often called the 'contractor's test' and consists of estimating the capital value of the site and buildings, a percentage, representing the rate of interest on his capital that the owner of the premises would expect, being then calculated on the capital value to arrive at the rent which would be demanded or offered. The third method, a valuation on an 'accounts' basis, is used for public utility undertakings such as tramways, water and markets. That this basis is also applicable to other properties, however, was shown in a case decided in 1949, where the King's Bench Division of the High Court decided that it could be used in the valuation of a zoo. The difficulties of ascertaining the rent which would be paid by a tenant in such cases will be sufficiently obvious. The method used is to ascertain from the accounts how much would be left after meeting all expenses and allowing the tenant (1) interest on the capital he has invested in the business, (2) a reasonable profit on his trading and (3) something to cover the risk of his losing part or the whole of his capital. The balance is regarded as available for the landlord and rates, and a deduction is made of the amount he would need to cover renewal, maintenance and insurance of his premises and fixtures. The net balance remaining is regarded as the rent inclusive of rates, and a mathematical calculation of the rates portion provides an amount which is the net annual value for rating purposes. Undertakings such as gas and water frequently extend over more than one rating area and it becomes necessary to make an apportionment of the net annual value arrived at from the accounts.

Other methods of valuation are based upon a price per unit of accommodation, such as per place for schools or per bed for hospitals, and upon output for such properties as mines and quarries. Sometimes more than one method may be used, an example being in the valuation of licensed premises, which may

proceed by reference to rents, estimated takings or the quantity of sales, measured by barrel.

In a work of this kind the assessment procedure need not be described in detail, and a brief outline will probably suffice to give the reader some idea of the safeguards provided for the ratepayers and the rating authorities. Property is assessed in accordance with the valuation list for the area of a rating authority, which provides conclusive evidence of the values of the hereditaments included. The lists are kept by the rating authorities and are altered by 'directions' received from the local valuers of the Commissioners of Inland Revenue, who are responsible for the preparation and amendment of the lists. The valuation officer, or 'any person aggrieved'—who may be the rating authority or the owner or the occupier of the premises—may make a proposal at any time for the alteration of the list, and notice of such proposals must be given to all affected parties. If there are no objections, or if all objections are withdrawn, the valuation officer issues his direction for the list to be altered, but in cases of dispute there is a right of appeal to a local valuation court, which consists of three members drawn from a panel constituted under an approved scheme. A panel usually covers the area of several rating authorities. There is a further right of appeal from a decision of a local valuation court to the Lands Tribunal, and a point of law may be contested through the Courts to the House of Lords.

New valuation lists are to be prepared and at one time it was hoped that they would come into force in 1953; subsequently, new lists will be prepared every five years. When a new list is prepared in the draft stage, the valuation officer must give public notice that the list has been completed and deposited in the offices of the rating authority, and of the right of objection to entries in the list. Subsequently, the valuation officer revises the list and makes such alterations as he thinks proper, notice of the alterations made being given to the occupiers of the premises concerned, the rating authority, and any other person who objected to the list. There are rights of appeal against a valuation officer's decisions relating to a new list similar to those already mentioned for a current list. The

reader should note that whilst the valuation officers act quite independently of the rating authorities, the latter are required to furnish information on all matters coming to their notice which may affect the valuation and assessment of properties.

The date from which an alteration in a valuation list has effect is normally the commencement of the period in respect of which the rate was made. Thus, a proposal to alter the list may be made in March of one year and, if a yearly rate is levied, the new value would be effective from the previous 1st April. Where, however, newly erected property is being included in the valuation list for the first time, the alteration of the list takes effect from the date on which the property is occupied, and a change of value arising from structural alterations to premises has effect only from the date of those alterations.

New Basis of Assessment of Dwelling Houses

The lack of uniformity in the valuation of property and the difficulties which led to the postponement of the revaluation due in 1939 have been mentioned. The Local Government Act of 1948 provides a new basis for the assessment of dwelling-houses which will be made effective when new valuation lists come into force. The basis of assessment of hereditaments other than dwelling-houses remains unchanged and the principles and methods previously outlined still apply. Briefly, the classification of houses on the new basis is as follows:—

(*a*) Houses (including flats) provided by local authorities and housing associations since 1918. The gross value, from which a repairs allowance will be given to arrive at the rateable value, will be 5 per cent of the estimated cost of erecting the house and providing the site in 1938.

(*b*) Small private houses (other than flats) provided since 1918 other than by local authorities or housing associations. In this instance, the gross value will be 5 per cent of the estimated 1938 cost of erecting the house, plus 5 per cent of the *1949* value of the site. A 'small house' is one with a

maximum rateable value of £75 in the provinces and £100 in the Metropolitan area.

(*c*) Other houses and flats. The value of these properties is to be ascertained from the rents of comparable houses which were being paid on 31st August, 1939.

Building specifications have been prepared by the Ministry and the estimated cost of erecting various classes of houses, according to specification, has been ascertained for each rating area in the country. It is the valuer's job to determine into which specification a house falls and proceed to a calculation of the gross value. The effect of this new method will be to introduce a higher degree of uniformity into the assessment of post-1918 houses than it has ever been possible to achieve previously, and the impact upon the occupiers of houses in any particular area will obviously depend upon the degree to which property in that area was previously under-assessed. There are not likely to be many areas where the new method will produce lower assessments, but the possibility of this happening cannot be entirely overlooked. As pre-1918 houses will be assessed on the basis of rents passing in 1939, it seems quite probable that there will be little uniformity of assessment as between these houses and the post-1918 class in a particular area.

London

Whilst the principles of rating as established by the Act of 1601 have always applied in London as in the provinces, the administrative procedure in the Metropolis was, until the passing of the Rating and Valuation Act of 1925, in advance of provincial methods, mainly as a result of the passing in 1869 of the Valuation (Metropolis) Act, which defined gross and rateable values and provided for such matters as the making of a quinquennial valuation list, alterations of the list, rights of objection and appeal, and so on. In addition, an Act passed in 1899 established one general rate for each parish in the Metropolis—something not achieved in the provinces until the 1925 Act was passed, except by authorities which obtained special powers in a local Act.

There were many points at which the law and practice in London was at variance with that in the provinces, but as the differences were mainly of a technical nature and have been largely removed by the 1948 Act and the London County Council (General Powers) Act, 1949, they need not be considered here. The existing scales of deduction for repairs in arriving at the rateable value, which are more generous than those in operation outside London, are continued under the 1948 Act; although, as in the case of the provinces, there is provision for altering the scales.

The Incidence of Local Rates

One of the important features of any tax is its incidence—where or on whom the burden ultimately falls. With most taxes the incidence is frequently elusive owing to the ability of the taxpayer to pass the burden, or part of it, on to someone else. As we have already seen, except where the owner pays the rates on small houses under the compounding provisions and reimburses himself by charging the occupier an inclusive rent, the rate charge falls in the first place upon the occupiers of properties and it probably stays with them in the case of most houses and house-shops. A tenant will usually take into account both rent and rates when considering the cost of his occupation of a property and may not be able or prepared to pay more than a certain amount in total, with the result that some of the rate burden may be passed to the owner. This position sometimes arose before the second world war in the cases of the larger and older houses, which carried high rateable values due to the size of the accommodation. If, for example, a prospective occupier could afford to pay only £70 a year in the aggregate and the rates amounted to £35, it would be difficult for the owner to obtain more than £35 as rent. In other words, some of the rates would be paid by the landlord not directly but in the form of a reduction in the rent the house would command, and to a limited extent the incidence of the rates would have shifted from the occupier to the owner. Since the war, however, the housing shortage has been such as to preclude

this shifting of the burden except to the extent that the pre-war incidence may be maintained by rent restrictions.

In regard to properties other than dwelling-houses, the incidence of the rate burden is much more difficult to trace. A rise in rates may be too insignificant to be passed on to customers or patrons of shops, industrial firms, licensed premises and cinemas, in the shape of higher prices, but obviously it would be easier for a shop or factory to alter its charges than for the price of drinks and cinema seats to be changed. The tenants of lock-up shops and offices would find it difficult to transfer any of the burden to the landlords, unless there was a surplus of such premises in the district and they were difficult to let, but they might be able to pass it on to customers and clients. A further point to be borne in mind when considering the burden of the rates on the community in any particular area is the type of area concerned. In seaside resorts, there can be little doubt that a large proportion of the burden is transferred to the visitors in the charges for hotel and boarding-house accommodation, and where a town is a centre for the surrounding countryside some of the rate burden on the shops, cafés and restaurants in the central area can be passed to non-residents. But it is generally accepted that the greater part of the total rates paid is effectively borne by householders and the following analysis for the industrial city of Sheffield will help to illustrate this point:—

Type of Premises	Per cent of Total Rateable Value
Domestic and House-shops	62·0
Commercial	14·8
Licensed Houses and Hotels	2·6
Entertainment and Recreational	2·9
Public Utility Undertakings	4·8
Educational and Cultural	3·6
Industrial	5·9
Miscellaneous	3·4
	100·0

The small percentage of the total rateable value applicable to industrial premises is significant and the reader will recall that these premises are 'derated' to the extent of 75 per cent of the normal assessments which would be placed upon them.

Some Defects and Merits of Rates

Dissatisfaction with our rating system as the method of financing local government has existed for a long time and is still so frequently expressed that it may be advisable to outline the defects and merits of the system.

The first main defect to which the reader's attention may be drawn is that the burden on small householders is heavy because, as a tax, rates are not sufficiently progressive; that is, the rates payable do not rise in the same proportion as income or ability to pay. Rates constitute, therefore, what is known as a 'regressive' tax, whereas the national income tax is 'progressive'. This defect is not now so pronounced, in that a large proportion of local expenditure is borne by the taxpayer in the form of government grants to the local authorities, but nevertheless it still remains. Rates also press unequally on families with similar incomes due to housing conditions over which they may have little or no control, as generally speaking the greater the accommodation the higher will be the rateable value for houses in the same district. Another serious defect is that rates tend to act as a tax on better housing conditions and on improvements to property generally, in that the installation of a bath in an old house which previously had no bathroom, or the addition of a garage or out-house of any kind, will add to the rateable value and thus be taxed. A family which is moved from a slum area to a new house will usually be called upon to pay more in rates, and a shop or hotel proprietor who improves his property will probably add to his rate liability, and this may deter him from developing. Another point which may be cited as a defect is that the rating system, as a method of taxation, does not produce the same financial resources for local authorities which have similar needs in regard to the services they are called upon to provide. The industrial areas usually have a

much greater proportion of small and old working-class houses than the residential areas, with the result that their rateable value per head of the population is low, although their education and other costs may be high owing to the relatively large child population. This point has lost some of its force since the introduction of the government grant called the Exchequer Equalisation Grant, which is designed to bring an authority's resources up to the average for the country as a whole. The last defect to be noted is that from the local authorities' point of view rates as the main source of revenue are so inelastic and so unresponsive to changes in general price levels that it becomes difficult to finance the development of the local services without more and more assistance from the government.

The merits of rates can be set out briefly, but they are none the less weighty. The first obvious merits are that the system is simple in operation, the basis is fairly stable, the money is not difficult to collect, and the cost of collection is low. These are important points in any method of taxation. Again, the burden of rates cannot be considered excessive, as it was calculated before the war to amount on the average to no more than 3–4 per cent of a worker's income, and the percentage is probably lower now in view of the substantial increases in personal earnings; rates have risen, but in most areas not to the same extent as average earnings. A further advantage is that rates are paid by each family occupying a dwelling-house, and this encourages citizens to take an interest in local affairs and self-government. Finally, they provide local authorities with a completely independent source of income, which may be spent in any legal manner chosen.

CHAPTER III

The General Rate Fund and the County Fund

IN the previous chapter we have considered the local authorities, other than the county councils, in their capacity of rating authorities. As such, they make, levy and collect the rate for distribution either to themselves, as local authorities, or to other authorities, such as county councils or parish councils, which have no power to levy a rate and so must precept upon the rating authorities. The reader may learn that certain other bodies obtain the money they require by precept and be surprised upon examining specimen rating accounts to find no indication of the raising of money to meet such precepts. The explanation lies in the fact that some bodies, for example River Boards, precept upon *local authorities*, possibly including one or more counties, and not upon the *rating* authorities. In general, a rating authority's accounts show the amount realised by the rate levied, the amount left after meeting the cost of collection, and the transfer of the residue to the authority's general rate fund or to the county council. Rural district councils are exceptional in that they are concerned with two classes of services, the first being those chargeable upon the general rate for the whole district and the second those chargeable upon any special rates for separate parishes, examples of which may be the cost of sewerage, lighting or water supplies. The rating accounts for rural district councils, therefore, must cater for this complication and will also show the position relating to precepts of parish councils within the district as well as the precept of the county council. Nevertheless, as in the other rating authorities, the amount raised for the general expenses of the district is transferred to the general fund.

For county boroughs, boroughs and urban districts, it is prescribed that all receipts are to be carried to the general rate fund and all liabilities must be discharged from the same fund.

They have power to levy a rate to meet liabilities not otherwise provided for. If there is a surplus on the fund it may be applied, in the case of a county borough or borough, 'for the public benefit of the inhabitants and improvement of the borough'. Although the legal position is not entirely free from doubt, it is probable that the surplus visualised is one arising from rents and profits of the fund and not from the proceeds of a rate, so that there is little likelihood of such a surplus arising in practice.

In the published accounts of a local authority some accounts are shown quite separately from the general fund, even though they relate to services which are part of that fund. Examples are education, housing and trading undertakings, such as transport and water. The reason is that Acts of Parliament or Government regulations sometimes require separate accounts to be kept in order to facilitate the audit of grant-aided services, or, in the case of trading concerns, to show that the income and any surpluses are dealt with in the prescribed manner. Frequently, separate accounts are kept for a service merely as a matter of local preference. For instance, some authorities show separate trading accounts and balance sheets for their markets, whilst others include this service in the general rate fund account and balance sheet. In the latter case, any surplus or deficit on the market transactions is usually automatically included in the rate fund, whereas with separate accounts, subject to any statutory provisions applicable, balances may be either carried forward in the markets accounts from year to year or transferred to the rate fund. Where separate accounts are kept for a service such as education, the net cost is transferred to the general fund and usually appears as one item on the expenditure side. No matter how the accounts are published, the transactions are in law part of the general rate fund, sometimes a point of significance in relation to certain matters such as the disposal of profits or losses on trading departments.

It seems desirable at this stage, when general matters are being discussed, to devote one or two paragraphs to county councils. The services administered by these authorities have grown

considerably in recent years, because of the tendency to concentrate responsibility in the hands of the larger local government units, and they are the senior partners in what is called the 'two tier' system of local government, the junior partners (or the lower of the two tiers) being the county districts. The county councils are responsible for providing, except in county boroughs, the principal services such as education, main roads and bridges, police and fire brigade, and also important health services. In general, the cost of these services is spread uniformly over the whole county by the precepting of a specified rate in the pound to be levied and collected by the rating authorities. The distinction between such 'General County Purposes' and those which are 'Special County Purposes' was noted in the first chapter. Special problems of administration and organisation arise when services are carried out over such a wide area as a county and centralisation of the administration is not possible to quite the same extent as in a town. The difficulties have been recognised by various Statutes which provide for delegation of functions by a county council to a district council, in some instances compulsorily and in others at the discretion of the county councils. Education and highways maintenance are services which are widely delegated. As regards education, the Education Act of 1944 required county councils to make a scheme for the delegation of certain functions to what are called 'divisional executives', after consultation with the borough and district councils concerned. These divisional executives may be responsible, under the general supervision of the county council, for the local administration of both primary and secondary education. Boroughs or urban districts with a 1939 population of not less than 60,000, or with an elementary school population of not less than 7,000, were excepted from the general arrangements and given the right to prepare their own schemes of administration. In all cases the county council is responsible for financing the service costs and for the borrowing of money required for capital expenditure.

The partnership between the two classes of authority is clearly demonstrated in such delegation of duties and a co-operative

effort is essential. The county council bears responsibility for the standard of the service given, and for the financial side, and is in a position to secure a reasonable degree of uniformity throughout its area, both as regards the standard and the cost. The district councils are given the opportunity of administering important local services, and the benefit of their knowledge of the requirements of their districts is made available. A district council has no right of appeal against the precept of the county council and it is understandable that a feeling of resentment may arise if a district has to increase its rate levy in order to meet the precept of the county, particularly if it has curtailed its own expenditure to avoid an increase. Co-operation in the provision of the services should help to prevent such resentment. A further special feature of the financial relationship between county councils and district councils which should be noted is that contributions are made by counties towards the expenditure of county districts, either compulsorily or at the discretion of the county. Compulsory contributions include payments towards the provision of housing accommodation for agricultural populations, rural water supplies, cleaning and scavenging county roads and the salaries of sanitary inspectors. Permissive contributions include payments towards the cost of housing generally, the provision of open spaces and sports grounds, and, subject to government consent, towards *any* expenses incurred by a district if assistance is thought necessary. Subject to these main points of difference, financial practice in county councils is much the same as in other local authorities.

Income

Apart from income from rates, the most important source of revenue of the general rate fund or county fund is that derived from government grants in aid of the local services, which are fully considered in Chapter VI. There are, however, many other items of income arising from the varied activities of the authorities and they are so diverse as almost to defy classification. Three classes of income arising in local authorites' accounts generally,

however, are (i) charges for personal services rendered, such as the maintenance of children or old people, treatment or facilities under certain local health services, and the provision of police at public gatherings, (ii) charges for work done, such as the making-up of private streets and the repair or cleaning of drains on private property, and (iii) charges for facilities provided, such as baths and wash-houses, and games in parks.

For some cases falling within the first of these classes it is customary for local authorities to have graduated scales of charges based upon the income of the person concerned. In the case of the maintenance of old people in special homes (the former poor law institution disappeared with the repeal of the Poor Law), there is a minimum charge of £1 5*s*. 0*d*. per week payable out of the 30*s*. State pension which single persons receive, but beyond this minimum the charge depends upon the local scale. Scales of charges usually take into account such factors as household income, number of children, and rent and other commitments, whilst it is customary to disregard small amounts of capital and some sources of income, such as disability pensions. It is very desirable that there should be co-ordination by a local authority of the scales adopted for services controlled by the various committees. All too frequently it is found in practice that committees have prepared scales which differ considerably. Little comment is needed on the second class of income mentioned, i.e. charges for work done, except to point out the necessity for a satisfactory system of ascertaining the cost of each job, which will secure that the full cost, including expenses of administration, is recovered. In regard to the third class, it has often been argued in local government circles that the charges made should be sufficient to cover the full cost of the facilities provided, and not leave a part of the cost to fall upon the ratepayers. Yet it is very rare indeed to find a local authority, other than a holiday resort, in which such activities as games in parks, swimming baths and golf courses pay their way. It would be very difficult, of course, to ascertain the precise cost of maintaining a tennis court for one hour and to fix the rate of charge accordingly, and this remark

applies also to most of the other amenities giving rise to this class of income, as they are usually staffed and maintained along with the park or recreation ground in which they are situated. The aggregate financial position over a period is not, however, so difficult to estimate and in some cases, such as golf courses or swimming baths, it is in all probability clearly shown in the accounts. Most local authorities make what they think are reasonable charges for these open-air or sporting activities, being content to fulfil a public need and regard any expense involved as contributing to the health of the nation. Further, it may be argued that given a fine summer and so a big demand for the facilities available, the charges in force are sufficient to cover the cost. Nevertheless, in many instances the charges could be increased and greater revenue obtained without hardship to the users, and the point is one which should be kept under constant consideration.

Most local authorities of any size become owners of properties let as shops, offices, farms, etc., and in some instances the estates reach considerable proportions. The properties may be acquired in the course of carrying out various functions such as street improvements, slum clearance or town planning, or may be purchased for 'green belt' purposes, to prevent building where it is not desirable. Birmingham and Huddersfield are two authorities which a long time ago acquired very valuable estate in their central areas. Many other towns and cities are now purchasing bombed sites for the redevelopment of their areas. No peculiar management problems arise, although it is essential, of course, to ensure that the maximum income is obtained for the benefit of the ratepayers as a whole. The redevelopment of extensive areas, however, particularly in the centres of towns, where land values are very high, presents unusual problems calling for the exercise of great skill and foresight if the maximum benefit is to be secured. The income from property is credited in the general rate fund to the particular account for which the property was purchased; for example, the highways account will receive the rents arising from property purchased for street improvements

and will, concurrently, bear the interest and repayment charges on any loans raised to acquire the property.

Some functions produce income from fees and licences. The verification of weights and measures, and the registration of births, deaths and marriages, are examples of services for which authorities charge prescribed fees. The issuing of motor vehicle and driving licences is a function of county boroughs and county councils, but only in the capacity of agents for the Ministry of Transport, who take the income and reimburse the councils for the cost of collection. There are other licences, however, commonly known as local taxation licences (dog, gun, game, etc.), the proceeds of which go to county boroughs and county councils, according to the amounts collected by the Post Offices in their respective areas. Local authorities themselves also issue licences for a variety of purposes under various enactments and the proceeds are credited to the general fund. Examples are licences for cinematographs and theatres, firearms and explosives, poisons and pharmacy, moneylenders and pawnbrokers.

Expenditure

The distinction between capital and revenue expenditure was noted in the first chapter. Another point of major importance to local authorities is that they are allowed to spend money only on objects within their statutory powers, which may be contained either in a public (or general) Act of Parliament or in a private (or local) Act. The contesting of a local authority's powers in any particular direction would usually ensue from an examination of its accounts by the Government audit staff or upon an application to Court by some party or ratepayer interested in restraining the authority's activities. An example of the latter arose when a local authority's right to incur expenditure in establishing its own printing department was questioned, the subsequent decision being in the authority's favour. One of the most interesting illustrations of the manner in which powers may be granted arose during the second world war, when local authorities operated restaurants under powers relating to the provisions of refreshment

in air raid shelters! Subsequently, the powers were made more definite by the passing of the Civic Restaurants Act of 1947. The reader will readily appreciate that fine legal points may arise at times but never be settled because they are not taken to Court for decision. For example, in the absence of local Act powers, it was at one time doubtful whether an authority could legally provide refreshments at swimming baths, and yet it was sometimes done. That particular doubt has been removed by the catering rights conferred by the Civic Restaurants Act. Before the State scheme of family allowances was introduced, a large authority formulated such a scheme for its own employees. A local authority can pay 'reasonable' remuneration to its employees and the government auditor disputed the power of the authority concerned to pay family allowances, but lost his case. Generally speaking, however, the legality of expenditure is most frequently contested in relation to smaller matters such as the circumstances in which expenditure is incurred on hospitality or the payment of subsistence allowances to members when engaged upon the business of the local authority.

Apart from the legality aspect, the authority to pay accounts is derived from an order issued to the treasurer by the council, signed by three of its members and countersigned by the clerk to the authority, specifying the names of the payees and the amounts to be paid. The usual procedure regarding expenditure is for the head of the department ordering work to be done or goods to be supplied to certify on the invoice his acceptance of responsibility for the work or goods and for the cost. The treasurer of the authority receives the invoices from the ordering department, examines them for compliance with any regulations laid down by the council and to ensure that the expenditure is legal, and then, after the arithmetical accuracy of the invoices has been verified, prepares a schedule of them for submission to the committee responsible for the department concerned. The invoices for all departments are subsequently incorporated in one list for approval by the finance committee, and this list becomes the order on the treasurer mentioned earlier, the signatures of the

three members required being usually obtained at the meeting of the finance committee. Various other aspects of the control of expenditure are considered in the next two chapters, but a comment here on the examination of invoices by committee members may be useful, particularly as it has been found that some of the members themselves are in doubt as to the responsibility they incur when placing their initials or signatures upon the invoices presented to them by the treasurer. The primary responsibility obviously rests upon the ordering officer and the treasurer, in that order, but the submission of the invoices to the committee for scrutiny is a useful safeguard against malpractices, although its value is dependent to a large extent upon the degree of interest shown by the members and the thoroughness with which the scrutiny is carried out. The initialing or signing of the invoice by a committee member does not signify his individual acceptance of responsibility for the expenditure, but serves to identify the invoice as having been properly submitted for approval upon a schedule presented at a certain date, thus acting as a check against any subsequent attempt to add to the list items which were not placed before the committee.

A large part of a local authority's expenditure is on the salaries and wages of its employees and the finance related to these items has grown continually in importance in recent years, owing mainly to the development of national and regional agreements on such matters as rates of pay, working hours, holidays and payments during sickness. The diversity of the services administered by local authorities is reflected in the variety of the salary and wage agreements with which they are concerned. National agreements are in operation for administrative staff, teachers, police and firemen, whilst most manual employees are covered by the national arrangements for particular trades, such as building, or by the determinations of regional bodies specially set up to deal with local authority employees. Schemes for the payment of salary or wages during sickness usually provide for so many months or weeks on full pay, less amounts received by the employee under the State insurance scheme, and a further period

at half pay. An overall maximum period of paid sick leave in any twelve months is usually fixed, and the production of medical certificates is required. The administrative cost to local authorities of dealing with establishment matters has naturally increased and there is a growing tendency in the larger authorities to appoint establishment committees and specialist officers to cope with this work.

One further general feature relating to expenditure may be of interest. It is the usual, although not universal, practice, to record expenditure under the headings of the services carried out by the various committees of an authority, so that financial information upon its activities is readily available to each committee. The detail recorded is mostly a matter of choice, although certain classifications are widely used, such as 'salaries and wages', 'upkeep of buildings and grounds', 'heating, lighting and cleaning', 'income tax' and 'loan charges'. For some services, of which education is an outstanding example, the detailed headings for expenditure and income have been prescribed by Ministerial regulation, so that standardisation of the accounts has been achieved. No difficulty arises in allocating the expenses directly attributable to a particular service or committee, but problems of apportionment do arise in connection with expenditure on depots and plant of all kinds and administration expenses of a general nature, such as the cost of council offices, clerks' and treasurers' departments, and the printing of council and committee minutes. Apart from the desirability of showing the full cost of a service, including a reasonable share of common expenses such as those mentioned, there is the necessity for ensuring that all appropriate expenditure is charged to services attracting government grant, so that no income will be lost. The actual method of apportionment is a technical accounting matter and it is sufficient to note here that such apportionments ought to be made.

Reserve and Renewal Funds

A local authority's position regarding the creation of reserve and renewal funds is the same as obtains in relation to its expendi-

ture—it can only do what is within its legal powers. Reserve funds are generally created for the purposes of trading undertakings rather than for the rate fund. Many authorities have, however, obtained Parliament's approval to the establishment of renewal and repairs funds for the purpose of equalising the annual charge to the rate fund for such items as lorries and other motor vehicles, steam or petrol rollers, concrete mixers and other fairly expensive plant. Some local Acts also authorise the payment of moneys into such funds to meet the cost of repairing buildings and works. Clearly, in the absence of a fund, expenditure of this nature chargeable to the rate may vary considerably from year to year, whereas an adequate and stable contribution to a fund out of the rates each year will spread the charge evenly. Moreover, charges for the use of a motor vehicle or item of plant are usually made at hourly rates which include an amount for depreciation calculated on the estimated life of the vehicle or plant. By charging to the rate fund and crediting to a renewals fund the *annual* amount of the depreciation which has been recovered in the hourly rates charged for the vehicle or plant, a cost balance is maintained which would be lost if the total cost of the item were debited to the rate fund in one year. The Acts which authorise the creation of renewal and repairs funds invariably specify maximum amounts for the funds and the yearly contributions. It may be emphasised that these funds do not greatly affect the finances of a local authority and are not of sufficient importance to falsify the general principle, dealt with in the next chapter, that local authorities are not allowed to build up excessive reserves or working balances on their rate funds.

There are other special funds which are sometimes established within the general rate fund, such as capital, capital reserve and lands funds, but these are used to meet capital expenditure without recourse to borrowing and may be dealt with more appropriately in Chapter VII.

CHAPTER IV

The Budget

THE budgetary process in local government is not dissimilar to that which precedes the introduction of the national budget by the Chancellor of the Exchequer, and in presenting the rate estimates to the council the chairman of the local finance committee usually emulates the Chancellor of the Exchequer by making a budget speech. Budget day is the occasion for a review of the prospects for the current and the ensuing financial years, and of the local finances generally. It is, with most authorities, the only occasion in the year when financial matters are in the forefront of local affairs, and whilst any enthusiasm of members for economy may subsequently decline, there is usually a lively interest in the burden to be imposed upon the ratepayers by the aggregate expenditure shown by the budget. This interest is not shared to any great extent by the ratepayers themselves, unless a sharp rise in the rate is foreshadowed, but this is scarcely surprising in a system which employs only one method of taxation—and that a method which has been in use for centuries. Under a satisfactory system of financial control, which ensures that departments do not exceed the amount voted to them for a particular purpose or under a specific account heading—such as 'Townend Park—Repairs to Footpaths'—the actions of a local authority for a year ahead are to a considerable extent governed by the budget, and a full appreciation of this fact would in many cases induce members to take a greater interest in the amounts included in the estimates of expenditure submitted to their committees, prior to scrutiny by the finance committee. But this may be taking the reader along a little too quickly and first it would be well to consider why local authorities prepare budgets and the mode of preparation.

Statutory Requirements

The primary purpose of making rate estimates is naturally to determine the rate in the pound which it is necessary to levy, or, in the case of county councils, to precept upon the rating authorities, and there are certain statutory requirements to be fulfilled. The rate having been made or the precept issued, if the aggregate expenditure of the various departments exceeds the estimate, there will be a deficiency on the year's working; and unless there are existing balances in hand out of which a deficiency can be met, there will be no alternative but to carry it forward to be subsequently charged to the ratepayers. It will not need stressing that an accumulation of large deficiencies would place a local authority in serious financial difficulties and undermine public confidence in local government; but deliberate failure on the part of an authority in this country to face up to its responsibilities is unknown and would be unthinkable, even if there were no legal requirements to be observed. Parliament has, however, been anxious to ensure a firm financial structure and has made it obligatory upon local authorities to levy sufficient rates or issue sufficient precepts. The amount must be adequate not only to meet the expenditure to be incurred during the period covered by the rate or precept but also to cover any expenditure previously incurred (in effect any deficiency on the previous rate or precept), to meet contingencies, and to provide a working balance: it is not permissible, however, to levy rates in excess of requirements with a view to equalising the rate levied over a period of years.

Clearly, no matter how carefully the estimates of income and expenditure are prepared, unforeseen circumstances are likely to involve an authority in expenditure not anticipated or, although somewhat less likely, to cause income to fall short of the estimate. One example of frequent occurrence in recent years has been wages and salaries awards applied retrospectively. Heavy falls of snow may result in overspending; in one authority known to the writer the cost of clearing the snow which fell in the early months of 1947 unbalanced the budget for the year to the extent of a rate of eightpence in the pound. These are examples of contingencies

for which local authorities are required and indeed ought to make provision when preparing rate estimates. The method may be to include an item for contingencies in the estimates for each department or, preferably, to provide one contingency fund for the whole of the services. The first method has the disadvantages that it may result in the aggregate provision being more than can be justified, and also in departments embarking upon expenditure not included in their estimates and not really of an urgent or essential nature. There is a tendency for the amount of the contingencies fund to be determined by expediency, in that if reductions in the estimates are required in order to maintain the rate at a certain level it may be the first item to be cut, but a more scientific approach to the question is desirable. Past experience over a number of years should provide evidence upon which to base a reasonably reliable estimate of the amount required, and the temptation to reduce this amount instead of effecting savings on other expenditure should be resisted.

The need for a working balance arises from the fact that stocks of all kinds of materials must be purchased in advance of requirements, and wages and other expenditure must be met before the income from rates is sufficient to cover these items.

The requirement to provide such a balance is very loosely observed in practice, the difficulty again being that in times of financial stringency there is a tendency to reduce balances rather than increase the rate. Whilst admittedly the law leaves the amount of the working balance to the discretion of the local authority, there seems to be no doubt that it is not complying with the strict intention of the law to provide no working balance at all. Nevertheless, it is the practice of some authorities to deduct the whole of the estimated surplus on the general fund at the end of one year from the rate requirements for the following year and levy a rate for only the net amount required, so that if the forecast of expenditure proves correct, no surplus will be left. If necessary, local authorities are permitted to borrow temporarily in order to meet expenditure arising before the receipt of revenues, and bank overdrafts are often arranged. To pursue this aspect of

budgeting further would be to enter into technicalities of interest only to the practitioner, but one further comment may be offered. It may be suggested that the best method is to set aside a permanent fund, termed 'working balance', in the local authority's accounts and to ignore this item when dealing with surpluses or deficiencies in the rate estimates unless circumstances at any time warrant an increase or decrease of the balance. If an authority has no funds available which can be allocated in this manner it will probably be necessary to build up the required amount over a period of years.

Whilst the primary function of the budget is to fix the rate in accordance with the statutory requirements, as outlined above, the secondary object to be attained—firm control of an authority's finances—is of the utmost importance. The two functions are, or should be, indivisible, in that approval of the budget by the council for rate purposes also signifies that the amounts allocated to the departments under the various headings of expenditure have been voted by the council and must not be exceeded without permission. The budget is an important instrument of financial control and this aspect of the subject is considered in the next chapter.

Form of Estimates

Having discussed the statutory requirements, we may now consider the form of presentation and method of construction of the estimates. In practice, a great variety of forms are found in use, but three columns appear to be absolutely essential. They are:—

(1) Original estimate for the current year.
(2) Revised estimate for the current year.
(3) Estimate for the ensuing year.

In addition, the actual figures for one or more immediately preceding years are frequently shown and this is a practice which has everything to commend it. Two years' figures are very useful, because if only one completed year is shown and the expenditure

on an item in that year was abnormal, there is a tendency to provide a similar amount in the estimates for the following years. It is much better to be able to judge the progress of expenditure—and income—by the actual figures for two or even three years. Sometimes columns are added in which increases and decreases are noted, in order to focus the attention of committee members on abnormal variations between one year and another, but whilst the aim is laudable, in practice members are inclined to become confused as to the figures which are being compared when there are too many columns. This aspect is probably better dealt with by a separate report by the chief financial officer when the estimates are submitted. Generally, the figures are set out on normal accountancy lines, the expenditure being shown on the left-hand side of the page and the income on the right. The natural sequence for the allocation of income and expenditure is firstly to committees, secondly to departments or services and lastly to various sub-heads, an example being 'Health Committee—Ambulances—Petrol and Oil'. The same headings and the same detail usually appear in both the estimates and the actual accounts of the authority, and this is very desirable from the point of view of controlling the expenditure, as the progress of the actual spending can be followed and compared throughout the year with the estimate approved by the council under each sub-head. Any possible overspending can thus be foreseen and appropriate action taken, and overspending on one sub-head cannot be hidden by underspending on another. For the presentation of the estimates to the finance committee and, subsequently, the council, a summary of all the committees' requirements is prepared showing the amount to be raised by rate, and this summary is usually followed by the details in alphabetical order of committee. Many useful statistical statements can be incorporated in the volume. Examples are (1) summaries of the net expenditure and rate poundage for each service for the past five or ten years, with percentages showing the development of the services, (2) an aggregation of all expenditure analysed under such headings as salaries, wages, materials purchased, etc., and possibly showing

numbers and quantities compared with previous years, and (3) cost statements, where appropriate, showing the estimated cost per ton of refuse collected, cost per child in the various types of schools, and so on, the estimated figures being compared with the actual cost for a previous year so that variations are apparent. Such statistical statements or data will often reveal points vital to a real understanding of the estimated expenditure which are not disclosed by the figures themselves. For example, the total expenditure on highways may show an increase and the estimates may point to wages and materials as being the cause. This may be due to increases in wage rates or commodity prices, but another reason may be an increase in the number of workmen engaged or in the quantities of materials purchased. The cash figures would not reveal these important considerations. The real reason for the increased expenditure may be that the adoption of private streets as 'highways repairable by the inhabitants at large' and the construction of new roads on the authority's own housing estates have added considerably to the mileage of roads to be maintained. Clearly, the highways estimates cannot be properly appreciated without the appropriate supporting data, and this remark applies to most other services.

Estimating the Net Expenditure

The significance of the word 'net' in its present context is that it implies that the estimated income of a particular department or service, including any specific government grant, has been deducted from the expenditure in arriving at the amount required from rates by the committee concerned. Thus, for instance, in the case of a Parks Committee, the total of the receipts from games in the parks and any other items of income is deducted from the total expenditure of the committee to give the net requirements for inclusion in the summary of the estimates.

In order to comprehend the budgetary process, one of the first things to consider is the timing of the operations, which is of no little importance. A great deal of work is involved in the preparation of the rate books and demand notes, for which the rate in the

pound to be levied must be known, and the rate should be demanded as early as possible in the new financial year so that some cash can be lodged in the bank. Experience shows that there is always a number of ratepayers who will pay as soon as they receive their demand notes. The latter consideration does not apply to county councils, but they also have to work to a time-table, as they must notify the rating authorities of the amount of the rate in the pound which they require not less than 21 days before the beginning of the financial year in which the rate is to be levied. From the rate collection point of view it is, therefore, an advantage if the council finally approve the estimates early in March. Adequate time must be available for the estimates to be approved by the spending committees, considered by the finance committee (or in some instances a special committee for rate estimates), re-submitted to the spending committees if alterations are needed, and finally prepared for the council. As committees usually meet only once a month, all this means that an early start must be made if the estimates are to receive the serious attention they deserve. The estimates for the current year must be revised and here a decision is required as to the period of actual expenditure to be used as the starting point. The earlier the estimates are prepared, the shorter will be the period for which the actual figures are available. In one authority known to the writer it was the practice to take actual expenditure to 31st January and estimate for the remaining two months, but this method leaves little time for the budgetary process. It is more usual for eight or nine months actual expenditure to be used, even though this necessarily makes the completed figures for the year more approximate. A decision on the time-table depends to some extent upon the size of the authority, the range of the services, and the importance attached locally to the budget, but, whatever the circumstances, careful timing of the various stages of the work is essential.

How does the compiler of estimates set about his task of producing reliable figures? The first thing he must possess is an adequate knowledge of the service for which he is estimating;

only wide experience will enable him to avoid errors. A knowledge of the effect of new legislation and fresh developments is necessary. An Act may be passed imposing new duties involving additional expenditure upon the local authority from a certain date, or expenditure under an Act may cease in one year and make it unnecessary to provide anything in the following year's estimates—for example, war damage insurance contributions were payable for only a limited period. Joint industrial councils may have recommended the adoption of new wage rates or altered conditions of service which should be allowed for, and if an award has not actually been made, an intelligent forecast of the probable result of the negotiations may be called for. An intimate knowledge of government grants towards the various services is required so that the income therefrom can be estimated with reasonable accuracy. A careful scrutiny of the actual income and expenditure of previous years and of the current year to date is needed to ensure that abnormal items are allowed for, and in this connection the importance of preparing estimates and supporting data in considerable detail may be emphasised. Due allowance should also be made for the period covered by any changes which may have arisen in income or expenditure during the year, such as an increase in parks or baths charges from a date other than 1st April. In addition, seasonal variations occur in many items of income and expenditure and make it unsafe to rely upon the figures to date as the basis for estimating what will be received or paid during the remainder of the year. These are only some of the points which the compiler of estimates must take into account. He should also make a careful scrutiny of all sources of information, such as committee minutes, to ensure that all commitments are provided for and that no changes in income are overlooked.

A point of some importance, not always observed in a local authority's budget, is that where expenditure, such as general administration expenses, is apportioned to several committees, the gross expenditure should be stated and the transfers to other committees shown as credits in the estimates of the controlling committee. Only in this way can the expenditure be properly

controlled. If only the net expenditure after deduction of credits is shown, it would be possible for increased expenditure to be hidden by increased income from the transfers to the other committees. These remarks also apply to items such as the depot accounts in, say, a council's engineer's or surveyor's department, where the net expenditure may be completely recharged to highways maintenance and other accounts; full details of the expenditure and credits should be shown in the estimates to ensure proper control.

Whilst the bulk of the expenditure of a local authority is upon the normal and regular requirements of the departments, it will be found necessary each year to provide money for special items. Examples are—extensive repairs and painting of buildings; renewal of plant and vehicles; parks and playground equipment; maintenance of roads and footpaths; minor street improvements, the cost of which is not being spread over a period of years by borrowing; and any items of capital expenditure which it is proposed to meet out of revenue. Extraordinary expenditure of this kind should always be shown separately in the rate estimates and not merged in a general heading such as 'general repairs and maintenance', so that if it is necessary to reduce the estimated expenditure, such items can be clearly distinguished and reviewed in the light of their absolute necessity. A device which has been found useful in practice is to have a schedule of special items supplied by each department along with its estimates.

The division of responsibility for the preparation of estimates between the finance department and the executive departments is a matter of local arrangement and there is no uniform practice. The minimum duties of the finance staff are usually to insert on skeleton forms the expenditure from the beginning of the financial year to 30th November or 31st December, according to the time-tables, and, for items of expenditure of a periodical and fixed nature, such as loan charges, rents, rates and insurances, the expenditure for the remaining three or four months; the spending departments would then be responsible for completing the revision of the estimated expenditure for the current year and for

estimating the expenditure for the ensuing year. At the other extreme, the finance department drafts the complete estimates and forwards them to the departments for consideration and amendment, but this method is practicable only in a small authority or for departments which are too small to employ experienced clerical staff. The more usual practice, if the finance department does more than the minimum, is for collaboration to take place, the other departments concerned thus making use of the knowledge of the accounts obtained by the finance staff in the performance of their normal duties. In any event, the accountancy staff in the finance department should make a careful examination and check of the estimates submitted by the various departments, so that their specialised experience is brought to bear upon the figures. And if a department is entirely responsible for the preparation of its own estimates, it is desirable that important items and new proposals should be discussed with the chief financial officer before the estimates are submitted to the spending committee.

The extent of the interest shown by the executive committees in the details of the estimates varies from authority to authority, and from committee to committee within an authority. It may depend upon tradition, the degree of financial stringency at the time, the reliance placed upon the subsequent scrutiny by the finance committee, the attempt made to arouse interest by the method of presentation, or even upon the length of the agenda for the meeting at which the estimates are being considered! A committee will often approve the estimates of their requirements with little or no discussion if they know that the chairman of the committee has examined the figures beforehand. A practice which has much to commend it is for the officer responsible for presenting the estimates to the committee, whether he is the financial officer or the executive officer, to send out with the estimates a detailed report drawing attention to the main features and containing explanations of variations of the figures between one year and another. Such a report focuses attention upon the important points and is also extremely useful in the preparation

of the subsequent reports to the finance committee and the council.

Estimating the Rate Poundage

When all the estimated income and expenditure is known and has been summarised, the balance to be raised by rate can be considered. If the amount required shows an increase over the previous year's estimate it does not follow that it will become necessary to levy a higher rate in the pound, as the rateable value of the area will probably have increased. In normal times the rate of growth of an authority's services and expenditure tends to outstrip the increase in rateable value arising from building developments, etc., and thus necessitates a higher rate poundage. The idea of equilibrium between rateable value and expenditure, with a stable rate poundage, is attractive and has prompted some authorities to try the rate rationing schemes which are discussed later. In arriving at the rate in the pound required to meet the total requirements, the first step is usually to make an estimate of the amount which a rate of one penny in the pound will produce. Allowances must be made for the cost of collecting the rate and for losses arising from empty properties, bad debts, etc., based upon past experience, but otherwise a simple arithmetical calculation is all that is required. Assuming that the rateable value of an area is £1,200,000 and that the cost of collection and losses on collection amount to 5 per cent—a reasonable allowance—a rate of one penny in the pound would produce £5,000 less 5 per cent, or £4,750. If the amount to be raised by rate were £855,000, then the rate poundage required would be 855,000*d.* ÷ 4,750, which equals 180*d.* or 15*s.* The complications existing in rural district councils for rating purposes have already been noted: such authorities require separate rate products for general and special rates.

The revision of the income from rates for the current year usually produces a fairly accurate figure, as the proceeds from the first half-year are known and the financial officer is also aware of rateable value which has been added to the valuation list during

the year. The estimate for the following year is more prone to error and for this reason it is usual to make a cautious estimate of the rate product so that there is a margin for contingencies. Nevertheless, as a rule some increase in rateable value will be anticipated, based upon past experience, and a knowledge of building proposals or of alterations of assessments likely to be made. In passing, it may be remarked that the tendency to under-estimate income in preparing a budget is a natural one and is generally favourable to sound finance, because it is obviously better to ensure that there is no shortfall of income than to find that an over-estimate has been made.

Rate-fixing Policy

When the provisional estimates have been summarised and the probable rate in the pound required has been ascertained, reductions in the various committees' requirements may be desired, in order to avoid a rate increase or to limit the increase to a certain figure. It is more unusual, but not unknown, for estimates to be reduced with a view to reducing the rate from its current level. The 'cutting' or 'pruning' of the estimates may be done by the finance committee or a special committee appointed for the purpose, or it may be left to the chairman of the finance committee and the chief financial officer to interview the chairmen of the spending committees and the executive heads. The method adopted may be to ask each committee for an appropriate reduction, leaving the committee concerned to determine the details, or to suggest the items which should be eliminated or reduced. The first method is probably the more usual and may be preferred, in that the spending committees have the responsibility for the service provided, and ought not to be unduly interfered with; but, of course, any possible savings of expenditure or increases of income should be brought to their notice. As it is unlikely that any service will be curtailed or closed down, the most obvious place to look for economies is amongst the extraordinary items in the estimates. That is one reason why it is important that these items should be easily distinguished. One point in connection

with this cutting of estimates needs emphasising; it must be practicable to effect the proposed reductions. 'Paper' reductions are of no use, and it is much better for an authority to face an increase in the rates than to find that expected savings arising from reductions made in the estimates have not materialised, with the result that there is a deficiency at the end of the year. The grant-aided services present particular difficulty if reductions in expenditure are needed, as the cost of such services as education, police, fire brigades, etc., is largely determined by prescribed rates of pay and the standard of service required by the responsible government department.

Although a local authority's budget covers a period not exceeding twelve months, in framing it a forward-looking policy should be adopted and some estimate made, even if only in the mind of the chief financial officer, of the factors which may influence the future course of the authority's income and expenditure. It is obviously easier to do this during a period when economic conditions, wages and prices are reasonably stable than when future trends are extremely difficult to forecast; even under stable conditions fresh legislation is liable to impose additional duties and burdens upon the authorities. Nevertheless, the rate for one year should not be fixed without considering the prospects at least for the year which will follow. Attempts have at times been made to prepare a forecast of income and expenditure for a five-year period, in an endeavour to determine a long term policy regarding the rate to be levied, but the difficulties are formidable and a period of three years would probably yield more accurate information and be quite sufficient for practical purposes. Such exercises in foresight usually have a stabilisation of the rate poundage as their aim. Variations in the rate levied are at times inevitable, but it is possible by careful management to avoid constant fluctuations, which are calculated to irritate both the business community and the householders, besides adding to the administrative work of the owners of property, including the local authority itself, who are required to notify their tenants of changes in rents which are inclusive of rates. An alteration of the

rate poundage also naturally increases the administrative work in the rating department, due to the new calculations required. A local authority has no power to levy a rate beyond what is considered necessary to meet its current requirements, and this means that stabilisation of the rate over a period of years cannot be achieved by levying a higher rate than is strictly necessary, so as to produce a large surplus which can be used to meet rising expenditure in the following years. In other words, it is not legally possible to establish what would in effect be a rates equalisation fund. Nevertheless, the provisions as to working balances, which we have already noted, are sufficiently elastic, when accompanied by careful regulation of expenditure, to enable an authority to avoid minor variations of the rate and to increase or reduce it only when it is obvious that the existing level cannot be maintained. Clearly, county boroughs can more easily manage their finances in this way than county districts; the latter have to meet the county councils' precepts; and even if a county achieves stabilisation over a period, the period may not coincide with that adopted by a district council for its own requirements.

Rate rationing is a policy which has, under stable conditions, proved successful in some authorities. Assuming, for example, that a new valuation list has been prepared and that a considerable increase in the aggregate rateable value of an authority has taken place, it may be found that instead of an existing rate of, say 17*s.* 6*d.* in the pound, the authority's expenditure can be met by a rate of 16*s.* If no services are taken away from or added to the authority by legislation, the council may decide to levy the rate of 16*s.* until a further revaluation of the area is made. There will normally be an accretion of rateable value, with a corresponding increase in rate income, each year, and it will be necessary to restrict the increase in expenditure to the amount of the increase in income. The committees are, therefore, rationed to the amount of their existing expenditure plus a share in the further money available, which may be allocated according to a determination of the needs of the various committees. The expenditure on some services may not be affected by the development of the area, and

any empirical method of allocating the increased resources is not likely to produce equitable results. Under this method of managing the finances of a local authority, any saving effected by a committee on its ordinary expenditure may be used for special items or the development of its services, a feature which should encourage efficiency and economy.

Supplementary Votes

If the budget is to be properly used as a means of controlling an authority's expenditure, so that committees are allowed to spend only the amounts and for the purposes approved by the council, the authority's regulations must provide the machinery for supplementary votes to be granted during the course of the financial year. They will be required for urgent items which could not be foreseen when the original estimates were prepared, or for overspending on an existing estimate heading due to unforeseen circumstances. Applications for these votes should be thoroughly examined from the point of view of their urgency and necessity, because only by discouraging them in every way is it possible to impress all departments with the need for careful preparation of the original estimates. The supplementary vote may be required more because of lack of foresight than because of new circumstances. Clearly, in spite of provision for contingencies in the budget, a host of supplementary votes for expenditure not provided for in the rate levied will tend to unbalance an authority's finances, and strict control is essential. Supplementary votes should require finance committee and council approval in the same manner as the original estimates.

Capital Budgets

Most local authorities include in their rate estimates each year small items of capital expenditure for which it is not thought necessary to seek a loan sanction, or other items of a capital nature, such as purchases of motor vehicles or plant, which the authority habitually meets out of revenue moneys. In respect of

capital expenditure financed by borrowing, however, charges for interest and repayment of debt are incurred for which it also becomes necessary to make provision in the rate estimates, unless they relate to trading undertakings or housing schemes and are not charged to the rates. This requirement involves the making of some estimate of the probable expenditure on capital account, even though it may not be the practice to present a proper capital budget to the council.

The government on more than one occasion has commended to local authorities the practice of compiling a capital budget covering a period of years, five years being suggested as probably the maximum for which a reasonable forecast could be made. The difficulties of preparing reliable figures are recognised, one of them arising from the fact that departments tend to include all the schemes they can envisage, irrespective of the practical possibility of proceeding with them during the period, because of their fear that the omission of an item will preclude it from future consideration. Soon after the second world war, local authorities were required to submit capital programmes covering a period of three years, no doubt in the hope that the figures would be useful for the planning of the nation's capital investment policy, but it was generally admitted that the estimates submitted were ridiculously high and founded more on hope than expectancy of fulfilment. Nevertheless, in spite of their defects, estimates of capital expenditure over a period ought to be attempted. Loan charges represent a fixed liability of an authority which cannot be altered if economy is called for, and only by a consideration of the aggregate capital commitments and prospective debt charges can an authority ascertain whether the development of its services is tending to outstrip its financial resources. Further, unless the capital requirements are programmed it is difficult to determine priorities, and to distinguish urgent and necessary schemes from those which are merely desirable. Some authorities content themselves with estimates of the capital expenditure for the current and ensuing years, similar to the revenue estimates, and these prove most useful, particularly if

new schemes are distinguished from work in progress on schemes already approved by the council. The usefulness of such estimates is, however, diminished by the tendency of departments to include schemes which would be relegated to a lower place in the queue if the figures for, say, three or five years were called for. Capital estimates usually show the loan charges on the prospective expenditure in the financial year under review and also on the completed scheme.

There is a further aspect of capital budgets covering a period of years which emphasises the need for them. A close relationship exists between the capital works of local authorities and the planned allocations of the nation's resources of manpower and materials; at the present time, the shortages of essential raw materials and the conditions of full employment result in a strict control by the government of programmes for the erection of houses and schools, highways construction, and other works. In times of depression, however, the local authorities will be able to afford considerable assistance to the government if they have planned ahead for their capital schemes and are in a position to proceed rapidly with works which will expand employment and the purchasing power of the nation. The government have stressed the desirability of this type of planning and, in particular, the need to purchase the land which may be required, even though there is no immediate prospect of proceeding with individual schemes.

When a programme of capital schemes for a period of years is prepared, the inclusion of a scheme in the list ought not necessarily to signify its approval by the council. The regulations relating to the approval of specific capital projects are part of the system of financial control and this aspect of the subject is dealt with in the next chapter.

Estimates for Trading Undertakings

As with estimates of capital expenditure, practice in local authorities varies greatly in regard to the preparation of annual budgets for trading services. If the service is one such as ceme-

teries or markets for which, as explained in Chapter III, it is the practice of a particular authority to merge balances in the general rate fund each year, its income and expenditure will usually be included in the rate estimates, so that any expected surplus or deficiency is automatically disposed of. The position is different, however, with the large public utilities, of which water and transport are, since the nationalisation of gas and electricity, the main examples in local government: surpluses and deficiencies on these trading services are normally carried forward in the accounts of the undertaking itself, and any appropriations of profits in aid of rates are usually made out of the actual profits of the preceding year rather than from estimated future profits. Opinion is sharply divided upon the value of preparing annual estimates of the income and expenditure in these cases. On the one hand, it is contended that owing to the difficulty of making a reliable forecast of the demand for the service, which governs the receipts and also, to some extent, the expenses (many expenses are of a standing nature and do not vary with the demand), it is a waste of time to prepare a budget, particularly as the rate to be levied is not usually affected. The other view is that a periodical review of the finances of a trading undertaking is essential to a sound price-fixing policy and that it is convenient to present a forecast to the council concurrently with the rate estimates. Whether or not trading estimates are included in the annual budget, the committee in charge of an undertaking should at some time in the year consider its future finances and make a report to the council. Although the review should be undertaken each year, there is no reason why the period covered should be one year only; there is much to be said in favour of a long-term forecast of the revenue position and also of projected capital expenditure. The argument for stabilisation of prices charged for trading services is stronger than that for stabilising the rate, as it is much more difficult for an authority to formulate and put into operation new tariffs or charges than to alter the rate levied and, further, the approval of a government department to proposed alterations of charges is usually required. A long-term policy based upon adequate

financial information should enable an authority to avoid frequent changes.

The forecast of capital expenditure is of considerable importance, as the prospective burden for loan charges must be known. Water undertakings, in particular, usually carry a heavy debt burden over a long period for such items as reservoirs; a new reservoir may take several years to complete and during this time no extra income may be earned to offset the loan charges on the capital expenditure. The loan charges on an old reservoir or other capital items, on the other hand, may be falling out and so providing some financial relief. Considerations such as these clearly strengthen the case for the preparation of budgets for trading departments, although the aim differs in some measure from that of the rate estimates, in that the expenditure shown in the budget will not usually be regarded as a vote by the council which must not be exceeded without permission.

CHAPTER V

Control of Finances

THE various aspects of local government finance are so interwoven that they are not easy to segregate in different chapters without some repetition or cross reference. The aspect of control is a case in point and many of its features could conveniently have been attached to the contents of other chapters, such as those on rate estimates and government grants. The question of public accountability in national or local finance is, however, of such importance that it seems desirable to provide the reader with a conspectus of the checks which are imposed in the interests of sound finance and purity of administration. Dr. A. H. Marshall, in his research work entitled 'Local Authorities: Internal Financial Control', summarises the objects to be attained as follows:— 'There must be machinery for ensuring that expenditure is properly sanctioned, that outlays are wisely made, that the collection of moneys is conducted with diligence and honesty, and that no precautions for the protection of property or of financial interests are overlooked.'

The many statutory provisions relating to the control of local finances are too lengthy for reproduction in a work of this kind. Apart from the general and local Acts from which authorities derive their powers and which govern the legality of their actions and expenditure, there are specific provisions as to the appointment of finance committees (although not for all authorities) and treasurers; audit of accounts; preparation of rate estimates; levying sufficient rates and precepts, and limitation of rates in certain instances; publication and inspection of accounts; the making of contracts for the execution of works or the supply of goods; the raising of loans and redemption of debt; the funds which are to be maintained and the receipts and payments relating thereto; and general provisions designed to prevent abuse by

members and officers of their special position relating to contracts. The main points arising are incorporated under one or other of the headings which follow. Although these statutory provisions are lengthy, they are by no means satisfactory and are in need of overhaul and clarification, with a view to the establishment of a uniform code for all authorities which will accord with the best modern practice. In this connection, the pattern has been set by the Local Government (Scotland) Act of 1947, in which great attention has been given to the matte s dealt with in this chapter; for example, in Scotland, not only must every authority appoint a statutory finance committee, but the duties of that committee are clearly defined in many important respects, such as the presentation to the council of a report on the annual budget.

A distinction may be made between the control which is exercised from outside the local authority, mainly by government departments, and the internal financial control, although some features dealt with under the latter heading—for example, budgetary control and the appointment of finance committees—originate in statutory requirements and are to that extent controls imposed from outside.

Internal Control

The essential features of a system of financial control are well stated in the words which have been quoted from Dr. Marshall's book. It cannot be too strongly emphasised, however, that ultimately the success of an authority's financial administration depends upon the will of the council, no matter how carefully the framework of control has been designed. Most controls become irksome at some time or another and the danger then arises of sound practice falling into disuse because the desire for its enforcement is lacking. The fact that there is little in the way of statutory regulation of the internal administration of local authorities makes it all the more important that an authority should be prepared itself to regulate its activities and be vigilant against any attempt to transgress its regulations. The council itself is the body ultimately responsible, but it may naturally lay duties relating to

control upon the finance committee or chief financial officer. No authority, however, may delegate to a committee the power to make a rate or issue a precept, or to raise a loan, nor is this surprising in view of the fundamental importance of these actions. The size or type of local authority is of no great significance in regard to financial control, which is in essence a matter of principles.

Internal control may conveniently be considered under the following headings:—

1. The finance committee.
2. The treasurer or chief financial officer.
3. Standing Orders and financial regulations.
4 Budgetary control.
5. Placing orders and contracts.
6. Accounting and costing.

The Finance Committee

The statutory position relating to finance committees is that only county councils (including the London County Council) and metropolitan borough councils are required to appoint such committees. All other authorities may appoint them and nearly all, in fact, do so. The words used in the Local Government Act, 1933, are of interest. Section 86 of the Act is as follows:—

(1) A county council shall appoint a finance committee consisting of such number of members of the council as they think fit for regulating and controlling the finances of the county, and shall fix the term of office of the members of the committee.

(2) Subject to the provisions of any enactment relating to the standing joint committee or to any other statutory committee, no costs, debt or liability exceeding fifty pounds * shall be incurred by a county council except upon a resolution of the council passed on an estimate submitted by the finance committee.

* This amount was increased to £100 by the Local Government Act, 1948.

This provision regarding the incurring of a liability exceeding £100 in counties has given rise to a great deal of controversial discussion, and it has sometimes been suggested that it gives the finance committee the power to veto expenditure. Such a power would seem to be contrary to public policy in that the finance committee is appointed by and derives its powers from the council, who should have the final word after full information has been submitted to them, financial and otherwise. In practice the position appears to be mainly met by regarding the annual estimates as meeting the requirements of the Act.

The duties of finance committees vary from authority to authority, but their main functions relate to (1) the consideration of and presentation to the council of annual and supplementary estimates; (2) proposals for new schemes involving capital expenditure; (3) approving accounts for payment; (4) the collection of revenues; (5) raising and renewal of loans; (6) insurances, and (7) the supervision of accounting arrangements generally. The general aspects of these matters are all discussed so far as necessary elsewhere in the book.

In order to appreciate the relationship between the finance committee and the other committees, it is essential to bear in mind the fundamental difference in their functions. Most committees supervise spending or executive departments and in view of their responsibility for the standard of service provided, it is scarcely surprising that they are mainly concerned with the efficiency and adequacy of the service. The finance committee, however, as the functions which have been outlined indicate, does not administer any specific service. Its duties relate to all the services. It can, therefore, take a disinterested view of the whole field of expenditure and of the financial resources available, and is in a position to advise the council on the financial implications of any proposal brought forward in the light of the other commitments of the authority. Clearly, occasions may arise when the views of a spending committee and the finance committee are opposed and the council will have to make a choice. The main

point is that such decisions ought not to be made on proposals for expenditure without full knowledge of the financial effect being conveyed to the council by a report from the finance committee. One type of committee which requires special consideration, however, is the committee in charge of a trading undertaking. Delicate questions frequently arise in practice in regard to the finance committee's position relating to such matters as the capital expenditure of a trading undertaking or the revision of charges. We have already seen that the budgetary position is quite different from that of a service the cost of which is met out of the rates, and proposed expenditure on the development of an undertaking is in a different category from rate fund expenditure, as it will normally attract increased income as well as, presumably, giving a better service. Undue interference with a trading committee should be avoided, and the finance committee will probably be content to satisfy itself 'on the general financial soundness of the undertaking.

There is great diversity in practice in regard to the constitution of finance committees. Some authorities take the view that the important functions involved can only be discharged by the whole council and they appoint all their members to the finance committee. Others choose members who are considered specially suitable, irrespective of their membership of other committees, whilst yet another view is that the chairman of every committee should be on the finance committee, whether with or without other members. It is claimed that the latter practice ensures an informed discussion on the proposals of any particular committee, as the chairman is there and can explain the details of and the reasons for a proposal; but it may be a disadvantage in that chairmen are more likely to support than oppose each other, and a proposal may not get really independent consideration from the purely financial aspect—clearly much depends on local tradition and personnel. However constituted, because of its peculiar functions and position the finance committee needs to be a strong committee composed of respected members of the council. A useful practice is for the chairman of the finance

committee to be an *ex officio* member of other committees when annual estimates are being considered.

The Chief Financial Officer and Internal Audit

The duties of a chief financial officer are closely allied to the functions of a finance committee, and he clearly holds a key position in the control of a local authority's finances. This has not always been recognised, and even to-day some authorities have no separate finance department, the usual practice in such cases being for one person to hold the title of 'clerk and accountant' or 'clerk and chief financial officer'. Generally speaking, such appointments are found only in the smaller authorities, and the number is gradually decreasing.

In a memorandum issued by the Ministry of Health (the responsible Ministry at that time) to accompany certain Accounts Regulations made in 1930, the duties of a chief financial officer were referred to as follows:—

> 'That responsibility for the maintenance of current supervision of all accounts and records relating thereto should rest upon one chief financial officer even when a separate departmental accountant is employed, as the efficiency of internal audit depends largely on its independence, and that the officer charged with this duty of supervision should have access at any time and authority to apply any test or check to the accounts and records.'

This definition of duties has no statutory force, but may be regarded as a statement of governmental views on what is desirable.

In a local authority of any size, the chief financial officer usually has a separate audit staff to assist in the maintenance of adequate control. Whether or not there is a separate staff for the purpose, there will usually be officers in the finance department performing audit functions in relation to the routine examination of income and expenditure. Auditing is, however, specialised work which requires a trained, alert, mind, coupled with a sound knowledge of departmental duties and methods and of the safeguards which are needed against malpractices. There is every-

thing to be said, therefore, for separating the duties and giving the staff concerned the opportunity to obtain special training and experience in audit work. An internal audit staff not only safeguards the local authority's finances but provides a valuable link between the finance department and the other departments, and, in fact, it is difficult to see how a chief financial officer can carry out his duties properly without one. In view of the fiduciary relation in which the treasurer stands to the burgesses (noted on page 164) opinion of Counsel was sought by one authority on the responsibility of a treasurer to maintain an internal audit of the financial transactions. Counsel advised that the local authority were under an obligation to provide the necessary staff and that the appointment of an outside firm of accountants as auditors did not relieve the treasurer of his responsibility for the correctness of the accounts. In practice, internal and external audit are complementary and need not overlap to any material extent. The internal audit staff can maintain a day-to-day supervision over financial transactions and secure observance of the council's regulations. The external auditors are thus relieved of much routine checking and can concentrate more on the books of account and balance sheets.

A valuable feature of a capable audit staff is that in the course of auditing the transactions of the various departments not only can they ensure that the accounting arrangements are sound and provide adequate control against loss of income, accidental or otherwise, but they can often give advice on the organisation and methods adopted, with a view to economy and increased efficiency.

Standing Orders

The Standing Orders of a local authority are usually associated with committee organisation and procedure and the rules of debate in the council chamber. The need for them to contain much more is, however, stressed in some pertinent observations by Mr. J. H. Warren in 'The English Local Government System'. He states that: 'they should be a complete articulation of the

council's administrative arrangements, a continuous embodiment of all administrative rules which evolve in practice or are laid down by resolution from time to time. It is useless for resolutions dealing with administrative methods and requirements to be left embedded in old minutes or other scattered sources not easily accessible to departmental heads and other "key" subordinates. A full and detailed, often an elaborate, set of Standing Orders is not, as the ignorant think, a mark of "the official mind", but the expression of a well thought out and well tried system of administration running smoothly in the light of day.' He goes on to advocate an annual revision of Standing Orders to secure that the administrative machine is regularly overhauled.

Local authorities outside London are required to make a Standing Order as to the procedure for entering into contracts, but otherwise there is no statutory prescription of financial regulations. Many authorities in fact seem to prefer to carry on without a detailed code of regulations on financial matters, and rely mainly upon custom, commonsense and the conscientiousness of members and officers. For the purposes of the research work already mentioned, Dr. Marshall obtained information from 80 local authorities, and on this question of financial regulations he summarises their practice as follows:—

(*a*) Number of authorities with detailed or fairly detailed regulations	18
(*b*) Number of authorities with scanty regulations	34
(*c*) Number of authorities with no regulations on matters other than estimates or capital expenditure	28

It will be seen that most authorities have made regulations governing rate estimates and capital schemes. In addition, it is a fairly general practice in Standing Orders to provide for the appointment of a finance committee to 'supervise the finances', a term which does not adequately indicate the important duties of the committee in relation to control.

Some authorities secure satisfactory control without a written

code, and indeed the existence of such a code is not a guarantee of successful practice unless there also exists the determination to enforce it. Nevertheless, there are weighty arguments in favour of adequate regulations. In the absence of them reliance must be placed upon present factors, such as the influence of leading members of the council, the finance committee, or the treasurer, or upon the existence of a sound tradition in financial matters. There is then the danger of individual items being dealt with as may seem expedient instead of in accordance with a settled and uniform practice, and also of invidious distinctions being made as between one committee and another. Further, the influence for sound control exercised by members or officers may disappear with those individuals and in this connection it should be borne in mind that the constitution of the council frequently changes as a result of the annual elections. Clearly, the existence of satisfactory Standing Orders is more likely to ensure stability in the financial administration. In the larger authorities particularly, where close personal supervision of the many departments is impracticable, it seems essential that there should be a written code.

The matters normally governed by Standing Orders covering financial control are indicated by the duties of the finance committee previously outlined. The essential points are the authorisation of expenditure by the annual budget and supplementary estimates, the approval of new capital projects and the procedure for regulating orders and contracts, the payment of accounts and the control of stores.

Budgetary Control

Various aspects of a local authority's budget were discussed at some length in the previous chapter. We are here concerned with the control of expenditure by enforcement of the budget. In a perfect system of financial control it would be impossible for expenditure to be incurred without a prior requisition submitted to and certified by an independent officer, in the case of a local authority presumably the financial officer, to be within the amount voted by the council. The control would then be exer-

cised before expenditure was incurred. In English local government, however, the general practice is to rely upon the head of the department concerned to see that he has the necessary authority before he issues an order for goods to be supplied or work to be done, or before he incurs expenditure on wages. Many authorities require each department to submit a requisition book to the committee responsible for the particular department, retrospective approval being obtained for urgent items already ordered, which are usually entered in the book in red ink. In view of the fact that committees as a rule meet only once a month, the red ink items tend to be numerous. Committees generally pay insufficient attention to requisition books, but the fact that the chairman signs the book at the meeting and may scrutinise the items does act to some extent as a check upon the orders issued by a department. The placing of reliance upon the departmental head and the practical defects of requisition books necessarily result in the control exercised being in the nature of an inquest upon expenditure already incurred and which must be met. Comparison of the expenditure with the amounts voted by the council is normally part of the finance department's routine examination of accounts submitted for payment. Monthly or quarterly statements of expenditure incurred to date, showing the balance of the vote remaining, are in use in many authorities, and assist the various committees and departments to keep within their estimates; they also draw attention to probable overspendings. It is not an easy matter to ensure that such statements are complete and reasonably accurate, but the difficulties are mainly of a technical accounting nature and need not be considered here.

When it is apparent that the amount included in the estimates for a specific purpose will not be sufficient, irrespective of the reason, it should be necessary for application to be made for the approval of the finance committee and the council to a supplementary vote. In many instances, of course, the approval will be a formality, because the council will have no option but to meet the additional expenditure. It may arise, for example, from a national wages award. Supplementary votes will also be needed

for any urgent new items which arise during the course of the year and for which provision was not made in the budget. The need for careful examination of such items was stressed in the previous chapter. If committees are allowed to overspend without approval by supplementary votes, or if such votes are granted automatically without regard to the urgency of the objects, the budget ceases to be a financial plan controlling the council's expenditure and becomes instead merely a method of estimating how much money will be needed before the next rate is made. An alternative to a supplementary vote, allowed in some authorities, is a diversion of expenditure from one heading to another. The idea behind this arrangement is to encourage a committee seeking approval of additional expenditure to examine the expenditure already approved, in order to ascertain whether a corresponding saving is possible under some other heading. From the point of view of financial control, however, the method is of doubtful value, as in most cases such savings are probably fortuitous and ought not to enter into consideration of the urgency of the further expenditure proposed. For this reason, diversions should be allowed only with the consent of the finance committee and the council.

Orders and Contracts

It is necessary to ensure that so far as possible there will be no irregularities in the placing of orders and contracts so that public confidence may be maintained and criticism of the administration avoided. The difference between the position of a private firm and that of a public body in regard to the purchasing of requirements will not need stressing. A simple explanation of the manner in which local authorities regulate their affairs in this connection is not easy to provide and, indeed, in practice the standing orders of an authority relating to the placing of orders and contracts are frequently difficult to interpret. It may help if a classification of the items is attempted, and they may be considered under the following headings:—

(1) Orders which may be placed by the departmental head.

(2) Orders for purchases above a prescribed cash limit which require the passing of a resolution by the appropriate committee with or without the necessity for subsequent approval by the council.

(3) Items for which tenders must be invited and a formal contract completed.

The first category relates mainly to the day-to-day requirements for the maintenance of the service concerned, and the order will be placed by the head of the department or an authorised deputy. All orders should be in writing and in suitable cases competitive quotations should be obtained. Quotations are not usually needed in the case of proprietary articles. The executive officer may be required to obtain prior approval of his committee by completing a requisition book detailing the orders he desires to place, subject to an authority being given for urgent requirements to be purchased before the meeting of the committee and subsequently ratified. The financial control of these routine purchases, apart from the use of a requisition book, is obtained by setting up a sound system for recording the receipt and usage of materials purchased and by the finance department examining the invoices to ensure that the prices paid are reasonable. Many departments of an authority are continually buying the same articles—for example, clothing, food, cleaning materials, etc.—and it is possible, where the quantities are large, to effect considerable savings by a centralised purchasing scheme. Such a scheme ensures a uniform buying policy for all departments, covering prices and quality, and in times of scarcity enables the most urgent needs to be met first by preventing departments competing against each other for supplies. The procedure is usually for contracts to be arranged covering the total requirements of an authority for a year, after tenders have been obtained and samples examined. Apart from any savings which may accrue from large scale buying, a central purchasing scheme has the advantage that the services of an experienced officer are available for the requirements of all departments.

The second category to be considered relates to items for

which specific approval is needed. The standing orders may provide that any purchase exceeding £100 in value, or such other limit as the council may fix, requires a resolution of the committee which may, or may not, have to be reported to the council for approval. Different limits may be fixed for different committees as there is considerable variation in the daily requirements of the various departments. An amount of £50 suitable for one committee may be quite inadequate for a committee responsible, for example, for operating a transport undertaking or maintaining highways. The procedure for placing the order may be for the head of the department concerned to obtain quotations from selected firms for submission to the committee, or in suitable cases tenders may be invited by advertisement. This category cannot be completely distinguished from the third, as the delegation of powers by the council to its committees may not only cover the acceptance of tenders for purchases below a certain limit, but also the authorisation to make the formal contracts.

In regard to the third category, the standing orders of all provincial authorities must provide that the intention to enter into contracts for the supply of goods or materials or for the execution of works shall be published and tenders invited. The Government have issued model standing orders relating to contracts for the guidance of local authorities and these have been closely followed in practice. There is no statutory prescription of the monetary limits to be fixed, and because of the varying needs of the different types and sizes of authorities this would scarcely be practicable. By their model orders, the Government suggest that no contract exceeding £200 in value should be made unless tenders have been invited by advertisement in local newspapers, and that items exceeding £2,000 should be advertised in trade journals. The stated view of the Ministry is that these figures might well be increased in some cases—even to amounts as high as £500 and £5,000 respectively, where there are special reasons to make such figures appropriate; e.g. where local authorities have activities on a very large scale. Other provisions suggested in the orders are that estimates of cost should be furnished to committees before

contracts are entered into; there should be pecuniary penalties for default by the contractor; a contract should be subject to cancellation in the case of bribery; tenders should be sent to the clerk in plain sealed envelopes and opened in the presence of appropriate members of the council; there should be a 'Fair wages clause' requiring the contractor to observe properly negotiated rates of wages and conditions of service; and a written report should be obtained from the appropriate officer if it is proposed to accept a tender other than the lowest.

Local authorities are faced with the difficulty of finding a nice balance between, on the one hand, regulations which do not provide adequate security and, on the other, regulations so restrictive as to hamper the work of the authority and continually confront its officers with administrative difficulties. In order to make the regulations workable, there should be provision for departures from them, a suitable arrangement being to allow committees to make exceptions subject to ratification by, or at least report to, the council. It is also helpful in practice if standing orders contain a schedule of articles which are excepted from the normal contract procedure. The contents of such a schedule will vary from authority to authority, but all proprietary articles and many items required for trading services, such as water meters and tramway and omnibus tickets, can with advantage be included in the schedule. The Government's model standing orders suggest that it should not be obligatory on a council to invite tenders for goods or materials where effective competition is prevented by governmental controls. Where a local authority carries out by means of its own employees work which would normally be performed by a contractor—for example, the erection of houses or schools—the standing orders will need particular attention from the practical angle, as large purchases of materials will be needed, and in all probability there will be sub-contractors employed for specialised aspects of the work. Instead of one contract for the whole job, many may have to be made, and some flexibility in the arrangements, particularly in times of shortages when substitute materials have often to be found, is essential to a

satisfactory rate of production. For all works carried out by direct labour in this way, other than small repairs and maintenance work, the department should submit tenders in competition with outside contractors, and properly certified costs should be presented to the council for comparison with the tenders.

There is little that need be said here on the routine control of payments under contracts. The authority's architect or surveyor, or sometimes it may be an outside firm responsible for the supervision of the work, will certify the payments to be made and the chief financial officer will usually examine the final account to ensure that payment is in accordance with the contract, as varied or added to with proper authority. It is important that any variations or additions should be made in writing by the responsible officer named in the contract.

Accounts and Costs

For the various methods of controlling the finances of an authority to succeed, it is essential that up-to-date and reliable accounts should be kept. On the expenditure side, the important points are the legality of the payments and the measures taken to ensure compliance with the budget. The income side does not present quite the same problems, although, of course, it cannot with safety be neglected. The internal audit of the transactions of the various departments is usually directed particularly to ensuring that all income is properly accounted for and that no potential source is overlooked. Except for cash receipts, such as tramways and omnibus fares, control of income is normally effected by the raising of a debit account against the debtor in the authority's books. This account must then be cleared, either by a payment or an allowance, and it is desirable that no accounts should be allowed and written off the books except upon the authority of a committee resolution. The need for periodical review of the charges for services rendered was mentioned in Chapter III.

The treasurer of the authority is required to publish an

abstract of accounts and any local government elector for the area may inspect and take extracts from it. There is no prescription of the form of the abstract and apparently a summarised form without any considerable detail would suffice. Most authorities, however, print a voluminous abstract of their accounts so that the officers of each department and the committee members have available a permanent and detailed record of the income and expenditure. The detailed abstract is invaluable in the finance department, as constant reference to the accounts must be made and there would be needless delay if the information could be obtained only from the ledgers and other books of account. The abstract in this form is also useful when copies of the detailed accounts are required, such as for supplying to Inspectors of Taxes. The value of the abstract of accounts as an instrument of control is enhanced when statistical and financial tables covering a period of years are included. A useful practice has grown up amongst local authorities of exchanging abstracts of accounts each year so that comparison of the cost of services in different areas can be made. The utility of such comparisons is greatly increased where standardised account headings are in use, as for certain services such as education and welfare of the blind, in respect of which the Government have prescribed the form of the accounts. The Institute of Municipal Treasurers and Accountants has also done valuable pioneer work in publishing a standard form of abstract of accounts, although unfortunately it has not yet been widely adopted.

The abstract of accounts is composed mainly of the financial records and usually contains little in the way of cost accounts. The distinction between the two requires some explanation. Financial records contain the facts concerning the income and expenditure upon the various services, usually for a period of one year ending 31st March, and analysed in sufficient detail to provide a reasonable amount of information for all interested parties. The cost statements, however, go more deeply into the results. They may consist merely of a more detailed analysis of the figures, or they may convert the financial accounts into unit costs

by dividing each item by the number of units appropriate to the particular service under review. Taking the public baths service as an example, we may find that in one establishment there are first and second class swimming baths, two or more classes of slipper baths and possibly special services such as Turkish or foam baths. Expenditure on all these activities will usually be shown in one revenue account for the establishment, so that the financial result for each type of bath will not be known in the absence of further analysis. An attempt may, however, be made to allocate the expenditure incurred specifically on the various activities and to apportion on an equitable basis the expenditure common to all of them, such as the superintendent's salary and the rates on the whole building. The segregation of the income presents little difficulty. It becomes possible, therefore, by this further dissection to prepare a statement for each activity which will be much more informative than the aggregate revenue account. We may then proceed and, for example, from the records of the number of tickets sold for the first-class swimming baths, divide each item of expenditure by the number of bathers to ascertain the unit cost, that is, the cost per person using the first-class baths. The costs so obtained may be compared with those for other baths establishments of the same authority and possibly with the ascertained costs of similar establishments in other local authorities. Clearly, the latter type of comparison will be facilitated if local authorities are using uniform expenditure headings.

A simple illustration has been given to indicate how costing can assist in the control of expenditure, but it will be appreciated that the apportionment of expenditure in the manner suggested is a matter requiring expert knowledge if satisfactory results are to be obtained. Unit costs are suitable for most local government services, further examples being the cost per pupil at school; the cost per thousand of population or per member of force or brigade for police and fire brigades; the cost per ton of refuse collected; the cost per child maintained in a children's home; and the cost per yard for highways construction. In trading under-

takings, cost accounts serve the dual purpose of furnishing information both for controlling expenditure and fixing charges. The most common and essential type of costing in local government is 'job' costing. This term refers to the ascertainment of the cost of a particular job carried out by the authority's employees, the basic elements in the cost being the labour charges, materials used, plant and haulage charges and a proportion of the 'overheads' for administrative staff, depot charges and office expenses. The charge for overhead expenses usually takes the form of a percentage addition to the other costs. For control purposes, whilst all expenditure on, say, repairs at primary schools may be shown as one heading 'General Repairs and Maintenance' in the education revenue account, it is essential to know not only how much has been spent at each school, but also the cost of each job of any size. In the writer's opinion, it is not necessary to go to the lengths of making an individual cost operation in order to find the cost of, for example, the repair of a door lock or replacing a window pane. A point which has always to be borne in mind is that the costing work itself must not be too costly.

The cost accounts mentioned are produced by more or less routine accounting methods in most authorities. A further example of routine costing is the ascertainment of the running cost per mile for vehicles of various types. More scientific costing is carried out by some local authorities, particularly for highways work, but it is true to say that there is still tremendous scope for the extension of costing methods in local government. It must be recognised, however, that because of the fundamental differences between the two spheres, it is unlikely that costing in local government will ever assume the importance of costing in industry. In the world of commerce, the costing of an article fixes the price and losses must be avoided; reliable costs must be produced before it is too late to use them. Local government has to concern itself with services which must be provided whatever the cost. Nevertheless, efficiency and economy are essential to good government, and up-to-date costing information is an invaluable aid to sound financial control.

External Control

Local authorities derive their powers and duties from Acts of Parliament or Statutory Instruments issued thereunder by Ministers of the Crown. A general Act may be compulsory, that is, it may place upon authorities the *duty* to exercise certain functions, or it may merely *empower* local authorities to provide a certain service if they so desire, in which case it is known as a 'permissive' Act. In the light of these remarks, therefore, it may be observed that the *direction* of all local expenditure is controlled generally and externally by Parliament. The *volume* of the expenditure is not controlled, except in specific instances we shall note, and a local authority's budget does not need approval by any higher authority. We have already noticed that there are provisions relating to financial control in the form of legislation as to the appointment of finance committees and treasurers, the making of rate estimates, and so on. Some important specific controls upon the expenditure of local authorities will now be outlined.

Rate Limitations

Although there is no general limit to the expenditure of a local authority or to the total rate in the pound which may be levied, Parliament has limited the expenditure of an authority for certain purposes by specifying a maximum rate poundage. One of the most interesting examples of rate limitation is that relating to the making of advances to house purchasers under the Small Dwellings Acquisition Acts. The local authority lends the money upon a mortgage of the property concerned and is allowed to charge a rate of interest $\frac{1}{4}$ per cent higher than the rate at which the authority itself can borrow from the Public Works Loan Board (see Chapter VII). This difference in the interest rate provides a margin out of which legal and surveying expenses and the cost of printing, stationery, etc., can be met; but it is possible for losses to arise from the default of borrowers, necessitating foreclosure under the mortgages and the sale or letting of the houses. In order, presumably, to ensure that the local authorities exercise

their powers reasonably and manage their finances cautiously, the Acts provide that the yearly cost of the scheme is not to exceed a $\frac{2}{3}d.$ rate for county councils or a $1\frac{1}{3}d.$ rate in county boroughs and county districts. If the cost exceeds the specified rate poundage, no further advances may be made by the local authority for five years or until the expenses fall below the limit. Other important rate limitations relate to advertising the attractions of the authority's district (3*d.* rate); the net cost of providing allotments (2*d.* rate); and the provision of entertainment or facilities for dancing, which include the provision of a theatre, concert hall, dance hall or other premises and the maintenance of a band or orchestra and incidental matters (6*d.* rate). Charges may be made for admission to entertainments and it is the net loss which must not exceed a rate of 6*d.* in the pound.

Apart from the limitations prescribed for specific purposes, there is a general limit for the expenses of parish councils and parish meetings of, broadly, a rate of 8*d.* for all purposes, although this amount may be exceeded with government approval. With this exception, the principle which evolves appears to be that Parliament may wish to prescribe a statutory limitation upon the expenditure of local authorities where the purpose is one which is optional and desirable rather than an essential function of local government.

Government Departments and the Grant-aided Services

We have noted that the direction of local authorities' expenditure is controlled by Acts of Parliament. Where, however, grants are made by the government towards the cost of local services, more specific control is exercised by the central departments responsible for the supervision of those particular services. This control of the *amount* of expenditure seems inevitable in the circumstances, as the effect of a grant is that Parliament authorises the local authority to expend revenues collected from the taxpayers, and, presumably, has a duty to see that there is no misapplication of the monies provided and that satisfactory standards of services are maintained. Thus, the Ministry of Educa-

tion is responsible to Parliament for the education service throughout the country and controls it not only from the educational point of view but also in its financial aspect, in that only approved expenditure ranks for grant. Similarly, the Home Office supervises the police forces throughout the country and exercises control over the local expenditure. A further feature of these grant-aided services is the employment by the central departments of a staff of inspectors to carry out local examinations of the standard of service which is being provided. It is possible for an authority to spend more on a service than the amount approved for grant purposes, in which case the whole of the excess would be a charge upon the general rate fund, but this position normally arises only in relation to small items which a government department is not prepared to accept for one reason or another. For example, in one case the Ministry of Education refused to allow the whole of the expenditure on laundering for schools to rank for grant, on the ground that the charges made by the local authority's laundry exceeded those of private laundries in the area. The central departments concerned not only control the volume of expenditure on grant-aided services, but also stipulate the manner in which the expenditure is to be financed, that is, whether by borrowing or out of revenue. This action is probably reasonable so long as the control is not too stringent, in that it does not follow that because a local authority wishes to charge to revenue an item costing, say, £10,000, it will suit the national finances to provide the government's share out of one year's revenue. In the aggregate the amount of such items for all authorities may be material, and the economic circumstances of the day may indicate that a borrowing policy would be advantageous.

The usual method of controlling expenditure where grant is involved is for the responsible government department to issue regulations, under powers to do so granted in Acts of Parliament, which specify the procedure to be adopted and the terms and conditions generally. In most cases, the department requires the local authorities to submit for approval estimates of the expendi-

ture to be incurred in the ensuing year. These estimates enable the government departments to prepare their own estimates for submission to the Treasury. The departments are naturally concerned to secure uniformity in expenditure wherever possible and it is particularly easy to do so in regard to scales of pay. We find, therefore, that rates of pay and allowances for police forces and fire brigades are governed by Home Office regulations, and that the education grant regulations provide that teachers' salaries must be paid according to approved scales. In the case of police forces and fire brigades, the Home Office also controls the number of personnel by granting to each local authority an authorised establishment of officers and men according to the needs of the area. The civil defence service, also grant-aided, does not proceed only upon a system of estimates of expenditure; specific applications are required for the approval of proposals, although for some items local authorities are allowed to spend up to certain maximum amounts without the submission of proposals. Sufficient has been said to indicate that there is a great measure of control over expenditure on services for which grants are made. The control is enforced through examination of the accounts by the government's District Audit department, which is discussed in a later section.

Capital Expenditure and Debt Redemption

A local authority is not allowed to borrow money in order to finance capital expenditure without either the express sanction of the appropriate government department given under the authority of a general Act of Parliament or powers granted in a local Act or Provisional Order. Complete control is thus exercised over expenditure to be met out of borrowed monies. Consent to the borrowing is given by a loan sanction, which specifies the period within which the debt must be redeemed by annual charges to revenue. This period is fixed with regard to the type of capital asset created by the expenditure, so that in relation to housing schemes we find the periods are 80 years for land, 60 for the houses themselves, 30 for sewers and 20 for roads. The periods

are short for such items as omnibuses (8 years) and furniture (15 years), in accordance with the estimated life of the asset. The period specified is the maximum and local authorities may liquidate the expenditure over any shorter period they desire.

The control relates only to the *borrowing* of money to finance capital expenditure and, with the exception of the grant-aided services, a local authority is free to meet capital expenditure out of revenue in any year. A further point to be noted is that the Minister of Local Government and Planning is empowered to call at any time for a return certified by the authority's treasurer showing that proper provision has been made for the repayment of all borrowed monies.

Audit

The statutory provisions relating to the audit of the accounts of local authorities are rather complicated and there can be little doubt that there is room for improvement in this aspect of external control. In the counties, county districts and metropolitan boroughs, the position is quite straightforward in that all their accounts are subject to audit by the government's 'District Audit' staff. In the provincial boroughs (including county boroughs), however, the district audit is applicable only to the accounts relating to the levying and collection of the rate, and to those of certain specified services, namely, education, local health services, and the services which cater for the care of children and old and destitute people. In addition, because of the grants from the national exchequer which are involved, the government auditors examine, but do not audit or certify, the accounts relating to the police, fire brigade, probation and motor taxation departments. The main significance of an examination as distinct from an official audit of the accounts lies in the fact that the powers of disallowing and surcharging expenditure possessed by district auditors do not apply where the accounts are subject only to examination.

The accounts of a provincial borough, other than those covered by the district audit, are subject to audit by three borough

auditors; two elected by the local government electors, and one appointed by the Mayor. These auditors are not required to possess any professional qualifications, and whilst it would be unsafe to generalise, it is known that in many cases the audit carried out is of a perfunctory nature. As an alternative, a borough council may, by a special resolution, adopt either a professional audit by auditors with prescribed qualifications or the district audit for all accounts.

The duty of a district auditor is 'to disallow every item of account which is contrary to law'. We have already seen that a local authority derives its powers from Parliament and can do only what it is authorised to do by law. The legal aspect of the district audit is, therefore, paramount and is the main distinction between that audit and a professional audit. Any illegal expenditure may be surcharged on the persons responsible for authorising it, and a surcharge may also be made upon the persons responsible for any income which may be lost owing to their negligence or misconduct. Clearly, this power of disallowance and surcharge is a powerful instrument of financial control in relation to those accounts which are subject to district audit, as all proposed expenditure must be considered in the light of whether it will be passed by the auditor. The Minister responsible for local government affairs has power to remit the surcharge on appeal to him, and may also authorise expenditure which would otherwise be outside the legal powers of the local authority. Apart from the question of the legality of expenditure, so long as the amount incurred is reasonable a local authority's discretion will not be interfered with, but the district auditor may disallow any expenditure which is considered unreasonably excessive. He also has wide powers regarding the production of documents and the attendance of any persons concerned with the audit.

A professional auditor has no powers of disallowance or surcharge and does not usually concern himself with the legal aspect of an authority's expenditure to quite the same extent as the district auditor, although obviously he ought not to ignore it. There are many border-line cases of reasonable expenditure on

proper and useful purposes which an authority may feel justified in incurring after receiving competent advice, even though the power to incur may be doubtful, and the professional auditor is unlikely to view these with so critical an eye as the district auditor. It is unquestionably the feeling that the district auditor's powers may prove irksome and restrictive which has made the boroughs reluctant to adopt the district audit system, in spite of the obvious disadvantages of dual audits of their accounts. It would be difficult to defend the logic of a system which subjects all the accounts of the London County Council, to take the largest example, to compulsory government audit and gives an option to a small borough, and from the point of view of financial control there is a good deal to be said in favour of a universal application of the district audit.

Statistical Returns

Financial control to be effective must be applied in time. Nevertheless, this statement does not imply that all checks must be put into operation before the expenditure is incurred, for, as we have seen, the audit check, to name only one, is of necessity post mortem. The collection and collation of information by government departments may be regarded as part of the system of external control, in that it provides the information whereby a supervision of local finances can be achieved. In this connection, the estimates of expenditure and the claim forms for the grant-aided services represent the most direct form of supervision by means of statistical returns. These returns may incorporate much more than income and expenditure; for example, the form to be completed by police authorities contains information as to the authorised strength of the force, the number of vacancies and the actual number of personnel. The Ministry of Local Government and Planning require local authorities to submit various particulars each year, such as the estimated product of the rate and a copy of the rate demand note, but the main statistical return is the annual 'Epitome of Accounts', which summarises the financial transactions of the previous year ended 31st March under

prescribed and concise headings. The information furnished in this return includes particulars of the income and expenditure on revenue and capital accounts, trading services (where applicable), and special funds such as the housing repairs account, with statements of the balances on the various accounts. The Minister is required to prepare a summary of the returns from all the local authorities and lay it before both Houses of Parliament so that Parliament is provided with information as to the expenditure on each service and in total. This summary is published under the heading 'Local Government Financial Statistics'. Although comprehensive and admirable in all other respects, this return suffers from the defect that of necessity a period of approximately two years is needed for the collection, summarising and publication of the information, with the result that it is more useful as historical data than as a means of control.

Local Government Manpower Committee

The heavy demands made on manpower by central and local administration led the Government in 1949 to appoint a Local Government Manpower Committee with the following terms of reference:—

'To review and co-ordinate the existing arrangements for ensuring economy in the use of manpower by local authorities and by those Government Departments which are concerned with local government matters; and to examine in particular the distribution of functions between central and local government and the possibility of relaxing departmental supervision of local authority activities and delegating more responsibility to local authorities.'

The Committee decided to concentrate in the first place on the second half of the terms of reference, and various sub-committees, each associated with a government department, were appointed to examine the local government services supervised by the departments concerned and consider what scope there was for reducing the extent of central control. The report on the matters covered was issued in 1950, and whilst many of the conclusions and recommendations are outside the scope of this volume, those

relating to grant claims may be noted. The great variety of practice between government departments, and in some cases between services administered by a single department, in regard to the conditions and procedures under which grants are paid was referred to, and the view was expressed that standardisation was desirable. With this aim in mind, the Committee recommended a set of general rules for circulation to all government departments concerned with grant-aided services, based mainly upon the existing procedure relating to the education grant. For this grant, the amount payable is based upon a copy of the local authority's own accounts, certified by the government auditor and supported by replies to a questionnaire from which the Ministry of Education obtains information or assurances on particular points affecting the financial conditions of grant. This procedure avoids the preparation of special forms of account for grant-claim purposes and also the need for many separate certificates by a local authority's officers. The report states that the questionnaire should be confined to items which might affect the amount of expenditure recognised for grant.

The effect of the report in regard to grant claims cannot yet be judged, but the local authorities have already benefited from the adoption of a standard procedure relating to the admissibility for grant purposes of appropriate proportions of their central administration expenses. The Manpower Committee also made recommendations as to loan sanction procedure which have been implemented and are briefly noted in Chapter VII.

CHAPTER VI

Government Grants

IN order to obtain a clear picture of the financial relationship between the national exchequer and the local authorities, we must consider the principles upon which grants in aid of local expenditure are based and the objects intended to be achieved. It then becomes possible to judge the relative merits and defects of the different forms of grant and the extent to which they meet the requirements of a satisfactory system.

The equity of and the need for relieving the burden upon the ratepayers by granting aid from the national exchequer has long been recognised. Local authorities assist in the government of the country and carry out essential social services which can be controlled by elected local representatives more conveniently than by the central government. At the same time, the central government is concerned as to the manner in which local authorities carry out national policy, and in the standards of the service provided. A White Paper issued by the Ministry of Health in 1928 as a prelude to the reform of the grants system embodied in the Local Government Act, 1929, stated the Government's view that a proper system should:—

(*a*) recognise that a fair contribution should be made from the Exchequer towards the cost of local services;
(*b*) ensure that local authorities have complete financial interest in their administration;
(*c*) be adapted in its working to the needs of the areas;
(*d*) permit the greatest freedom of local administration and initiative;
(*e*) provide for sufficient general control and advice from the Central Departments to ensure a reasonable standard of performance.

Grants fall into two fairly well-defined classes:—

(1) Grants in aid of local expenditure generally, which have taken the form of either
   (*a*) assigned revenues, or
   (*b*) 'block' grants distributed according to a special formula.

(2) Specific grants towards the cost of particular services, which may be
   (*a*) percentage grants
   (*b*) unit grants
   (*c*) special formula grants

The first class may be regarded as a recognition generally of the failure of the rating system under modern conditions to provide adequate funds for local government and, in particular, of the need for assistance to the poorer areas in order to bring their resources up to a minimum standard. The second class of grants is based broadly upon the acceptance of the fact that many of the services controlled by the local authorities are national or semi-national in character. Thus, the nation as a whole clearly requires an efficient police service and local government boundaries are completely unrelated to criminal activities under modern transport conditions. Yet there is still a local aspect to the police force, and the cheerful constable can still be seen escorting children across busy roads, controlling traffic at junctions and protecting the ratepayers' property. In a similar manner, the elements of a partnership exist between the State and the local authorities as regards education, public health, main roads, fire brigades and other services. A further aspect of these specific grants is the encouragement they afford to local authorities in the development of a service. A good example of this is seen in the grant under the Children Act of 1948. The widespread concern aroused by a notorious case of child neglect by foster parents resulted in the appointment of a Committee of Enquiry whose report formed the basis of the Act, which places additional responsibilities upon

county and county borough councils. The government agreed to make a grant of 50 per cent of the approved annual expenditure on the children service.

Although the modern grants in aid can be said to have their origin in the Local Government Act of 1888, which largely founded the present system of local government, there were *ad hoc* grants long before that date. In 1835 the central government agreed to meet half the cost of criminal prosecutions and, in 1846, this grant was increased to the whole of the cost. It was also decided in 1846 to make payments towards certain poor law expenses. In 1856 the growing need for an efficient police service was recognised by a grant of 25 per cent of the cost of police pay and clothing in counties and boroughs—a grant towards the cost of the metropolitan police had been made in 1833—and in 1882 the first grant was made towards the upkeep of roads. The growing recognition of the need for augmenting the income of local authorities and of the equity of a contribution by the taxpayers towards the cost of semi-national services, led to the whole question being reviewed and dealt with in the Act of 1888. The method adopted was to discontinue the existing grants for all services except elementary education, and substitute a system of assigned revenues. We shall now consider this system and the various developments which have taken place since its introduction.

Assigned Revenues

The revenues assigned to the local authorities in the first place were the proceeds of fees for the 'Local taxation licences' referred to in Chapter III and of a probate duty on personal estate. Later, certain beer and spirit taxes were also allocated. All the revenues were collected by government departments and the proceeds, or a specified part of them, paid into a Local Taxation Account from which a distribution was made to the county and county borough councils, who were required to make certain payments to boards of guardians and other authorities out of their allocation. In passing, it is of interest to note that the special addition to death

duties of a probate duty on personal estate was made mainly because of the argument that personal property, being non-rateable, should by some means meet a part of the cost of the local services which would otherwise fall upon agriculture and landed interests. The assigned revenues system was not intended to cover elementary education, and grants to school boards and managers of voluntary schools (the predecessors of the local authorities as the education authorities) were made separately.

The assigned revenues were primarily intended, once and for all, to settle the financial relationship between the local authorities and the Exchequer. It was thought that as the authorities' finances and expenditure grew the assigned revenues would expand and furnish part of the additional finances required. This hope was not fulfilled, however, and as early as 1896 a Royal Commission was appointed to enquire into the local taxation system. Their report, issued in 1901, classified local services as 'national or onerous' and 'local and beneficial', including in the former class such services as poor relief, police, main roads and education, the cost of which it was thought should be the subject of further assistance from the State. This conclusion appears to have been reached on the grounds that the cost of the services of a 'national' character should be met according to a person's ability to pay, and that national taxation was raised more in accordance with this principle than were the local rates.

No immediate action was taken upon the report of the Royal Commission and, in fact, the financial position of the local authorities worsened by reason of the stereotyping of certain of the assigned revenues at the amount they had realised in a particular year. This was done so that any future growth of the revenues concerned would accrue to the national exchequer. In view of the possibility of a revival of interest in the idea of assisting local government by a system of assigned revenues, the reader may here note that the financial requirements of the State, coupled with the need for the Chancellor of the Exchequer to retain full control of all forms of national taxation, make it unlikely that a system of assigned revenues would ever work

satisfactorily for any considerable period. By 1910, the financing of local government had become such an urgent problem that Mr. Lloyd George, then Chancellor of the Exchequer, appointed a Departmental Committee to examine the proposals contained in the Royal Commission's report of 1901, enquire into the changes which had taken place since that time, and submit recommendations. The Committee reported in 1914 and expressed their opinion that a substantial increase in State assistance to local authorities was necessary; the assigned revenues system should be abolished and all assistance should be by way of direct grants from the Exchequer; such grants should be paid only in respect of semi-national (*cf.* 'national and onerous' in the Royal Commission's report) services, including education, poor relief, main roads, public health, criminal prosecutions and mental deficiency. No sweeping changes were made as a result of the Committee's report until the Local Government Act of 1929 effected a complete reorganisation of the financial relationship between the State and the local authorities. By that time direct percentage grants were being made towards the cost of education, police, main roads and many public health functions.

Before considering the important provisions of the 1929 Act and the system of fixed grants it introduced, some space should be devoted to a discussion of the various forms of grants in aid of specific services.

Percentage Grants

It is not surprising that the payment of a percentage of approved expenditure has long been a feature of the grants system. The simplicity of sharing the cost of a service will be obvious to the reader and has always had its appeal. We have noted that so long ago as 1835 a grant of half the cost of criminal prosecutions was made, and we have modern examples in the percentage grants towards the cost of fire brigades and the children's service, introduced in 1948. Nevertheless, percentage grants do not conform in certain respects to the requirements of a satisfactory system as laid down by the Ministry of Health in

1928. One of their prominent features is the control exercised by the responsible government department, which so restricts local freedom and initiative. Further, a straightforward percentage applicable to all authorities clearly does not take into account the relative conditions and needs of different areas. A further disadvantage of this form of grant is that authorities may tend to consider half the cost of a proposal (with a 50 per cent grant) instead of the whole, although the tendency of this form of grant to encourage extravagance in local expenditure has been exaggerated in many quarters. Shortly before the first world war, as a result of public concern about the nation's fitness, percentage grants were introduced for certain health functions in order to encourage local authorities in the provision of adequate services, particularly in relation to tuberculosis, maternity and child welfare and the welfare of the blind. These grants were discontinued under the Local Government Act, 1929, and the views of the Ministry of Health at that time were vigorously stated as follows:—

'A quite short experience had sufficed to show at least two cardinal defects in the modern system of grants commonly called percentage grants in its application to the health services.

In the first place, these grants had been found to impair in some degree the proper independence and vigour of local government, since they involved a minute and continuous central control of the detail of affairs which ought to be local (because what is paid for item by item must be scrutinised piecemeal by each party to the paymnet).

In the second place, these grants, while they produced dramatic efforts and results in places where the Local Authorities were able and willing to levy rates to meet their share of the cost, did not, and could not, succeed, especially during unfavourable trade periods, in enabling the inhabitants of one local government area as compared with another to secure a reasonably adequate provision and maintenance of the aided services.

In short, a grant paid on condition that the ratepayer pays, normally, an equivalent sum, does not put money into ratepayers' pockets for the payment of their share.'

Despite these criticisms, a percentage grant towards the cost of local health services was reintroduced by the National Health

Service Act, 1946, and it may be stated with some certainty that the placing of additional responsibilities and consequential expenditure upon local authorities will almost always be accompanied by a suggestion that the Government should contribute a percentage of the cost. The local authorities are prepared to surrender their freedom in return for the financial assistance—in fact it is difficult to see what alternative they have—and the central government not unnaturally do not dislike the control and supervision which the percentage system affords them. A further point to be noted is that the size and nature of a service may be such that it can scarcely be satisfactorily dealt with through the medium of a block grant in aid of expenditure generally. This observation applies particularly to the education and police services, both of which involve heavy expenditure and are of such national importance as to warrant careful supervision by the appropriate government departments. The grants for these two services were not discontinued under the Local Government Act of 1929, as were the health service grants.

A modern development of the percentage grant represents an effort to meet the needs of the various local authorities by fixing different percentages to be applied according to a formula, minimum and maximum percentages being determined. Thus, in the case of the general grant under the Civil Defence Acts for dealing with the cost of air raid precautions during the second world war, the approved expenditure of the local authorities ranked for grant at percentages varying from 60 to 75 according to the ratio of the weighted population to the estimated population. The weighting adopted was that in use for the General Exchequer Grant, which we shall consider in more detail later. The effect of the weighting upon the civil defence grant was that the greater the addition to the normal population as a result of the weighting, the higher was the ratio of the weighted population to the actual population of a particular area, and the higher was the percentage rate of grant. To the extent, therefore, that the factors adopted could be regarded as a reasonable measure of the comparative needs of the local authorities, the grant was scaled to

help the poorer authorities. A further feature of this particular grant was a provision for increasing the percentage rate for any authority whose approved expenditure exceeded the amount of the grant by more than the product of a rate of 1*d.* in the £. For those interested in the further study of this subject, reference may also be made to the 'weighting' system for certain grants under the Town and Country Planning Act of 1947 (see Appendix B).

The principal grants of the straightforward percentage type are those in aid of expenditure on police (50 per cent); local health services (50 per cent); children's service (50 per cent); fire brigade (25 per cent); and, in counties only, the maintenance of main roads (Class I roads, 75 per cent; Class II, 60 per cent; and Class III, 50 per cent).

Unit Grants

The term 'unit grant' implies that a fixed amount is paid in respect of a determined unit, the principal example being the Exchequer contribution in respect of each house provided by a local authority, the normal rate at the time of writing being £16 10*s.* per annum for each house. Larger amounts are paid for accommodation provided on expensive sites or for agricultural workers. Another interesitng example is the grant to education authorities for the provision of school meals, though the amount in this case is not uniform for all authorities. The estimated cost of a meal must be furnished to the Minister of Education, divided between the cost of food and overhead expenses, and these costs, when approved, form the basis of the grant. The amount to be paid to the local authority is reduced by the income from the pupils, who are required to pay an amount per meal approximating to the cost of the provisions. If an authority exceeds the approved costs, which are fixed in advance, it must shoulder the excess expenditure unless the Ministry can be persuaded to increase the unit cost previously agreed. A further example of the unit system is the grant relating to the employment of blind persons in workshops provided by the local authority.

This grant is on a *per capita* basis, the maximum amount being £80 per annum for each blind person employed.

The unit grant does not suffer from some of the disadvantages of the percentage grant, in that the assistance being a fixed amount, it follows that there is no tendency to encourage extravagance on the part of the local authorities, and the control by the central government need not be so meticulous. The unit grant method could be applied to other services, such as police and fire brigades, by fixing a yearly cost per member of the force or brigade and paying as grant the proportion of the fixed cost multiplied by the number of members. A major difficulty to be overcome, however, would be that of giving proper weight to the reasons why, owing to local circumstances, the costs in one authority exceed those in another. For example, this difficulty would be more pronounced in the case of the local health service, where it would not be easy to find satisfactory units, than in such services as police and fire brigades. Nevertheless, a solution has been found in the case of the grant towards the cost of school meals.

The idea of a unit grant for a service, fixed by agreement between the Government and the local authorities after adequate research into costs, which would avoid the need for the submission of estimates, the examination of accounts and all the other paraphernalia of control, has a great deal to commend it. The difficulties which exist are by no means insuperable, and the saving in administrative costs compared with the percentage system would not be inconsiderable. It must be admitted, however, that the latter system has held sway for so long that it is unlikely to be superseded. As we shall see in the next section, a unit element does exist in the main education grant.

Special Formula Grants

The 'block' grants in aid of local expenditure generally under the two important Local Government Acts of 1929 and 1948 are examples of special formula grants, but here we are still concerned with grants for specific services. The main education grant

furnishes an excellent illustration. It is calculated partly upon a percentage and partly upon a unit basis and is further complicated by a deduction intended to reflect the relative needs of different areas as measured by the product of the rate. Briefly, the formula provides for a grant of £6 per pupil, increased by 60 per cent of the approved net expenditure and reduced by the product of a rate of 2*s.* 6*d.* in the £. Clearly, it would have been quite easy to fix a lower amount per pupil or a lower percentage rate of grant and make no deduction for the rate product, so arriving at the same total grant for the whole country as under the formula outlined. The basis adopted, however, helps an authority with a low rate product and, conversely, reduces the *net* rate of grant of an authority with a high rate product.

We have previously noted a similar attempt to make allowance for the varying resources of local authorities by the weighting of percentage grants and it may be questioned how far this is desirable in grants for specific services. In some quarters, the view is held that it would be better to treat all authorities alike so far as specific grants are concerned, leaving the differentiation for relative needs to be dealt with as a whole in the general grant unrelated to any particular service, which at present is the Exchequer Equalisation Grant under the Local Government Act of 1948.

Special formula grants have not been frequently used for grants in aid of specific services and there is not a great deal of experience of them upon which to base conclusions as to their merits and defects. The main education grant, however, has the disadvantages of the percentage grants system without the advantages which might accrue from a straightforward unit grant.

The General or 'Block' Grant

The system of assigned revenues represented an attempt to solve the problem created by the growing needs of local government. It proved a failure, but in spite of governmental concern over a long period it was not until 1929 that Parliament intro-

duced legislation which it was hoped would effect a satisfactory reform of the grants system. The Local Government Act, 1929, relieved industry of three-fourths of the rate burden at a time of serious industrial depression and, further, agricultural property which had previously enjoyed partial relief, was completely relieved of liability to pay local rates. These reliefs would naturally have accentuated the difficulties of the local authorities, and the reform of the financial relationship between the authorities and the Government, already urgent, was incorporated in the Act. In addition to the loss of rate income to the local authorities as a result of the derating provisions of the Act, it was decided to discontinue the grants known as the 'Assigned Revenues', certain percentage grants for health services, and the grants in respect of classified roads in London and the county boroughs and unclassified roads in counties. The separate grants towards the housing, police and education services were not involved in this extensive reform, doubtless for a variety of reasons. For instance, the size of expenditure and the need for ensuring a satisfactory standard of service must have been important considerations in regard to police and education, and the unit grant for houses provided was obviously unsuitable for merger with a Block Grant intended to assist authorities to meet their revenue expenditure on services generally.

Apart from the losses arising from derating and the discontinuance of the grants mentioned, the financial position of local authorities as a whole was such that some further Government assistance was required, and £5,000,000 was added to the amount to be distributed as the General Exchequer or Block Grant. The total grant originally fixed was as follows:—

	£
(1) Estimated losses from derating . .	22,292,203
(2) Estimated losses from discontinued grants	16,279,706
(3) Added money	5,000,000
	£43,571,909

This amount was distributed to the local authorities for each year in the first fixed grant period, i.e. the three years commencing 1st April, 1930, and was subject to revision at periodic intervals. The second fixed grant period was for the four years commencing 1st April, 1933, and the third period covered the five years from 1st April, 1937.

In order to meet the need for increased State aid as the local authorities' services and costs expanded, the total amount of the Block Grant was related to the total expenditure of all authorities whether actually borne out of rates or grants. For this purpose, the basis adopted was the percentage, namely 23·174, which the grant for the first period bore to the aggregate rate and grant-borne expenditure in 1930–31. In the third period of five years from 1st April, 1937, certain adjustments in the total grant were made because of some changes in functions between the State and the local authorities and other minor matters. The effect was to reduce the grant and an Act passed in 1937 provided that for future periods the percentage to be applied to the aggregate expenditure in order to ascertain the grant was to be not less than 22½. It was originally intended that further revisions of the total grant should be made quinquennially, but owing to the war, the revision due on 1st April, 1942, did not take place and the grant was stabilised at the amount paid for the year 1941–42.

In 1946 far-reaching changes in local government functions were projected—the final transfer of poor law functions to the State, the setting up of Regional Hospital Boards, and certain changes in the local health services—and these were bound to result ultimately in a revision of the Block Grant. But in the meantime local authorities were adversely affected by the stabilisation of the grant at the 1941–42 figure and further assistance was required. The method adopted to deal with the situation was the introduction of supplementary grants as an interim measure, the additions to the total Block Grant for the years 1945–46, 1946–47 and 1947–48 being £10,000,000, £11,000,0000 and £12,000,000 respectively. The manner in which these additional grants were apportioned to the various local authorities was a little compli-

cated and it will be sufficient to note here that the product of the rate in each area concerned entered into the calculation, producing a substantial weighting in favour of areas with low rateable values.

Before we proceed to consider the manner in which the Block Grant under the 1929 Act was distributed to the local authorities, a comment may be offered upon the effect of basing the grant upon expenditure incurred in an earlier year. The intention was that as expenditure rose so should the grant increase, but in times of constantly expanding expenditure (and expenditure on local government, apart from reductions arising from major transfers of services to the State, never seems to decline) the grant always lagged behind, with the result that the extra expense fell entirely upon the rates for a period. This position should be contrasted with that arising from the method adopted under the Local Government Act of 1948, which is dealt with later.

Having discussed the manner in which the total Block Grant was to be arrived at for each fixed grant period, we may now proceed to a consideration of the method of distribution to the local authorities. The authorities concerned in the first place were county boroughs and county councils, the total grant being apportioned amongst them in the manner outlined below. The main object of the grant being to afford financial assistance according to the needs of individual authorities, a formula was devised for arriving at a weighted population figure for each area, but having regard to the losses of rates and grants under the Act it would have been too drastic a step to proceed immediately to a distribution based solely upon weighted population. In the first two grant periods ending 31st March, 1937, therefore, the local authorities were allocated 75 per cent of their losses on account of derating and discontinued grants, the residue of the total grant being distributed on the weighted population basis. In the third period of five years from 1st April, 1937, the percentage for losses of rates and grants was reduced to 50 and, but for the stabilisation of the grant at the 1941–42 level, in the five years from 1st April, 1942, only 25 per cent would have been distributed according to

the actual losses of rates and grants. It was intended that from 1st April, 1947, the whole of the grant should be distributed on the weighted population basis.

The factors chosen for the purpose of weighting the population of an area were:—

(1) The proportion of children under 5 years of age to the total population.
(2) Low rateable value per head of population.
(3) The proportion of unemployed persons to the total population.
(4) In counties only (other than London) the population per mile of public roads.

In a work of this kind it does not appear necessary to show the complicated calculations required to operate the formula, particularly as it is now out of date, but some general observations may be helpful. The factors operated according to selected standards, the standard for children under 5 years of age being 50 per thousand of population, and that for rateable value being £10 per head of population. These standards were not, as might have been expected, based on average figures for the whole country, as the figure of 50 per thousand for children under 5 years of age was well below the average, and the rateable value figure of £10 may be compared with an actual average for the whole country of £7 in 1929 and £7 15*s.* in 1939. All the factors chosen as reflecting the needs of an area could be and have been criticised, but a little reflection will satisfy the reader that in general the authorities whose population (and share of the grant) would be increased by such factors were the industrial areas with large working-class families, a higher proportion of low rated houses and, in times of depression, comparatively heavy unemployment, and the rural counties with sparse population and limited resources but with considerable lengths of main roads to maintain. Credit must be given to the ingenuity of the originators of the formula, which was at least capable of producing rough justice. Its main defect was that insufficient weight was attached to the factor for rateable

value which is, after all, the main source of revenue of local authorities, apart from the government grants themselves.

The share of the total grant payable to a county district council was based upon a flat rate per head of *unweighted* population, this rate being calculated by dividing one-half of the aggregate share of all the counties (other than London) by the aggregate *unweighted* population of those counties. For the third fixed grant period the *per capita* rate was 12*s.* 5*d.* and the amount of grant payable to a non-county borough or an urban district was that figure multiplied by the actual population of the area. In rural districts, the grant payable was based upon one-fifth of the urban rate, this being regarded as the ratio appropriate to the expenditure on the services administered by the respective classes of authorities. In order to appreciate the effect of this method of apportionment on a county district, it is necessary to recall that these authorities provide the money required by the county council by levying a rate in their areas to meet the cost of the services administered by the county. The contribution of a particular county district is, therefore, based upon the rateable value of that district. It follows that if the district had a large population coupled with a low rateable value, it would receive a relatively large share of the Block Grant on the *per capita* basis, whilst contributing a relatively small amount towards the county council's net expenditure. The method adopted thus favoured the authority with a low rateable value per head of population—again in an endeavour to distribute the grant according to need.

This brief review omits many matters which were of some importance at the time, such as provisions to ensure that no authority suffered a loss upon the introduction of the grant, and for supplementary grants in certain instances. The weighted population formula itself was amended by an Act passed in 1937, increased weighting being given for unemployment and, in counties, sparsity of population per mile of road. Nevertheless, it is hoped that sufficient has been said to indicate the nature and objects of the grant and the methods by which it was distributed,

thus facilitating an appreciation of the present grant under the Local Government Act of 1948.

The Exchequer Equalisation Grant

The comprehensive report by Sir William Beveridge on the social services, published in 1942, aroused nation-wide interest and, in the main, the support of all political parties, with the result that substantial changes in local government functions were projected. Legislation quickly followed although, of course, not all based upon that report. Under the National Assistance Act of 1948 the functions of the county councils and county boroughs relating to the domiciliary assistance of poor, blind and tuberculous persons were transferred to the State; the Children Act of 1948 required the same authorities to set up children's committees to administer children's homes formerly dealt with under the Poor Law, to take over certain functions relating to children previously carried out by education authorities, and to co-ordinate and extend all activities relating to the welfare of children; the National Health Service Act of 1946 provided for the transfer of all the local authority hospitals, including the mental hospitals and hospitals administered under the Poor Law, to the new regional hospital boards, and imposed additional duties on the local authorities, including the setting up of comprehensive ambulance services. Further, the fire brigades, which had been nationalised during the war, were returned to counties and county boroughs on 1st April, 1948, and were to be larger and considerably more costly than pre-war brigades. Yet another reform in the financial relations between the local authorities and the national exchequer was clearly foreshadowed. Percentage grants were introduced for the children, health and fire brigade services and 5th July, 1948, the date upon which the hospital and domiciliary relief services were transferred to the State, was selected as the date of commencement for a new block grant to be called the 'Exchequer Equalisation Grant'.

The new grant replaced the existing block grant and supplementary grants, and, as the name implies, was designed to intro-

duce a measure of equality in the financial resources of local authorities. This was to be achieved by relating the amount of the grant for any particular county or county borough to the rateable value per head of weighted population for that authority compared with the average for England and Wales. The weighting is obtained by adding to the actual population the number of children under 15 years of age and, in certain counties only, a proportion related to the population per mile of road. This weighting is used in the ascertainment of the rateable value per head, whereas, under the Act of 1929, the grant itself was substantially distributed in proportion to weighted population. The rateable value per head of the weighted population for an authority having been ascertained, if that figure is less than the average, the deficit in rateable value is 'credited' to the authority concerned. The following simple illustration, using assumed figures, may assist the reader:—

(1)	Actual population	200,000
	Add number of children under 15 years of age	40,000
	Weighted population . . .	240,000
(2)	Rateable value of authority . .	£1,440,000
(3)	Rateable value per head of weighted population—$\frac{1,440,000}{240,000}$ =	£6 0 0
(4)	Average rateable value per head of weighted population in England and Wales, say	£6 10 0
(5)	Deficiency of rateable value per head .	10 0
(6)	Rateable value to be 'credited' is weighted population multiplied by the deficiency of rateable value per head, i.e. 240,000 × 10*s*.	£120,000

In order to calculate the grant payable to an authority, the next step is to calculate the rate poundage which would be necessary to meet the authority's expenditure if the additional rateable value actually existed. The sum which would be produced by this rate

poundage levied on the 'credited' rateable value is then the amount of the Equalisation Grant to be paid. The effect, broadly speaking, is that the Exchequer becomes a ratepayer of an authority to the extent that there is a deficiency of rateable value per head compared with the average. It will be noted that any equalisation achieved is not an equalisation of rates levied but of rating resources, and that only those authorities whose resources are lower than the average qualify for grant. The grant is revised annually and the final calculations in respect of any year are based on data relating to that year. One of the criticisms of the former Block Grant was that the increase in the total grant always lagged behind the increase in the expenditure of the local authorities.

The provisions of the Local Government Act, 1948, relating to the valuation of dwelling-houses on a uniform basis (see Chapter II) will obviously in due course produce a tendency towards the levelling of rateable values per head of population in the various local authorities. There will always be considerable differences, of course, between towns with a large proportion of small working-class houses, and such towns as seaside resorts, but the tendency amongst the authorities qualifying for the Exchequer Equalisation Grant should be a movement towards the average for the country as a whole. This tendency, in the absence of any safeguards, might have considerably reduced the grant in future years. The Act provides, therefore, that after the year 1948–49 the actual total rateable value for England and Wales may be notionally increased by the sum necessary to ensure that the total contribution made by the Government to local authorities in general shall in subsequent years remain at the same level as in the first year. An artificial total rateable value will thus be created, and will produce a higher average rateable value per head for the whole country against which an individual authority's figure will be measured for grant purposes. The working of the grant arrangements is to be investigated in the year in which the first new valuation lists under the Act come into force and in every fifth subsequent year.

The method of distributing the Exchequer Equalisation Grant

to county districts differs only slightly from that adopted for the block grant under the 1929 Act. First of all, the grants for all county councils in England and Wales outside London are aggregated and the sum so obtained is divided by the aggregate unweighted population of those counties. In the case of boroughs or urban districts, the amount ascertained by this calculation is multiplied by one-half of the population (unweighted) and the product is the amount to be paid by the county council to the district council concerned. For rural districts, the multiplier used is one-quarter of the population of the district, or, in effect, the *per capita* payment is one-half of that for the boroughs and urban districts, which compares with the one-fifth basis under the 1929 Act. It is noteworthy that all county districts receive these payments from the county council irrespective of the rateable value per head of population in the district and whether or not the county council itself receives an Exchequer Equalisation Grant. The financial effect upon the districts, therefore, is similar to that we noted as arising from the method of distributing the former block grant and favours the authority with a low rateable value per head of population.

In London, the county council does not qualify for an Exchequer Equalisation Grant, but a scheme has been made under which grants are paid by the London County Council to certain metropolitan boroughs whose rateable value per head of weighted population is less than that for the County of London as a whole. The amount required to meet these payments is obtained by the county council through its precepts upon all the borough councils.

The Exchequer Equalisation Grant has introduced something quite new in the long history of grants in aid. Previous general grants have been paid to assist *all* authorities. Even though the 1929 Block Grant was intended to be distributed according to the relative needs of the local authorities, every authority was regarded as entitled to some payment. Now, an authority with a rateable value per head of population above the average is assumed to require no assistance other than the grants it receives

towards specific services. Furthermore, such an authority still loses three-quarters of the rates on industrial properties and the whole of the rates on agricultural properties, and these are losses which, as we have seen, formed part of the basis for the grant under the 1929 Act. It is scarcely surprising that many authorities have expressed their dissatisfaction with the change. The Exchequer Equalisation Grant has produced some remarkable results, and although the intention of the grant is to produce a measure of rate equalisation, some authorities not in receipt of grants because they are comparatively 'wealthy' in rateable value are having to levy higher rates than authorities in receipt of quite substantial grants. It is, of course, possible that the latter authorities have not yet been able to raise the standard of their services to that of the former, in which case their expenditure and rates levied are the more likely to rise. A judgment of the soundness and the equity of the grant, based as it is upon rateable value, cannot be formed until experience has been gained of the effect of the re-valuation of property under the provisions of the 1948 Act. In many areas the present level of rating assessment is much lower than in others, a fact which clearly militates against the equity of the new grant, and it is this lack of uniformity in assessment which the provisions of the 1948 Act were designed to remedy. The reader should also bear in mind the fundamental defect of the rating system—it is not based upon ability to pay. The rateable value of an area can never be a true indication of the financial resources of the ratepayers themselves, although it may do rough justice as a measure of the relative resources of the various authorities, and no better alternative has yet been found.

A praiseworthy feature of the Exchequer Equalisation Grant is that because the Exchequer is in effect a ratepayer on the amount of 'credited' rateable value, the grant varies with the expenditure of an authority and yet the authority is not required to seek government approval of the scale of its expenditure. The grant thus appears to fulfil the conditions of a satisfactory system as laid down by the Ministry of Health in 1928—with the notable exception that a number of authorities receive nothing!

Proportion of Local Expenditure Borne by the Taxpayers

An appreciation of the financial relations between the State and the local authorities is essential to the student of local government, and, so far in this chapter, an endeavour has been made to outline the history of government grants and their purposes. A list of various grants at present in operation is contained in Appendix B. Sufficient has perhaps been said, particularly in relation to general grants, to indicate that major adjustments or transfers of services between the State and the local authorities, and the placing of additional responsibilities and expenditure on the authorities, inevitably involve a revision of the extent to which the burden of local government is shared between the taxpayers and the ratepayers. Fortunately for the student of this subject, a source of information is available in the annual publication 'Local Government Financial Statistics'; although, as mentioned in Chapter V, the issue of these statistics is somewhat delayed, mainly due to the time taken to collect them from the large number of local authorities concerned. At the time of writing, the latest statistics available are those for the year 1947–48 which happens to be the year before the major changes introduced by the Local Government Act of 1948. Some time must elapse before the effect of these changes can be fully gauged.

The following figures have been extracted from the Ministry's statistics:—

Year	Expenditure falling to be met out of Rates and Grants	Proportion met from			
		Rates		Grants	
1	2	3	4	5	6
	£ millions	£ millions	%	£ millions	%
1913–14	93·0	70·5	76	22·5	24
1929–30	262·7	154·9	59	107·8	41
1930–31	272·2	142·0	52	130·2	48
1938–39	332·1	191·9	58	140·2	42
1947–48	540·3	295·8	55	244·5	45

The figures for 1947–48 exclude expenditure and grants on certain residual war emergency services which ought to be ignored for comparative purposes. Column 2 represents the net expenditure on the various services after deducting income from rents, fees and other sources; in other words, it contains the amounts of 'rate and grant-borne' expenditure.

It will be observed that the effect of the major changes under the Local Government Act of 1929, including the introduction of the Block Grant, was to increase the share of the expenditure borne by the taxpayer from 41 per cent in 1929–30 to 48 per cent in 1930–31, but that due to the revision of the Block Grant lagging behind the rise in expenditure the share of the taxpayer had fallen in 1938–39 to almost the 1929–30 level. The payment of supplementary grants in the post-war years again increased the taxpayer's share to 45 per cent. Although at the time of writing complete information as to the effect of the changes made by the 1948 Act is not available, figures quoted by a research working party set up to examine the effects of that Act on local authority finances show that for all the county boroughs the proportion of expenditure met out of grants in 1949–50 is estimated at 45 per cent, whilst for 57 county councils the figure is 63 per cent. These percentages compare with 44 per cent and 57 per cent respectively for the same authorities in 1947–48. It was expected that the new Exchequer Equalisation Grant would favour many counties, at any rate until the revision of the valuation list is made, because on the whole the rateable value per head of population is at present lower in the county areas than in the county boroughs.

An important point to bear in mind in any discussion of this subject is that in the face of rising expenditure on local government it is not sufficient for the proportion met by government grants to remain the same. As an illustration, we may take the figures shown in the above table for the years 1929–30 and 1947–48. Although the proportion borne by the taxpayers increased from 41 to 45 per cent, the amount of expenditure still left to be borne by the ratepayers increased from £154 million to

£295 million. When rates are at high levels any considerable addition to the burden may prove intolerable, particularly bearing in mind the defects of rating as a method of taxation, and the actual *proportion* met by government grants may have to be increased. The validity of this proposition was recognised when the Education Act of 1944 placed upon local authorities a heavy increase in expenditure. Not only was the whole rate of grant increased, but, as we have seen, the formula adopted for calculating the grant of a particular authority was designed to assist authorities with a low rate product.

CHAPTER VII

Capital Expenditure and Borrowing

THE distinction between capital and revenue expenditure of a local authority was explained in Chapter I, and capital expenditure was defined in general terms. A more detailed analysis of the nature of an authority's capital outlay discloses the following classes:—

(1) That which produces a realisable asset, such as expenditure on the purchase of property and the erection of houses and other buildings.

(2) That mainly connected with trading undertakings which, whilst not producing a realisable asset, nevertheless is reproductive in character, such as expenditure on water mains or on the laying of a new stretch of tram track. (Note: In these two cases there is, of course, a residual scrap value in the material used which can be realised.)

(3) That on assets which are neither realisable nor reproductive but the benefit of which accrues to the community over a period of years; examples of these are street improvements and sewerage works.

(4) That which may be treated as capital and spread over a period of years even though no asset is created. Examples are the cost of obtaining a private Act of Parliament and the expenses of a stock issue. The justification for treating such items as capital expenditure and borrowing the sums required is that the amounts involved may be fairly large and would place an unfair burden upon the ratepayers in one year. In the commercial world there is a parallel in the raising of capital to meet the preliminary expenses relating to the formation of a company.

A study of these four classes of expenditure will show that they

possess the same characteristic—the benefit of the expenditure accrues over a period of years which will vary according to the purpose for which the expenditure has been incurred. At one extreme there may be assets such as motor vehicles with an estimated life of 8 years and, at the other, land for which a life of 80 years may be assumed. The fourth class of expenditure constitutes what are known as 'deferred charges' to distinguish them from expenditure which creates capital assets. These charges are usually eliminated from a local authority's balance sheet by reducing the original cost by the amount of the loan repayment each year. The position is perhaps best shown in balance sheet form as follows:—

Balance Sheet

	£		£
Loans outstanding . . .	40,000	Capital assets . . .	100,000
Debt redeemed . . .	65,000	Deferred Charges .	10,000
		Deduct: Debt redeemed .	5,000
			5,000
	£105,000		£105,000

The object is to show in the balance sheet as assets of the local authority only the amounts expended on what may be called real assets.

It will occur to the reader that the third class of expenditure produces an asset somewhat akin to a deferred charge. This is in fact the case, and many authorities write down expenditure on street improvements and similar objects in the same way as has been indicated for deferred charges, on the ground that whilst a street improvement is of benefit to the community for many years, it does not represent a realisable or reproductive asset and therefore should be eliminated from the balance sheet as the loan is repaid.

Methods of Financing Capital Expenditure

Local authorities are allowed to borrow temporarily from the bank pending the raising of loans. The financing of capital expenditure normally begins by a payment to a contractor or, if

the local authority themselves are doing the work, by payments for wages and materials, out of any credit balance the local authority has at the bank or by means of a bank overdraft. This is, however, only a temporary measure. The permanent financing of capital expenditure falls under two main headings:—

(1) The utilisation of revenue funds or reserve or other special funds.
(2) Exercising a power to borrow.

The main advantage of financing capital expenditure by defraying it from revenue instead of borrowing is, of course, that interest charges are avoided and the total cost of capital schemes is thus reduced. The amount which can be saved may be indicated by assuming a loan of £1,000 at 3 per cent. interest. If repaid by equal annual instalments of principal and interest combined, the annual instalment and the total cost (to the nearest £) would be as follows:—

Period	Annual Instalment	Total Cost
	£	£
20 years	67	1,344
40 „	43	1,730
60 „	36	2,168

Many authorities have adopted a settled policy of providing in the rate estimates a fixed annual amount for this purpose—for example, the proceeds of a rate of 6d. in the £—whereas others fix an amount of, say, £1,000 and charge to revenue any scheme costing less than this fixed amount. Even where there is no such settled policy, authorities usually do, in fact, charge capital expenditure to revenue from time to time. One reason might be that the purpose is one for which the government department concerned are not prepared to issue a sanction to borrow. The meeting of capital expenditure out of revenue is particularly appropriate for regularly recurring expenditure of a trading

service; for example, meters in the case of a water undertaking. By such a policy it is possible to get a fairly steady annual charge, similar to loan charges but at considerably lower cost.

Between the two world wars a 'pay-as-you-go' policy had the official blessing of the Ministry of Health, as evidenced in their annual report for the year 1934–35, from which the following is an extract:—

'The loan debt of local authorities is growing at a rapid rate and an increasing number of authorities are recognising the advantages of making systematic provision for defraying some part of their capital expenditure out of revenue instead of by loan. In the Minister's opinion, this practice is to be encouraged. It brings about a saving of interest which can be substantial. Thus, one County Council who have for years adopted the practice of defraying recurring and certain other items of expenditure out of revenue claim that they have already secured by it a permanent saving of a 6*d.* rate, and a County Borough, who five years ago decided to allot every year a 3*d.* rate for payment out of revenue for capital works, have already saved the interest on a capital outlay of some £400,000.'

Since the second world war, economic circumstances have compelled a revision of the government's attitude to this question, and local authorities have found that where government departments share the expense of a service on a percentage grant basis they prefer to issue a sanction to borrow for capital expenditure rather than to pay their share of the cost in one year. In the case of trading services, and general rate or county fund services which are not grant-aided, no consent of a government department to a scheme is required if it is proposed to meet the cost out of revenue, at any rate so far as the financial aspect is concerned. Consents may, of course, be required for physical requirements, such as timber.

In trading services, it is a common practice to establish a general reserve (i.e. not intended for a specific purpose) by the transfer of profits to a reserve fund. Such funds are extensively used to finance small items of capital expenditure instead of borrowing. In addition, since the first world war, a practice has developed of financing capital expenditure through the medium

of special capital funds established under powers contained in local Acts. These funds may be entitled Capital Reserve, Capital or Lands Fund, but whatever the title, the purpose in each case is to avoid borrowing to meet the cost of capital schemes. The advantage of a fund of this kind is that the charge to revenue each year can be stabilised, whereas it is not otherwise practicable to avoid fluctuations owing to the difficulty of obtaining an even flow of capital expenditure from year to year. A local Act usually specifies for a capital reserve or lands fund that the annual contribution from the rates must not exceed the proceeds of a rate of, say, 2*d.* in the £, and a maximum amount beyond which the fund is not to accumulate is also prescribed. A lands fund, as the name implies, is intended for the acquisition of land required by an authority. A capital fund is not so restricted in scope as the other two, in that contributions may be made to the fund not only from the rates but also from trading profits and the sale of corporate estate. The purposes to which the fund may be applied are also wider and may include the meeting of capital expenditure on trading undertakings as well as the other services. A local Act may provide that a fund of this kind is to be invested pending application to the purposes authorised.

All these methods of meeting capital expenditure without recourse to borrowing have one aim; that is, the avoidance of interest charges. If a local authority, at the inception of an ambulance service, purchases a fleet of 16 ambulances, each of which it is estimated will last for 8 years, the ratepayers ought not to be charged with the whole cost in the first year; but if a position can be reached where two ambulances can be replaced each year out of revenue, clearly a stable annual charge will be obtained just as if the money had been borrowed, but at a lower total cost. Power to establish a fund for replacement of the ambulances by making annual contributions from revenue will obviously be of considerable assistance, because stability in the yearly cost can then be achieved even if purchases are not evenly spread.

The second and main method of permanent financing, and one obviously necessary when a large amount is required for a capital

scheme, is by obtaining and exercising a sanction to borrow. As explained in Chapter V, a power to borrow may be conferred by a general Act of Parliament or by a local Act or Provisional Order. The main power conferred by a general Act is contained in the Local Government Act, 1933, which provides that a local authority may borrow for various purposes, with the consent of the sanctioning authority (i.e. the Ministry of Transport for passenger transport undertakings, and the Ministry of Local Government and Planning for other purposes) or, in the case of a parish council, with the consent of the Ministry *and* the county council.

The need for the consent of the sanctioning authority means that schemes must be submitted for approval, whereas borrowing powers in local Acts and Provisional Orders can usually be exercised without further sanction. Most borrowings by local authorities take place under specific Ministerial sanctions issued under the provisions of general Acts. Detailed plans and estimates of costs, and also a copy of the resolution of the local authority authorising application for a loan sanction, are normally required, although, since the report of the Local Government Manpower Committee in 1950, an attempt is being made where possible to proceed by approval of annual programmes instead of requiring individual schemes to be presented in great detail. 'Block' sanctions may be issued to cover the several projects included in a programme. A sanction specifies the maximum amount which may be borrowed and the period within which the loan must be repaid. The maximum period must not exceed 60 years, with the exception of land for housing and other purposes, for which an 80 year period may be granted. The period specified is governed by the considerations that it should not exceed the probable life of the asset or works and that it should also allow for any risk of obsolescence. The latter factor is clearly more likely to apply in trading services than in the social services, although that it is not ignored for purposes other than trading undertakings may be evidenced by the granting of periods of 30 years for baths and wash-houses, which are usually substantial buildings, compared with 60 years for houses. Before issuing a sanction the Minister

may decide to hold a local inquiry, usually at the council's offices, at which the Ministry's inspector will hear evidence and objections to the scheme, inspect the site of the proposed works and report to the Minister, who will then decide whether or not to sanction the loan. Such inquiries are most frequently held in connection with the acquisition of land and property and schemes for sewerage and refuse disposal, but they are obviously useful in all cases in which inspection of the site of proposed works is desirable or where the proposals may interfere with the property or rights of other people.

Two further points may be noted. Firstly: the local authority having received a loan sanction is not bound to exercise it, and may still meet the capital expenditure, or any part of it, out of revenue or out of a special fund, subject to the qualification we have noted regarding grant-aided services. Secondly: as the period of repayment prescribed by a sanction is a maximum, the local authority may at the outset decide to repay the loan over a shorter period, or may subsequently accelerate the debt redemption by a lump sum payment or by increasing the annual repayment charges. For grant-aided services, however, consent of the appropriate government department will be needed on these points. There is not this freedom in the case of loans from the Public Works Loan Board which, as we shall see, are usually for the full period of the loan sanction.

Methods of Raising Loans

It is essential to a clear understanding of local authority finance to appreciate the difference between—

(1) Meeting capital expenditure out of revenue or special funds, and

(2) Meeting it by borrowing money from internal funds under the authority of a loan sanction.

In the first case, no question of spreading the cost over a period of years arises, but in the second case an annual charge to revenue account is necessary to redeem the debt over the period of the loan sanction, or any shorter period adopted by the local authority.

Internal funds comprise funds accumulated for such purposes as employees' superannuation, housing repairs, trading undertaking reserves, insurance and the redemption of debt. Instead of these funds being invested outside the local authority they may be utilised internally in the exercise of a borrowing power, the effect being that on the one hand the borrowing account is treated as receiving a loan and, on the other, the lending account is regarded as having made an investment. A little reflection will convince the reader of the wisdom of this course. Outside borrowing is kept to a minimum, thereby saving on stamp duties and the initial costs of raising loans, and also reducing the future cost of servicing loans, whilst the cost of investing the lending funds outside the local authority is avoided. Further, there is no risk of the depreciation of investments, whereas this is present even in the gilt-edged stocks.

There are many who advocate making outside investments of superannuation fund monies because of what is considered to be the 'semi-trust' nature of such funds, arising from the fact that contributions by the employees are paid into the fund along with the local authority's contributions. As, however, no local authority has ever been known to default on its loans it is difficult to see any objection to the use of superannuation fund monies for the local authority's own purposes. As far as the yield to the superannuation fund is concerned, investments are normally made in gilt-edged securities, the yield from which can scarcely be better than the rate paid by the local authority itself. In addition, there is the point already noted that there is no danger of depreciation of investments where the money is invested internally, whereas this risk is present with most other securities. The advantage to the loans fund of the local authority is that it obtains from the superannuation fund a solid block of money which in normal circumstances does not have to be repaid at a later date and re-borrowed, and there are no costs involved. We shall consider the internal use of funds provided for the redemption of debt later in the chapter.

In writing about external borrowings, some difficulty is

experienced at the present time owing to the many changes arising from the government controls imposed during the second world war, and since continued, which have altered the pre-war practices of local authorities. An attempt has therefore been made to set out the position as it exists, the former practice of local authorities being noted only when required for explanatory purposes. The first point to be observed is that Treasury consent to external borrowing is necessary where the amount exceeds £50,000 in a year, a limit which will be exceeded by most local authorities. Special application to the Treasury is not required, as their consent is obtained by the sanctioning authority and issued together with the loan sanction. The Treasury consent expires at the end of one year from the date thereof, but if there is delay in the commencement of the capital works this consent may be extended.

There are a few exceptional forms of borrowing, such as by the issue of money bills, which are available to some local authorities, but the main sources are:—

(1) Housing Bonds.
(2) Mortgages.
(3) Public Works Loan Commissioners.
(4) Stock Issues.

Housing Bonds. As their title indicates, housing bonds are somewhat limited in their use as they can only be issued for housing purposes. There is, however, one important benefit to be derived from them. The bonds themselves are trustee securities, and, under the provisions of the Trustee Act of 1925, the mortgages of any local authority which has power to issue bonds also acquire trustee status. It will be appreciated that the field of lenders may be quite considerably restricted if trustees are unable to invest in local authorities' securities.

Mortgages. The principal means of borrowing by local authorities is upon mortgages secured on the whole of the rates and revenues. They fall into two classes—(1) loans repayable by instalments,

and (2) loans repayable in a lump sum at the end of the period specified in the mortgage. The first class may be repayable by equal instalments of principal with interest on the diminishing amount outstanding, or by the annuity method. The following illustration may help to distinguish these two methods of repaying instalment loans. A loan of £1,000 for five years at 3 per cent interest is assumed.

(*a*) *Repaid by equal instalments of principal*

Year	Principal	Interest	Total Cost per Annum
	£ s. d.	£ s. d.	£ s. d.
1	200 0 0	30 0 0	230 0 0
2	200 0 0	24 0 0	224 0 0
3	200 0 0	18 0 0	218 0 0
4	200 0 0	12 0 0	212 0 0
5	200 0 0	6 0 0	206 0 0
	£1,000 0 0	£90 0 0	£1,090 0 0

(*b*) *Repaid by annuity method*

Year	Principal	Interest	Total Cost per Annum
	£ s. d.	£ s. d.	£ s. d.
1	188 7 1	30 0 0	218 7 1
2	194 0 1	24 7 0	218 7 1
3	199 16 6	18 10 7	218 7 1
4	205 16 5	12 10 8	218 7 1
5	211 19 11	6 7 2	218 7 1
	£1,000 0 0	£91 15 5	£1,091 15 5

Under the equal instalment method, it will be seen that as interest is charged on a reducing amount of principal, the total charges in each year also diminish. Under the annuity method, the interest portion falls each year as the principal is repaid and the principal portion correspondingly increases. This method is popular because the same annual charges are obtained throughout the period, but it is slightly more expensive than the other method. The longer the period of the loan, the more expensive the annuity

system becomes compared with the other. Loans from the Public Works Loan Commissioners are mortgage loans repayable by instalments, but they possess special features and are dealt with separately. As we shall see later, the accounting procedure for instalment loans is simple compared with that for the second class of mortgages, i.e. those repayable in a lump sum at the end of the period.

Apart from loans from the Public Works Loan Commissioners, most mortgages are repayable in a lump sum at the end of a specified period; in other words, the loan matures on a certain date. Such loans may be termed 'maturity loans' in order to distinguish them from instalment loans. Before the second world war, it was the practice of all but the small authorities to borrow continuously on maturity loans. The loans were obtained from inhabitants with money to invest, by advertising terms in the national press or by getting in touch with insurance companies, building societies, trustee savings banks, friendly societies, and other large lenders. Loans were frequently arranged on terms which provided for a fixed period at the expiration of which the loan would remain upon six months' notice. Many loans were made on the basis that six months' notice could be given at any time if either party required repayment, whilst other loans might be for varying periods up to 20 or even 30 years. Interest rates were fixed according to market conditions and the period of the loan; the longer the investor was prepared to leave the money with the local authority the better the return he naturally expected. In this way, local authorities were able to arrange the maturity dates for their loans in the most convenient manner, so that no financial embarrassment was likely to arise from the need to repay too much money in any particular year. Further, if the prevailing rates of interest were high they could borrow for short periods in the hope that the interest rate would fall and they would be able to re-borrow at a cheaper rate. The reverse procedure operated if interest rates were low, when it was naturally in the interest of the local authority to borrow at the low rate for as long a period as possible. From what has been said it will be apparent to the

reader that the periods for this type of mortgage bore no relation to the periods of the loan sanctions which were being exercised, and he may wonder how this situation was met. The methods adopted will be considered later in the sections dealing with the redemption of debt and the pooling of loans.

There are now certain conditions laid down by the Treasury which are attached to borrowings on mortgage. Briefly, no mortgage can be issued on terms providing for repayment in less than 7 years, except that repayment may be made on the instalment method previously outlined provided the full currency of the mortgage is not less than 7 years, and that mortgages may be issued for a shorter period than 7 years if the loan sanction specifies a shorter period. All mortgages must also be made for a definite term, and local authorities are not allowed to include a provision in any mortgage that after reaching the stipulated date for repayment or renewal it may continue to run subject to notice on either side. The requirements mentioned apply to all mortgages, including any which are issued to replace mortgages repaid, and to renewals of mortgages.

Local authorities must keep a statutory register of mortgages issued, and transfers of mortgages from the holders to other persons may be accepted provided the whole amount of any particular mortgage is transferred. The local authority pays the stamp duty on the mortgage at the rate of 5*s.* per cent, and in addition may have to pay an initial brokerage fee if the loan is negotiated through a broker or other agent.

Public Works Loan Commissioners. The Public Works Loan Commissioners are a body established under the Public Works Loan Act of 1875 for the purpose of lending to local authorities or other persons requiring money for works of public utility. For convenience, the body is usually referred to as the Public Works Loan Board. The Board is financed by government loans and the Treasury prescribe the rates at which it can lend. Formerly, the facilities were available without restriction only to the smaller authorities, but under an Act passed in 1945 the

position is that, without Treasury approval, it is not lawful for any local authority to borrow except from the Board. All borrowings from the Board are for the full period of the loan sanction and are repayable by annual instalments on either the equal instalments of principal method or the annuity method. At the time of writing, the prescribed rates of interest are:—

Loans for not more than five years . .	2 per cent
Loans for more than five years but not more than 15 years	2½ „
Loans for more than 15 years . . .	3 „

The rate of interest specified in the mortgage issued to the Board continues throughout the period of the loan irrespective of any subsequent changes prescribed by the Treasury. In order to protect the Board's interests, if a local authority desires to repay a loan or part of a loan prematurely, provision has been made for the calculation of a premium to be paid to the Board. This provision prevents a local authority from obtaining an advantage by repaying a loan from the Board at a high rate of interest and re-borrowing at any lower rate which may be current, although in certain exceptional circumstances the Board will accept repayment without a premium. This restriction of repayment is sometimes criticised on the grounds that a local authority may, for example, sell some land and wish to discharge the loan raised for the acquisition of the land out of the proceeds. There are certain technical disadvantages which need not be noted here, but the outstanding advantage of the arrangements for borrowing from the Board is that all local authorities are now able to finance their capital schemes at approximately the rate of interest at which the government itself borrows. Previously, small local authorities were at a disadvantage in that they had not the prestige of the large authorities and frequently found it necessary to pay higher rates of interest to meet their requirements.

The main exception to the rule that local authorities must borrow from the Public Works Loan Commissioners is that mortgages may be issued to other lenders so long as the total amount outstanding from time to time does not exceed a maxi-

mum fixed for each authority in relation to the highest amount of mortgages outstanding on any date between 31st March, 1939, and 1st August, 1945. As most local authorities were able to reduce their mortgage debt considerably during those war years, this is a useful provision which gives a certain measure of freedom in the methods of raising loans. Other exceptions relate to borrowing by one local authority from another, borrowing from a superannuation fund or from any trust fund held by an authority, or by an issue of stock to redeem an earlier issue.

Stock. One of the post-war controls imposed on local authorities by the Treasury is that they are not allowed to borrow by means of a stock issue. As we have seen, with the exceptions noted the authorities must borrow from the Public Works Loan Commissioners. Before the second world war, stock issues took second place only to mortgages as a means of financing capital schemes—in fact, large authorities frequently had a higher amount of stock outstanding than of mortgages. An issue of stock had the important advantage that a large sum of money was obtained at one time and for a relatively long period. Further, the effective rate of interest could be more finely shaded than for mortgages owing to variations in the price at which stock could be issued. In the case of mortgages, the amount repayable is the amount lent, but the price at which stock could be issued depended upon the state of the money market—in particular the prices of Government stocks—the rate of interest offered and the period of the loan. For example, a 3 per cent stock might be issued at a price of £99 for each £100 of stock, with the result that the true cost to the authority would be slightly in excess of 3 per cent. Two redemption dates were usually specified, the stock being repayable at the option of the local authority at any time after the first date, by giving notice to the stockholders, whilst repayment of the stock was compulsory on the last date specified. The minimum life of a stock issue was usually a period of at least 20 years.

Subject to the control now exercised by the Treasury, some authorities have powers to issue stock under local Acts, but the

general power is contained in the Local Government Act of 1933, which requires a consent order to be obtained from the government. Parish councils and metropolitan borough councils have no power to issue stock. The power to borrow by this means was little used by the urban and rural district councils and the small boroughs and counties. Apart from the fact that their borrowings are not on a large scale, stocks of rural and urban district councils are not trustee securities nor are those of boroughs with populations not exceeding 50,000. Local authority stocks with trustee status are similar to Government stocks—commonly called 'gilt-edged'—and are dealt in on the stock exchanges; a wider range of investors is therefore attracted than in the case of mortgages. The ability to sell stock or a part of the holding, at any time is very convenient. Mortgages may be transferred to another person but, of course, it may not be easy to find a buyer in the absence of stock exchange quotations and dealings. A further point to be noted is that local authorities pay the transfer stamp duty in the case of stock transfers in order to facilitate dealings in the money market. The fluidity of stock naturally necessitates the exercise of great care in connection with the receipt of cash from lenders, the issue of certificates to purchasers, dealing with transfers, the payment of interest, and other matters. The Government have, therefore, made regulations which must be observed for all issues. Stock Exchange Regulations must also be observed before permission will be given for stock to be dealt in and official quotations granted.

When a pre-war stock issue reaches the compulsory redemption date, the position now is that Treasury consent is required to replacement of the issue by other loans. The Treasury may authorise an offer to be made to the existing holders of the stock to convert into new stock, but not necessarily for the full amount of the old issue. The Treasury fix the terms of the offer and, as a *quid pro quo*, may themselves advance any part of the new issue which is not accepted by the stockholders. If a conversion offer is not to be made, the Treasury may authorise borrowing from the Public Works Loan Board or by the issue of mortgages to

other lenders for the whole or a part of any amount required for the redemption of the stock. Under certain conditions, a local authority may be authorised to deal on similar lines with a stock issue which has only reached the optional redemption date, in order that the authority may be able to take the opportunity of replacing stock by loans at a lower rate of interest.

We need not concern ourselves with the detailed administration of stock issues, but at some future time local authorities may once again be allowed freedom to borrow by this means and therefore there are one or two practical points which may be noted. Stock issues are usually more expensive than mortgages owing to the higher costs of issue (commissions, brokers' fees, advertising, etc.) and stamp duty on transfers. The latter is now at the rate of £2 per cent and heavy dealings on the stock exchange involve local authorities in considerable expense. A compounding agreement may be made with the Inland Revenue whereby, subject to an annual payment at the rate of 4*s.* per cent on the amount of stock outstanding from time to time, no stamp duty is payable on transfers as they arise. On a stock issue of £1,000,000 it will be seen that an annual payment of £2,000 is required. It is simpler to compound for the duty, but this method usually proves more expensive over the whole life of the stock. There is no such expense in the case of mortgages as, if they are transferred, the purchaser normally pays the stamp duty before lodging the transfer with the local authority. The administration costs are also lower in the case of mortgages, as there are very few changes of ownership to deal with compared with the number which arise from a stock issue. The cost of a stock issue must, therefore, be weighed against other factors, of which the most important is the prevailing rate of interest. If this is low at the time the money is required and a large sum is needed, a stock issue may be the only way to obtain the benefit of the low rate for a long period.

Redeeming the Debt

We have seen that loans from the Public Works Loan Commissioners, and sometimes those from other lenders, are repay-

able by instalments spread over the whole period of the borrowing power. In such cases no question of re-borrowing to replace loans repaid arises, the debt created by the exercise of the borrowing power being redeemed as the loan is repaid; but where loans raised bear little or no relation to the borrowing powers, i.e. where mortgages are issued for varying periods and amounts, or redeemable stock is created, different considerations arise.

The first essential to an understanding of the question is a clear conception of the difference between repaying a loan and redeeming debt. Let us take a simple illustration of a local authority erecting a new school at a cost of £200,000. Assuming the period of the loan sanction is 40 years, the annual charge to redeem the debt within that period is £2,967. This is the sum which, if invested each year at 2½ per cent, will accumulate in 40 years to £200,000. If the £200,000 is borrowed from one or more lenders on mortgages with a life of 40 years, the fund accumulated by the local authority by annual contributions from the education revenue account can be used to repay the lenders at the end of the period. Such a fund is called a sinking fund, and the maximum rate of accumulation to be used in the calculations is prescribed by the Minister—at the time of writing it is 2½ per cent. But we have already seen that (apart from the special circumstances attaching to loans from the Public Works Loan Commissioners) mortgages of varying amounts and periods may be issued as a continuous process by the local authority. The £200,000 may be obtained from several lenders all of whose loans will be repaid within, say, 20 years. Money borrowed may be repaid to individual lenders but *the debt created under the sanction is not redeemed until the final charge to revenue has been made.* So long as the authority in this case is including in the rate levied for the education service the debt charge on the school (that is, providing out of its revenue account the amount required to pay for the school in 40 years), the actual transactions relating to the raising and repayment of loans constitute a purely external matter. Any loans repaid may be replaced by other loans. Now extend the principle outlined to all the capital schemes of a local

authority and we get the position that the various revenue accounts are providing the amount required to pay for capital schemes within the periods of the respective loan sanctions. This is the *internal* aspect. At the same time, as a continuous process the local authority is raising and repaying loans, always ensuring that it has sufficient monies to finance current capital expenditure. This may be called the *external* aspect of borrowing. The total amounts owing to lenders by an authority at any time must not, of course, exceed the total of the borrowing powers issued to it by the sanctioning authorities.

If the sinking fund method of redeeming debt is in operation, the yearly contributions from the revenue accounts are paid into the fund. The fund may be invested, used to repay loans, or used for new capital purposes. Considerations similar to those noted in relation to superannuation, reserve and other funds apply here also, and, for reasons already stated, outside investment of the sinking fund is now the exception rather than the rule. Mortgage loans maturing for payment, if not renewed by arrangement with lenders, may be repaid out of the sinking fund. Similarly, the monies in a sinking fund created in relation to a stock issue may be used to buy any of the stock offered for sale in order to extinguish it; for this purpose, the saving by the cancellation of the stock must be measured against the interest which might be earned by investing. Where possible, it is advantageous to adopt the third course and utilise sinking fund monies for new capital schemes. In the absence of local Act powers, government consent is required to the use of stock sinking funds in this way, but it is generally accepted that there is no restriction upon the use of mortgage sinking funds. This method of utilising sinking funds recognises the fundamental point that so long as the total debt outstanding is within the amount sanctioned and debt is being redeemed by annual charges to revenue in accordance with the terms of the loan sanctions, there is little point in a local authority borrowing on the one hand and investing sinking funds on the other. A simple balance sheet may again be used for exemplification:—

Balance Sheet

	£		£
Loans outstanding . .	500,000	Capital expenditure . . .	500,000
Sinking fund . . .	200,000	Sinking fund investments . .	150,000
		Sinking fund cash .	50,000
			200,000
	£700,000		£700,000

If the sinking fund investments were sold for £150,000 and the whole of the sinking fund cash then used to meet further capital expenditure, the balance sheet would show:—

Balance Sheet

	£		£
Loans outstanding . .	500,000	Capital expenditure . . .	700,000
Debt redeemed . . .	200,000		
	£700,000		£700,000

The debt redeemed figure of £200,000 arises because the accounts which were formerly regarded as holding £200,000 in the sinking fund are now treated as having redeemed debt to a corresponding amount, as in fact they have by making provision from their annual revenues. This example shows clearly how debt is kept to a minimum by this method.

Following upon this brief discussion of debt redemption methods we may now proceed to consider the logical conclusion —the pooling or consolidation of loans.

Pooling or Consolidating Loans

We have distinguished the internal and external aspects of borrowing. From an understanding of this distinction it is not a great step to an appreciation of the simplicity of a loans pool. Under a system of loans pooling only the loans account is regarded as borrowing money, whether it be from outside lenders or from superannuation and other investing funds of the authority itself. Cash is advanced from the loans account to the other

accounts of the local authority in exercise of loan sanctions. These accounts may be called the 'borrowing accounts'. The annual sums provided from revenue to redeem debt are paid by the borrowing accounts to the loans account, where they are merged with any further loans raised and again become available for advancing to any of the borrowing accounts. All interest on loans is paid by the loans account in the first place and is recharged to the borrowing accounts at an average rate. There are no sinking funds and no complications. The system recognises that the authority is *one* authority and that it is the authority itself which borrows the money and not the individual services. As all repayments by the borrowing accounts are automatically available for new capital purposes, the external debt is kept down to a minimum. Loans from the Public Works Loan Board, even though raised for the full periods of the individual loan sanctions and repayable by instalments; may be paid into the loans pool and mixed with the other loans; the repayments to the Board each year or half-year are then charged to the loans pool.

The principles outlined apply to any loans pool. In the absence of special powers, however, stock issues cannot be merged in loans pools, as they are made under government consent orders which specify the individual borrowing powers which are being exercised; for this reason, the stock is earmarked to particular accounts and cannot be regarded as a general borrowing by the authority. In order to overcome this difficulty, the Ministry, in collaboration with the Institute of Municipal Treasurers and Accountants (Incorporated), have issued a model form of consolidated loans fund scheme which caters for the inclusion of all loans, including stock issues, and most authorities promoting bills in Parliament during the past 20 years or so have taken power to establish a loans fund under a scheme based on the model and approved by the Ministry. These funds provide a perfect regulation of the borrowing and investing funds and represent a great improvement in financial technique compared with the accounting complications of sinking funds, particularly where there are stock issues in existence.

Investments

The question of making investments may arise from surplus revenue balances of a local authority; general reserve funds; funds created for special purposes such as superannuation, insurance, housing repairs, debt redemption, and the capital reserve and loans funds we have previously noted; or from trust funds in the hands of the local authority.

Where there are provisions in general or local Acts as to the investment of funds, there is a customary requirement to invest in 'statutory' securities. Broadly, these are securities in which trustees are authorised to invest trust monies, with the addition of mortgages, stock and certain other securities created by local authorities. The list of investments available to trustees is naturally limited to the safest securities. We have already seen that the mortgages of any local authority which is authorised to issue housing bonds are *trustee* securities, and it may now be noted that the mortgages of *any* local authority fall within the definition of *statutory* securities. As safety is the main consideration relating to investments made by local authorities, the yield from the investments is, of course, not so high as if more 'risky' securities were purchased. In fact, the yield generally approximates to the rate at which the local authority itself can borrow, so that in normal circumstances an authority cannot do better than utilise internal funds for its own capital purposes instead of investing. Nevertheless, at some time or another most authorities find it necessary to make outside investments and constant study of money market conditions is necessary to ensure that the best use is made of the available funds. Attention to this aspect of local authority finance has been particularly necessary during and since the second world war as, owing to the length of time during which little in the way of capital works proceeded, the accumulations of local authorities' debt redemption, superannuation and other funds were in excess of the amounts required to finance their own schemes and consequently had to be invested.

Some difficulty arises in the case of surplus revenue balances, as the joint stock banks pay no interest on credit balances on

current accounts, although they are prepared to pay ½ per cent if money is placed in a deposit account, withdrawable only upon 14 days' notice. Such balances may be needed almost at any time by the local authority and cannot, therefore, be invested for long periods; yet the possibility of investment ought not to be ignored. The position may be that, so far as can be foreseen, an amount of, say, £100,000 will not be required for a year, although there may be a possibility of an earlier need arising. If allowed to remain at the bank on deposit account, the money would earn only £500 in the year, whereas at least £1,000 could probably be earned by lending to, say, another local authority on a short-term basis. Local authorities are allowed to borrow temporarily pending the raising of permanent loans, and cheap money at 1 per cent helps to keep the average interest charge down, with the result that to a limited extent such temporary borrowing is indulged in by many local authorities. The Treasury have made it clear that in their view temporary borrowing of this kind should take place only where absolutely unavoidable. Another course with the surplus monies would be to invest in a Government stock and so earn, say, £3,000 in the year, but the risk of a capital loss on sale of the security is usually a bar to this type of investment for short periods, particularly in the unsettled conditions which have for so long existed. It would be quite possible to buy a 3 per cent Government stock at a price of, say, £98 for each £100 of stock and find that when it became necessary to sell only £93 was obtainable. Clearly, no particular course of action is suitable in every case, and all that can be said is that no opportunity of earning interest should be missed, but undue risks should not be taken.

Where investment can safely be made for a lengthy period a much wider choice is available, and the prices of various Government stocks, the dates upon which they are redeemable and the rates of interest should all be considered in making a decision. One point which must not be overlooked is whether or not the price quoted for a security is exclusive of dividend. A few weeks before interest is payable the price of a stock becomes 'ex div.',

which means that no interest is payable to the purchaser for the current interest period—usually a half-year. A gap is necessary so that transfer registers can be closed and preparations made for the payment of interest to the stockholders. Immediately before the stock goes 'ex. div.', therefore, there is practically a full half-year's interest included in the purchase price, whereas immediately after there is nothing. As the dates upon which interest is payable vary for different stocks, any comparison between one security and another must take into account the amount of accrued interest included in the quoted prices.

The calculation of the yield on a stock may require to be made either from the point of view of making an investment or of purchasing an authority's own stock for cancellation, which, as we have seen, is one use to which sinking fund or loans fund monies may be put. What is called the 'flat' yield is a simple calculation based upon the purchase price. For example, if £100 of 3 per cent stock is purchased for £95, clearly the yield obtained is £3 per annum on the purchase price of £95, that is, at the rate of £3 3*s.* 2*d.* per cent. But if the stock must be repaid in 15 years' time the purchaser, by holding the stock until redemption, will make a further profit of £5. The annual value of this £5 capital profit can be calculated and added to the flat yield to give what is known as 'the yield to redemption'. This yield to redemption is the figure a local authority will take into account when deciding whether or not to purchase its own stock for cancellation. If the example given represented an offer to a local authority to purchase £100 of its own 3 per cent stock with 15 years to run, at a price of £95, the yield to redemption could be calculated and compared with what would be earned by investing £95 in some other way, or with what could be saved by utilising the money for new capital purposes and avoiding borrowing to that extent. Here again, so far as interest is concerned no substantial gains are likely by the one course compared with the others, as careful calculations are made in the money market and the yields on gilt-edged securities tend towards uniformity, subject, of course, to the lives of the securities being comparable.

Valuation and Depreciation of Capital Assets

Practice varies in local authorities in regard to the valuation of assets for balance sheet purposes. Some authorities include in the balance sheet only assets acquired out of loan monies, whereas others include all items whether financed by loans or by contributions from revenue and other funds. Small items of expenditure not financed by borrowing, even though strictly of a capital nature, are frequently omitted from the balance sheet figures on the ground of expediency, although generally speaking it is probably the better course to attempt to make the capital account as complete as possible. For example, an authority may purchase and equip a new home for aged persons by exercising a loan sanction, and subsequently find that additional furniture is required. Even if this furniture is purchased out of revenue monies, it will be best to include it in the capital account in order to show the full cost of the home, unless the authority keeps a loan capital account only.

The distinction between realisable or reproductive assets and deferred charges has already been made, and we noted that the procedure is to write down the balance sheet value of deferred charges by the amount of loan repayment each year. This procedure satisfies all government and legal regulations and may be adopted for all capital expenditure. Where this is an authority's practice there would be no point in capitalising expenditure met otherwise than out of loan; the balance sheet merely shows on one side the outstanding debt and on the other the corresponding amount of capital expenditure not yet written off. There seems little to be said in favour of this practice, its effect being that if all debt has been redeemed the local authority's balance sheet will show no capital assets, when, in point of fact, the authority may own valuable property and other assets. Most authorities of any size, particularly if they own trading undertakings, prefer to maintain all realisable and reproductive capital expenditure as an asset in the balance sheet at cost price, whilst writing down by the amount of debt redemption any expenditure which is in the nature of a deferred charge. Expenditure on works such as street im-

provements, bridges and sewerage schemes, which have no realisable value, can with advantage be treated as deferred charges and eventually written completely out of the balance sheet, although opinions sometimes differ on this point. It is the usual practice to eliminate from the capital account all assets which have been sold or scrapped.

There has frequently been criticism of local authorities' capital accounts on the ground that depreciation of assets is not provided for as is the case with industrial and commercial concerns. This criticism is not justified and indeed to some extent the municipal practice is superior. In other concerns assets are depreciated, but the amount written off by a charge to profit and loss account may depend upon the existence of profits and the policy of the directors. In the case of a local authority, however, the whole cost of an asset is either met out of revenue funds in the first place or else, if capital is raised, is provided for by annual charges to revenue which are sufficient to write off the cost of the asset within the estimated life, i.e. within the period of the loan sanction. The local authority must repay within the authorised period, whereas there is no such compulsion for industrial and commercial concerns. When a local authority has repaid any loan raised to meet the cost of capital works, there cannot be any further liability to meet and, if the asset is still of value, there is in effect a capital surplus. If an asset is exhausted, however, and needs replacement, a new loan sanction may be obtained for the new asset and the whole process repeated. The ratepayers, or the users of a trading service, would be called upon to pay twice if they were required to meet both the cost of loan repayment and a depreciation charge. Clearly, the criticism mentioned overlooks the fact that the capital of a company is not usually repaid, at any rate so long as the company is a going concern, whereas that of a local authority is repaid by fixed annual charges against the authority's revenues. Where, however, capital assets of a trading service have been acquired out of revenue in the first instance, so that there are no loan charges to be met, an annual amount should be provided for the renewal of the assets; otherwise, the decrease

in value of the assets each year arising from their use is not charged in the accounts, which, therefore, do not show the true profit or loss. An interesting method is used by the British Electricity Authority, which took over a mixture of local authority and company undertakings. They provide for the depreciation of *all* assets and meet the debt redemption charges out of the depreciation provision—a method which is particularly appropriate in the case of a public trading service.

CHAPTER VIII

Trading Services (including Housing)

GENERALLY speaking, the trading services of local authorities are in the hands of the county boroughs and the county districts, nor is this surprising when it is recalled that the two-tier government in counties was introduced only in 1888 when the county councils were created, whereas most of the trading services are of more ancient origin; water supplies and markets, for example, are several centuries old. Moreover, initially the trading services were essentially local in character; only in comparatively recent times have local government boundaries and areas of supply for such services as gas and electricity been thought unsuitable to the needs created by the growth of population and the demand for the services under modern conditions.

One of the prime factors in the attachment of trading services to local government has been the safeguarding of the public's health by public control of such services as water supplies, the slaughtering of animals and the disposal of the dead. In regard to what are called the public utility undertakings—gas, electricity, water and transport—the reason for their acquisition by many local authorities was not solely the need to control in the public interest a service with a monopolistic element, although this was naturally an important consideration. These services require heavy capital expenditure compared with the annual running costs, and, since they are essential to the whole community and not merely luxuries, it has frequently seemed necessary to local authorities that to ensure adequate development the ownership should be vested in a body not responsible to shareholders. A local authority is naturally in a better position than a company to decide to incur capital expenditure on the provision of a service irrespective of questions of profit or loss, although the financial aspect is not ignored and local authorities endeavour to avoid

losses. We may consider, for example, a decision that for town planning and traffic control purposes omnibuses should be substituted for tramcars. Heavy capital investment is locked up in the track, overhead equipment and rolling stock, and a decision to scrap these assets and incur the further heavy cost of reinstating the highways is not lightly reached. But it is clearly easier for a local authority to decide the issue by measuring the cost and the resultant public benefit to be obtained, than it would be for a company. These comments are in no way critical of the many efficiently managed undertakings in private hands, but merely emphasise one of the main reasons why local authorities have acquired public utility undertakings. Water supplies in particular frequently involve heavy capital expenditure on reservoirs, filter stations, mains and other assets, and the number of undertakings operated by local authorities either singly or through joint water boards is approximately 85 per cent of the total number, although many of them in rural areas are perhaps too small to warrant their being classed as trading departments. Other factors, less important than the control of monopolies and the heavy capital costs, accounting for the acquisition of public utility undertakings by local authorities have been local pride in their ownership and even, in earlier days, the possibility of making profits which could be used to assist in paying for the social services. Undoubtedly it was local pride in their gas and electricity undertakings, in many instances carefully managed and developed over a long period of years, which led many authorities to regret the nationalisation of these services.

None of the usual reasons for local authority trading, however, applies to civic restaurants. They are not necessary for public health purposes or the control of a local monopoly, nor do they demand heavy initial outlay compared with annual income and expenditure. They represent, therefore, a new development. We saw in Chapter III that the restaurants were established to meet a wartime need, but where they are now operating they are often in direct competition with private caterers. It is interesting to note, therefore, the conditions which Parliament imposed in conferring

upon local authorities the power to run restaurants. Broadly, a local authority is not allowed to continue trading if its restaurants are a financial failure; in other words, the local authority may indulge in this form of competitive trading but if it suffers losses the undertaking may not be subsidised from the rates indefinitely. If there is a deficit on the restaurants for three consecutive years the local authority loses its powers, unless the Minister sanctions their continuance because he is satisfied that the authority will be able to rectify the financial position within a reasonable period. An authority which has lost its powers may have them restored if the Minister considers that changed circumstances will enable the authority to operate anew without loss. It seems reasonable to infer from these conditions that Parliament does not regard the provision of restaurants by local authorities as an essential service to the community, in times of peace at any rate, otherwise there could be no objection to a charge upon the rates.

What are the Trading Services?

Opinion differs slightly on the question of what constitutes a trading service of a local authority. As we saw in Chapter III, many authorities do not print separate accounts for services such as markets and cemeteries, preferring to include them in the accounts of the rate fund; but a decision to do so does not necessarily indicate that the service concerned is regarded as non-trading. The accountancy treatment does not alter the nature of the service. The government view on this question is shown by the annual return 'Local Government Financial Statistics', which contains a separate table headed 'Housing Revenue Account, Trading Services, etc.', the items included being—

Housing Revenue Account.
Water Supply.
Passenger Transport.
Harbours, Docks and Piers.
Burial Grounds and Cemeteries.
Civic Restaurants.

Provision of Entertainments.
Other Trading Services.
Corporation Estates.

The housing revenue account, although shown in the table, is balanced separately and is clearly not regarded as a trading service. The figures relating to corporation estates probably owe their inclusion more to the fact that such estates do not represent a specific or essential service to the community than because they are regarded as a trading service. An authority could function without any general estate. Items to be included in the heading 'Other Trading Services' will include markets, aerodromes and ferries where these are owned by the local authority. Not every authority, of course, owns all the trading services and outstanding examples of unusual undertakings operated by local authorities are the Hull Corporation telephone service, the Birmingham municipal bank, and the Doncaster Corporation racecourse.

The selection of the trading services made by the Government is in general conformity with the income tax position. With the exception of corporation estates and, possibly, the provision of entertainments, each of the services named in the table is assessed to income tax as a trade, the method of assessment being the same as that for private trading and commercial concerns. Not all the services of local authorities which may be assessed to income tax as a trade are, however, designated as trading services in the Ministry's Financial Statistics, nor can any universal rule be made on this point because of differing circumstances, an outstanding example being the provision of facilities for games and bathing. In health resorts these facilities are extensively provided for visitors and will normally constitute a trade for tax purposes, whereas in other areas they will be on a much smaller scale and run merely as health promoting amenities for the inhabitants of the areas, no profits being likely to arise. At first sight it may seem strange that the provision of burial grounds and cemeteries should be regarded as the carrying on of a trade. In fact, it is exceptional for an authority to separate this service from the general rate fund

and treat it in the same way as services such as transport and water, which are usually expected to be self-financing. The explanation is that private companies operating burial grounds were fairly common at one time and are still to be found to-day, as also are privately owned crematoria. Such companies are subject to normal income tax assessment as trading concerns and local authorities are dealt with in a similar manner.

The housing service possesses features which impart to it the nature of a semi-trading service. It is subsidised from the rates, but the contributions are of fixed amounts, and unless losses are incurred there is no further charge to the rate fund; most authorities in fact endeavour to fix rents which will avoid deficits. The ability of a local authority to alter its rents at any time in order to make the account self-financing, or even to show a surplus, introduces an element of trading into this service. The importance and special features of the housing service certainly merit attention in this chapter.

Accounting and Costing

Many of the financial aspects of the trading services are similar to those of the rate fund services and are discussed in other chapters. Examples are financial control and borrowing to meet capital expenditure. There are, however, special features of the trading services which should be noted and certain points relating to accounting and costing which need emphasis.

The published accounts relating to the income and expenditure of a trading undertaking are usually shown divided into (1) revenue account, (2) net revenue account, and (3) appropriation account, although where the trading element is not very pronounced, as in the case of cemeteries, this division may be dispensed with. The object of the revenue account is to show the transactions directly attributable to *trading* and arrive at a gross profit or loss. The net revenue account receives the balance from the revenue account and also contains—

(1) any special or abnormal items of income or expenditure;

(2) the purely financing items, such as bank interest and loan charges;
(3) income tax charges.

The net profit or loss is thus arrived at and is transferred to the appropriation account. As the name implies, this account shows the disposal of the net balance on the year's working, to which may be added any balance on the account brought forward from the previous year. The appropriation of a surplus may take the form of, for example, a transfer to a reserve or other special fund, the meeting of items of capital expenditure for which it is not proposed to borrow, a special repayment of debt, or a contribution in aid of rates. If not entirely disposed of, the balance on the appropriation account will represent the revenue surplus on the undertaking which is being carried forward to the following year. It may be possible to meet a loss brought forward from the net revenue account out of an existing surplus in the appropriation account; otherwise, it may be met by a transfer from a reserve fund or from the rate fund, or it may be carried forward to the following year. The benefit of this method of dividing the revenue transactions of the year is that not only is a logical sequence obtained, but the trading results of one year may be compared with another on a uniform basis, unaffected by such matters as changes in rates of income tax and in financing expenses. In the case of passenger transport undertakings, separate revenue accounts and net revenue accounts for tramways, omnibuses and trolley buses are in use where more than one form of transport exists, the balances being transferred to one appropriation account for the whole undertaking.

Readers will appreciate the assistance to be obtained by the management if the accounts of one undertaking can be readily compared with those of similar concerns compiled on a standard basis. There is still room for considerable improvement in this connection, although the accounts of passenger transport undertakings are a notable exception. The Municipal Passenger Transport Association, in conjunction with the Institute of Municipal

Treasurers and Accountants, have drawn up standard forms of account in which detailed attention has been given to the uniform classification of expenditure. Certain principles have been laid down by the Ministry for civic restaurants accounts and information under main headings for water undertakings is fairly well standardised, but there is no national agreement upon the detailed classification of items which is so essential if accurate conclusions are to be drawn from comparisons between the accounts of one undertaking and another. For example, if an account heading 'Heating, lighting and cleaning' is chosen, it is necessary, for the purpose of standardising accounts, that not only shall this heading be used by every authority concerned but that the detailed items falling within the scope of the heading shall be agreed upon.

The need for adequate cost information, supplementing the ordinary financial statements and records, is more urgent for the trading services than for the rate fund services. The trade aspect demands that information shall be available to enable the management to take speedy action to adjust prices if losses are occurring or are likely to occur. Further, a loss or a potential loss must be located, as unprofitable activities may otherwise be hidden by those showing a profit. For example, a monthly trading account for a civic restaurants undertaking may show an aggregate profit without revealing that (1) a particular restaurant is losing money, or (2) a particular type of meal—breakfasts, for instance—is unprofitable. Detailed costing information enables the management to consider measures for improving the financial position by closing down a restaurant which has no future, or by opening some or all of the restaurants at lunch time instead of serving breakfasts. Such points are most important in this particular service because of the financial conditions we have already noted. Similarly, in transport undertakings information is needed for each tram or bus route so that the facilities provided can be adjusted to the demand, and losses on particular routes eliminated or at any rate reduced. Transport undertakings also need detailed information as to the running cost of each vehicle so that vehicles

can be withdrawn from service when the records show that they ought to be replaced, and so that the costs of the various vehicles, or of different types of construction, can be compared.

A further aspect of costing in gas, electricity and water undertakings, with only the last of which, of course, local authorities are now concerned, except as consumers, is the need for adequate knowledge upon which to base the prices charged to various classes of consumers or for different purposes. This is a question we shall consider later when we discuss tariffs and prices. Many more examples of the need for costing in the trading services could be quoted, but the reader should be able to visualise the kind of information required by the management from the examples already given. The costing methods employed and the various cost units adopted would be more appropriately dealt with in a work on accountancy or costing than in this volume.

One further important point should be noted under the present heading—a proper charge ought to be made to each trading account for the services rendered by other departments of the authority, such as town clerk's and finance; for the rent of premises occupied wholly or partially for purposes of the undertaking; and for other general administration expenses (or, as they are sometimes called, 'Central establishment charges'). The Accounts Regulations for civic restaurants stress this point. It is sometimes argued, particularly from the trading undertaking side, that what should be charged is the *additional* cost beyond what would be incurred for the general services of an authority, i.e. beyond what would have to be met in any case if the trading department did not exist. A good example is the maintenance cost of the town hall or council offices. It may be claimed that the parts occupied by the council chamber, committee rooms and town clerk's and finance departments, etc., should be solely a rate fund charge. Such arguments are, however, thought to be untenable. An absolutely accurate allocation is impossible, but an attempt at a fair allocation ought to be made, so that the accounts of the different services show the true cost, as far as practicable. Further, the income tax authorities will accept as a trading expense in

calculating profits or losses a reasonable charge for general administration expenses which has been actually made to the undertaking.

Reserve and Renewals Funds

We saw in the previous chapter that the normal process of financing capital expenditure followed by local authorities involves the writing-off of the assets by contributions from revenue each year, the whole amount being provided within the estimated life of the asset as determined by the loan sanctioning authority. If the actual life of an asset proves to be the same as the period of the loan sanction, the asset and the corresponding debt will be eliminated from the authority's accounts, and if replacement is necessary a fresh loan sanction may be obtained and the whole process repeated. This coincidence of actual and estimated lives may obtain in exceptional cases, and is most likely to arise with short-lived assets such as omnibuses, which become unserviceable and have to be scrapped. But, usually, when the final instalment of debt has been repaid the asset is still in sound working order and giving good service because it has been maintained in that state by repairs and renewal of parts charged to revenue throughout its life. Thus, buildings are kept in sound order by repairs to the fabric; sections of water mains and pipes are replaced when necessary; and sections of tram track are continually removed and replaced by new track. This part renewal of assets, met as ordinary revenue expenditure of the trading service, is essential to the continuous and satisfactory functioning of the undertaking.

We have the healthy financial position, therefore, that not only is the capital debt of a trading service being liquidated, but the plant and other works are kept in good order and will probably still be giving effective service when the debt is wholly repaid. The question may then be posed—what need is there for a reserve or renewals fund? Before proceeding to consider the answer to this question, we may note that a renewals fund is a reserve for the specific purpose of meeting the cost of renewing assets, whilst

other reserves may be for general or specific purposes, of which the renewal of the assets may be one. For the present purpose it will suffice if we refer to reserve and renewals funds without regard to strict accounting terminology. Modern provisions in local Acts relating to the establishment of reserve funds usually specify that they may be used (1) to meet any deficiency in income, (2) to meet any extraordinary claim or demand arising at any time, (3) for the renewal, extension or improvement of the undertaking, or (4) otherwise for the benefit of the undertaking. The legal power to set aside sums in a separate renewals fund in the absence of specific authority contained in a local Act is at least doubtful. An auditor is unlikely, however, to raise objections to a reasonable provision being made, particularly if the fund could be regarded as a section of a reserve fund established with full legal authority which may be applied to a purpose such as (3) above.

The answer to our question may now be suggested. So far as the renewal of assets is concerned there is really no need for a reserve in that the assets are maintained in working order and the money required for complete renewal can be borrowed when necessary; but it is sound financial practice to set aside sums for the renewal of assets purchased out of revenue in the first place, so that each year bears a proper charge for depreciation, as we saw when considering the valuation and depreciation of capital assets in the previous chapter. Another object of the renewals fund is the equalisation of the cost of renewals charged against annual revenues. For example, the expenditure on renewing tram track may vary from year to year, but if the average expenditure is calculated and an amount set aside each year for the purpose of equalising the charge, heavy expenditure in one year will not impose an undue burden on the revenue account and the trading results will be more uniform. The other advantages of a reserve fund proper are implicit in the purposes stated above. Regularly recurring items of capital expenditure can be met without recourse to loans with a consequent saving of interest charges, and if a deficit on the undertaking arises in any year it may be possible to meet it from the reserve. A reserve is particularly

useful in times of rising prices such as we have experienced since the second world war, as it may keep an undertaking's finances in order pending a revision of charges for the service provided.

Local Act provisions relating to the establishment of these funds usually fix a maximum beyond which the fund shall not be allowed to accumulate, and this maximum is frequently a proportion of the aggregate capital expenditure on the undertaking; for example, 10 per cent. This method might be taken to imply an emphasis on the renewal or extension of the assets rather than on the other purposes of a reserve fund, but it is more probably adopted from the viewpoint that the volume of the capital expenditure can be regarded as a fair measure of the size of the undertaking. It is not necessarily a good guide to the prospective requirements of an undertaking in regard to deficits, as there is considerable variation in the ratio of revenue costs to capital expenditure as between one type of undertaking and another.

Transfer of Profits and Losses to Rate Fund

Whilst some local authorities may have inaugurated trading departments with a profit motive, the fear of monopolies in private hands and the desire to protect the interests of consumers were without doubt the main reasons for the growth of local authority gas, water, transport and electricity undertakings. That being so, it may be argued with some logic that the protection of the consumers' interests by a public body involves the provision of the service at a price as little above cost as possible, no transfers of profits in aid of local rates being made. In some cases, of course, the ratepayer and the consumer is the same person, but many water and transport undertakings provide a service outside the area of the local authority and people from outside eat in a town's civic restaurants and buy in its markets; and the amount a firm has to pay for water, for example, may be much more important than any reduction it may obtain as a ratepayer from a contribution in aid of rates from a water undertaking. For the purpose of a discussion upon the wisdom or propriety of appropriating trading profits in aid of rates, therefore, the ratepayer and the

consumer or user of the service ought not to be regarded as one and the same person.

The usual arguments in favour of a contribution in aid of rates are—

(1) The ratepayers of the authority have to accept financial responsibility for the establishment of the undertaking; they may be called upon to meet deficiencies in the early years while the undertaking is being built up, and they will have to foot the bill in the event of failure.

(2) The capital required is obtained upon the ratepayers' credit and the rate of interest is, therefore, lower than would be required if the undertaking itself were the lender's only security. The measure of this difference in credit was indicated in the Electricity Supply Act of 1926, which, subject to certain conditions, authorised transfers of electricity profits in aid of rates up to a maximum of 1½ per cent of the outstanding debt upon the undertaking.

(3) The national fiscal system is based upon a mixture of direct and indirect taxation. The defects of the rating system, which is the form of direct taxation for local government purposes, render it desirable that some of the burden should be borne indirectly through the charges for trading services.

(4) Particularly in regard to points (1) and (2) above, non-residents should be charged prices which will yield a surplus to the proprietors of an undertaking, i.e. the ratepayers. Higher charges are frequently fixed for areas outside the authority concerned, or for non-residents using facilities (for example, cemeteries) within the authority's boundaries. Holiday resorts are naturally not averse to making profits on their trading activities and using them to assist the rate fund, which may be called upon to provide non-trading amenities on a much larger scale than other towns. Similar considerations would apply to an undertaking such as the Doncaster racecourse, which is owned by the local authority.

(5) There may be circumstances in which the fixing of fair charges produces a surplus and the charges ought not to be reduced. This argument is sometimes used, for example, in relation to the rents of market shops, on the ground that they should not be less than normal shop rents.

It cannot be denied that there is some force in these contentions but modern opinion in general tends towards the view that the first essential is the financial stability of the undertaking, which ought not to be imperilled by indiscriminate transfers of profits in aid of rates. Only after adequate reserves and working balances have been provided and the undertaking can be regarded as in a sound financial condition should attention be given to the application of a surplus either in reduction of charges or the relief of rates. It should also be borne in mind that heavy income tax—and sometimes profits tax—charges will be payable on any taxable surplus. Rising prices and wage rates since the second world war have considerably restricted the scope for rate aid—the more usual question has been that of increasing trading charges in order to avoid deficits. As we have noted, many authorities include the accounts relating to their markets and cemeteries in the rate fund with the result that surpluses or deficits are automatically used in aid of or charged against the rates. Whatever an authority's attitude may be towards the whole question of utilising trading profits in aid of rates, it seems better to make an open contribution than to give a disguised subsidy in the form of preferential charges to rate fund departments, such as for the transport of employees on the public services.

The 'Local Government Financial Statistics' published for the year 1947–48 show the scale of transfers between trading and rate accounts to be as follows:—

	Transfers in aid of rates	Rate fund contributions towards deficiencies
	£	£
Water Supply	180,000	1,884,000
Passenger Transport	1,066,000	102,000
Cemeteries	3,000	1,491,000
Harbours, Docks, etc.	49,000	259,000
Civic Restaurants	43,000	56,000
Others (including Ferries and Markets)	604,000	491,000

Water supply, being regarded to some extent as a health service, is in many cases regularly assisted from the rates, and cemetery undertakings are not often self-supporting. The degree of assistance to the rates by the passenger transport undertakings in 1947–48 was no doubt influenced by the threat of nationalisation, some authorities preferring to utilise surpluses and reserve funds in this way rather than face the possibility of having to hand them over to a nationalised body.

In general, committees responsible for the administration of trading services develop a pride in the undertaking which induces a keen desire to place it in a strong financial position whilst providing a good service at as low a cost as possible. There is usually little desire on the part of these committees either to seek assistance from, or to help, the rates.

Tariffs and Charges

The cost of an article or service is the basis of the price fixation policy in any form of trading, commercial or otherwise. As we have seen in the previous section, local authorities as a rule endeavour to fix charges as near to cost as possible, being naturally less concerned with the profit motive than the proprietors of a business. In the ascertainment of cost it is important to distinguish fixed costs from those which vary in proportion to the demand for a commodity or service. Thus, in a passenger transport undertaking the fixed costs relating to headquarters, garages and depots, rolling stock, tram track and overhead lines form a high proportion of the total costs, the cost of petrol for omnibuses and electricity for trams, and other variable costs, being comparatively small. In the case of a water undertaking, the cost may be regarded almost entirely as fixed in that any additional consumption of water drawn from the existing mains and services will add little to the undertaking's expenditure. The position is very different in civic restaurants, where purchases of provisions represent approximately 40 to 50 per cent of the total costs, and the quantities required vary directly with the number of meals to be served.

Some items of cost are neither wholly fixed nor wholly variable, in that they may not be affected by small changes in the demand for a service but cannot be ignored if major alterations in demand occur. The kitchen staff of a restaurant may be taken as an example of such items. The restaurant, as organised, may be capable of dealing with, say, 400 lunches per day and the same staff will be needed for any number of lunches served around this average, but if the average rose to, say, 600 per day, quite clearly it might be necessary to increase the staff and the expenditure on wages. This aspect of cost should also be considered in relation to the units of an undertaking as distinct from the undertaking as a whole. Thus, the supply of trams or buses on a route can be adjusted to the estimated requirements during any particular period of the day, but once a tram or bus is *en route* the cost of running it is scarcely affected by the number of passengers.

These questions of fixed and variable costs are important considerations in deciding upon the basis for charges. In electricity and gas undertakings, the tariffs are frequently very complicated owing to the wide variety of the types of demand for the services, there being different cost and other considerations for domestic, industrial, public lighting and other supplies. With electricity, the making of a fixed quarterly charge for domestic premises, based upon the rateable value of the property or the number of rooms, arose from recognition of the fact that fixed costs should be covered irrespective of the number of units of electricity consumed. In a similar manner, charges per therm for gas are usually reduced as the consumption rises, the higher price for a small amount of gas used representing a contribution towards the fixed costs. There is undoubtedly a greater need and a greater opportunity for a scientific approach to this subject in the case of gas and electricity, because of the elements of cost involved, than for the trading services still left with local authorities. Nevertheless, the cost information must be available for all services if mistakes are to be avoided. A transport department should know how much to charge for the private hire of two single deck buses for a specified journey and what difference it

would make if a double decker ran instead; what the *extra* cost would be to open a proposed new route and how much more it would cost to run a half-hourly service than an hourly one. The water department must be able to reach a decision on the amount which should be charged for a bulk supply of water to a neighbouring authority, or for a metered supply to a large new industrial concern. The civic restaurants manager should know what price to quote for a private dinner for 100 people, bearing in mind that he must cover the additional costs for staff overtime, etc., but that some of his costs will not be increased in any way—usually he will have to quote prices for two or three different menus. He must also bear in mind not only the additional cost to his department but what his competitors are likely to quote.

The nature of the trading service and the cost construction largely govern the method or basis of charge. Markets departments charge rents for shops based possibly upon local rent levels rather than costs; tolls and stallages based upon the space occupied; tolls computed per head of livestock passing through abattoirs; and ruling commercial prices for by-products such as fertilisers obtained from abattoirs. Cemetery and crematorium charges are based mainly upon costs—the cost of land, maintaining graves, providing urns, etc.—even though the service as a whole is usually provided at something less than cost. Transport charges are usually calculated on a mileage cost basis, but in order to avoid a multiplicity of charges which would create almost insuperable difficulties for the conductors and all concerned, appropriate fare stages are fixed. Special fares for workmen, children, blind persons and others may then be based upon the standard charges. The basis of charging for water recognises that for many purposes, chiefly domestic, the service is essential to public health, and that the cost is comparatively low. Expenditure on meters to measure domestic supplies could scarcely be justified and the charge, therefore, is usually a fixed annual one based upon the rateable value of the premises, the quantity of water consumed being ignored except to the extent that there are special charges for extra baths, garages, hose pipes and other equipment. The supply

of water to premises with a large consumption is usually measured by meter and charged per thousand gallons upon a cost basis. The fixed cost element we noted in the charges for gas and electricity is frequently present to a very limited extent in those for water, the price per thousand gallons for large consumers being reduced for supplies beyond a certain quantity, and the rateable value scale for domestic premises providing for a reducing percentage to be charged as the rateable value increases. There is an infinite variety of fixed charges for all kinds of trades, equipment and premises in the case of water supplies, but the general principle applied appears to represent an attempt to estimate the probable consumption and then fix a charge upon a cost basis. So far as gas and electricity undertakings are concerned the cost of meters in relation to the total costs is not prohibitive and all supplies can, therefore, be metered. Civic restaurants charges follow the normal basis adopted in the catering trade but one exceptional consideration should be noted. The main wartime function of these restaurants was the supply of a cooked mid-day meal at a low price and in most cases this is still regarded as the primary purpose. The price fixation policy, therefore, tends to attempt to obtain 'what the traffic will bear'—that is, as high a price as possible—for what are regarded as the less essential activities, in order to provide a surplus which will enable the mid-day meal to be supplied as cheaply as possible.

The charges which may be made for local authority trading services are usually governed by local Acts and Orders, with the result that alterations need the consent of Parliament or a government department. The service is usually a monopoly and price control is for that reason required in the interests of the community. This control may be influenced by central government policy in a manner which will prevent the placing of an undertaking in a strong financial position. For example, in the face of rising costs, it has been very difficult for transport authorities to obtain increases of fares beyond what is needed solely to avoid deficits. As a result of this policy, dictated by 'cost of living' considerations, municipal transport undertakings which formerly

had adequate reserves and were also able to renew their fleets of vehicles out of annual revenues now find it necessary to borrow money for all but the smallest items of capital expenditure. The financial difficulties are, therefore, to a great extent being transferred to the future.

Civic restaurants constitute a notable exception to governmental control of trading charges. They are highly competitive and therefore have complete freedom.

Extension of Local Authority Trading

Apart from civic restaurants, local authority trading is mainly of the public utility type and it is difficult to envisage any considerable extension of powers which would not involve the authorities in competitive trading. There are, however, two possible fields to which brief attention may be drawn.

Under the Local Government Act of 1948 local authorities, other than county councils and parish councils, have acquired wide powers to provide or arrange for the provision of entertainments. The powers extend to the following matters:—

(*a*) The provision of an entertainment of any nature or of facilities for dancing.
(*b*) The provision of a theatre, concert hall, dance hall or other premises suitable for the giving of entertainments or the holding of dances.
(*c*) The maintenance of a band or orchestra.
(*d*) Any incidental purpose, including the provision of refreshments or programmes and the advertising of entertainments and dances.

Charges may be made for admission to any entertainment or dance, or for refreshments and programmes provided, and the net expenditure in any year, after deducting receipts, must not exceed a rate of 6*d.* in the £. In applying this limit, expenditure on entertainments provided under powers contained in any other Act must be taken into account. County councils and parish councils have certain restricted powers to use their premises for

entertainments. Clearly, it would be possible for the exercise by local authorities of powers under the 1948 Act to become competitive; in fact, the powers are so wide that there seems nothing to prevent the operation of a cinema or theatre on an ordinary commercial basis, but no doubt most authorities will stress the cultural side of entertainment and their activities are not likely to become profitable. Nevertheless, these powers are very useful and may be of particular assistance in bringing good orchestral concerts within the reach of everyone's pocket.

The second possibility lies in the provision of district heating facilities, for which a few authorities have already obtained powers in local Acts. The basic idea in this case is that it is uneconomic for each separate house or other property to be using fuel to provide hot water and space heating, and that money and fuel could be saved by the large scale supply of hot water from a distributing system operated from one or more heat stations. Local authorities are clearly in a better position than anyone else to undertake such a supply for the reasons that—

(1) large quantities of combustible material are continually coming into their hands in the course of refuse collection;
(2) they are erecting so many dwellings which have in any case to be provided with heating facilities of some kind; and
(3) it is necessary to grant powers relating to the breaking up of highways in order to lay the mains and services required.

The local Act powers which have been granted include the supply or hire of radiators, pipes and other apparatus in connection with the undertaking; the sale of electricity generated by the heat station to the British Electricity Authority or the Area Electricity Board; and authority as to the making of scales of charges, the establishment of a reserve fund, and other financial matters. The capital cost of an extensive scheme would be extremely heavy and a local authority would obviously need the assurance of a satisfactory demand for the service before embarking upon such a project.

Housing

Two world wars have hastened the development of the Housing service, which prior to 1919, was a comparatively insignificant aspect of local government. There was a Housing Act passed in 1890 under which some authorities had acted, but it was not until after 1918 that local authorities really began to take the place of private enterprise in the erection of houses to let. There was a marked similarity in the circumstances existing in 1918 and 1945. In each case there had been a suspension of house building for several years and costs had risen to such an extent that it would have been almost impossible for houses to be erected by private builders and let at economic rents within the means of the occupants. Hence the need for action by the local authorities with the aid of subsidies from the Government. In one respect, however, the position in 1945 differed greatly from that in 1918. Local authorities had had 20 years' experience of house-building and were usually in possession of land and plans for schemes postponed in 1939, with the result that they were able to get into their stride much more quickly than after the first world war.

The housing subsidies granted by the 1919 and subsequent Acts have taken various forms to meet changing circumstances and needs, but they have generally been based upon the principle that contributions towards the annual costs should be made by both taxpayers and ratepayers, those from the rates being the smaller of the two. At the time of writing, the annual government grant under the Housing Act of 1946 is £16 10*s.* for each house erected, the local authority's contribution being one-third of the government's, i.e. £5 10*s.* This total subsidy of £22 a year is equal to 8*s.* 5*d.* per week and is granted for a period of 60 years, by which time the local authority will have repaid the loan raised to finance the erection of the houses. Various types of houses other than the traditional brick-built type have been erected since 1945 in an endeavour to overcome the shortage of building materials and speed up the operations, and towards these the government has given a capital grant additional to the yearly subsidy, roughly estimated to amount to the difference in cost

compared with the traditional house. Readers will be familiar with the attempt to relieve the immediate housing shortage at the end of the second world war by the erection of prefabricated bungalows with an estimated life of ten years. The financial position regarding these bungalows is unique in local authority housing, in that they were supplied and erected at the cost of the Exchequer. Local authorities provided the sites and road and sewer works, and are responsible for managing the bungalows. In normal cases, the authority is required to pay £23 10*s.* a year for each bungalow, which represents the difference between a notional rent of 10*s.* a week (£26 a year) and the estimated cost of repairs and management (£6 10*s.* a year), plus an annual contribution by the authority of £4 for ten years towards the cost of the bungalow. The payment of £23 10*s.* may be reduced where the site costs borne by the authority are heavy, and the total yearly cost to an authority is not normally to exceed £8 per bungalow.

The basis of housing finance can be most simply and speedily conveyed by an exemplification relating to a single house. Assuming (i) a total capital cost of £1,500, which might be composed of £1,300 for the house and £200 for the site, roads, sewers and other costs, and (ii) a sanction to borrow the whole cost for a period of 60 years, the calculations could proceed as follows:—

Expenditure		£
Annual loan charges (for interest on and repayment of loan)		54
Contribution to Repairs Account		10
Supervision and management		2
		66
Income		
Government subsidy	16 10 0	
Contribution from rates	5 10 0	
		22
Balance required (equivalent to 16*s.* 11*d.* per week)		£44

The amount of the loan charges will depend upon the rate of interest and a rate of 3 per cent has been assumed. An increase of 1 per cent would add £12 to the loan charges, which would have to be met by additional subsidies or a higher rent. Local authorities are required to set up a repairs account to which yearly contributions are made and to which the actual expenditure is charged. Repairs are naturally light during the early years of the life of a house and heavy in the later years, and the object of the repairs account is to equalise the charge and build up a fund by investing surplus balances from the early years, when the actual costs ought to be lower than the contributions to the account. The minimum amount of the yearly contribution is £4 per house, but most authorities have found it necessary to provide a much higher figure and £10 has been assumed in the calculation. When making comparisons between one authority and another regarding housing repairs, it is important to bear in mind that some authorities, particularly in the Midlands and the South, redecorate the interior of their houses instead of leaving this to the tenants. The costs of supervision and management of housing estates, of which rent collection forms the main element, vary considerably as between different authorities, but £2–£3 per house per annum is probably a fair average.

The government subsidy of £16 10*s*. per annum is the normal amount for an ordinary house but higher subsidies are payable for houses provided for the agricultural population, flats on expensive sites and, at the responsible Minister's discretion, houses provided in areas with a low rent-paying capacity. Over the whole period of 60 years, the subsidies granted out of the taxes and the rates for a normal house are equivalent to a capital sum of £590, and in the case of a flat qualifying for higher grant, the corresponding figure would be £1,025 or more, according to the site cost. These sums will indicate the tremendous burden imposed by the high building costs in the years following the second world war. Generally, the contribution from the rate fund on these houses and flats is one-third of the government subsidy, but there is nothing to prevent an authority contributing more in order to keep rents at a lower level.

The income and expenditure relating to the subsidised houses is included in a statutory Housing Revenue Account, to which the contributions from the general rate fund are carried. If there is a deficit on the Housing Revenue Account in any year, the local authority must make an additional contribution from the rate fund to balance the Account. In view of the subsidies paid, the government has a financial interest in the Account and there are statutory provisions as to the disposal of any surplus which may arise. Any net surplus at the end of every fifth year after 31st March, 1945, may, with the Minister's consent, be carried forward to the next year or transferred to the repairs account, but if not so dealt with it is to be returned to the National Exchequer and the rate fund in the proportions in which they have contributed during the five year period. In *any* year in which a surplus arises, however, the rate fund may be recouped for any additional contributions it has made to meet deficiencies in the previous four years.

In addition to the charge to the general rate fund for the contributions to the statutory Housing Revenue Account, there are other types of housing expenditure, such as subsidies to builders and the cost of slum clearance schemes. Transactions relating to requisitioned houses and squatters' camps do not usually result in any expense falling upon the responsible local authority, as the government bear any loss arising from an excess of approved expenditure over the rents received. Advances may be made by housing authorities to private individuals to enable them to purchase or finance the erection of houses, the procedure being similar to that obtaining when a loan is made by a building society. The authority itself borrows the money required to enable it to made the advances, the loan charges being recouped by the interest and instalments of principal paid by the mortgagors. In order to cover its administration costs, the authority is permitted to charge interest at a slightly higher rate than that at which it borrows and has power to recover from a defaulting mortgagor by sale of the house, so that there is seldom any material burden upon the rate fund from this activity.

This outline of housing finance is of necessity somewhat sketchy, and local authorities have much wider powers than those covering the provision of new houses and the making of advances to house purchasers. Under the Housing Act of 1949, for example, they are enabled to provide meals and refreshments and laundry services for, and to sell furniture to, the occupants of their houses. Such services are intended to be self-supporting and no government subsidy will be paid towards any deficiencies. This Act also makes it possible for an authority to assist owners of existing houses by making grants towards the cost of improving their properties, and provides for exchequer contributions towards the authority's expenditure. However, the main function of the housing authorities is to build houses for letting and the major financial points have been outlined in this brief survey.

CHAPTER IX

The Finance Department

ALTHOUGH we have previously considered the place of the finance department and the chief financial officer in the scheme of expenditure and income control, it seems desirable that a more detailed survey should be undertaken of the financial administration and organisation normally found in local authorities. For this purpose we may assume that we are dealing with authorities of a size which justifies the establishment of a separate finance department—in effect, with all but the smallest units. Local government has grown to such an extent and its activities are now so complex that in order to achieve a satisfactory standard of administration the financial duties should be in the hands of specialist officers who are qualified to understand and advise on the financial aspect of the services controlled by the local councils. Even in those authorities which are so large that the employment of departmental accountants is desirable for certain services, it is essential for them to work in close co-operation with the finance department in order to ensure that the council's regulations are observed and all major matters discussed and agreed upon. In fact, in such authorities there is much to be said in favour of an accounting section of the finance department itself being attached to each of the larger executive departments for ease of administration, the members of the section being responsible to the chief financial officer although working in the executive department and in close touch with its officers. The main administrative danger to be guarded against is that of allowing executive departments to become 'watertight compartments' with a resultant diversity of procedure and systems, a weakening of control and a lack of co-ordination throughout the authority. It is suggested, therefore, that this subject should be approached with the hypothesis that centralisation of the financial and accounting duties is the ideal

method and then to consider only those departures which seem essential in relation to the size, area and other attributes of the particular authority. A technical advantage of centralising the financial work in one department is that the maximum benefit can be obtained from the use of modern mechanised methods which could not profitably be employed in the separate departments.

The government have recognised that there may sometimes be circumstances which warrant the appointment of a departmental accountant, but have expressed the view that the responsibility for supervising all accounts and records should rest upon one chief financial officer. The chief financial officer is not necessarily a person holding the statutory title of treasurer. Every county, borough, urban district and rural district must appoint a 'fit person' as treasurer, and this office cannot be held by the clerk to the authority. If the authority is too small to require two paid officers for the posts of clerk and treasurer, however, it may decide to appoint one person as clerk and chief financial officer, in which case the statutory title of treasurer will usually be bestowed upon the council's bank manager. At one time it was a fairly general practice to appoint the bank manager as the treasurer, even when there was a separate paid officer designated 'accountant' or 'chief financial officer', but this practice has been gradually diminishing, and for a considerable number of years the general tendency has been to appoint a paid financial officer as treasurer when a post has become vacant.

Statutory Position of Treasurer

The general duties imposed upon treasurers by statute are surprisingly few. There is an interesting provision in the Income Tax Act of 1918 which makes the treasurer responsible for an authority's income tax returns and payment of the sums due, and entitles him to retain out of any of the authority's money coming into his hands sufficient to meet the tax liability. There are also certain duties imposed upon the authority itself or upon the person who keeps the accounts, which in practice devolve upon the treasurer, such as the preparation of an abstract of accounts,

the production of accounts and books to auditors, and the preparation of the financial statement for audit purposes. County and borough treasurers have an important duty relating to the cash transactions of their authorities, as all payments to and out of the county fund or general rate fund must be made to or by the treasurer. Acts of Parliament dealing with the administration of justice usually place duties relating to receiving cash and making payments upon the treasurers rather than the local authorities. Thus, under the Juries Act of 1949 the 'appropriate local treasurer' must pay the jurors their allowances for travelling, subsistence or loss of earnings upon sight of an order made out by the court officer, and there are legal provisions relating to the duty of county and county borough treasurers to pay the costs in proceedings at assizes and courts of quarter sessions, and to attend court for this purpose.

As we saw in Chapter III when considering the expenditure of local authorities, payments out of the county fund or the general rate fund of a borough are only to be made by the treasurer upon the authority of an order of the council. In this connection a point arises which is of great importance to every officer holding the statutory position of treasurer to these authorities. The much quoted case of *Attorney-General* v. *De Winton* decided that the treasurer is not a mere servant of the council, but owes a duty and stands in a fiduciary relationship to the ratepayers, and that he is personally liable for making an illegal payment even though ordered to do so by his council. The legal position of the treasurer is somewhat different in county districts other than boroughs, but in practice, of course, the treasurers of all authorities must avoid the making of illegal payments. The awkward position in which a treasurer may be placed will be evident when it is pointed out that he holds his office at the pleasure of the council and apparently could be dismissed for refusing to obey their instructions. Although no council would be likely to act so unwisely as to dismiss an officer for refusing to make an illegal payment, nevertheless the situation is one which might produce friction in the absence of good sense and goodwill on either side, and there

is a good case for the suggestion that treasurers, like certain other officers, should be dismissible only on grounds approved by and with the consent of the Minister. Clearly, no bank manager can examine all expenditure to see if it is valid, except possibly in the smallest of authorities, so that a bank manager-treasurer will usually have to accept the risk of making illegal payments.

Duties of the Chief Financial Officer

The duties of a chief finance officer and his staff fall into fairly well defined classes, and the question of whether or not he holds the statutory title of treasurer makes very little difference in practice. Variations arise, of course, as between one authority and another because of differences in the functions of the authorities. Counties are not responsible for the housing service, trading undertakings or the levying of rates, and their finance officers are not concerned with these matters; on the other hand, they are the only ones whose duties include the preparation and issue of precepts upon the rating authorities. Even in similar authorities the functions of the finance department may vary considerably due to local circumstances governing the allocation of duties to departments. The issue of road fund licences, for example, may be under the control of the clerk, the chief constable, the chief financial officer or some other departmental head; the finance department staff may collect housing rents or this duty may be performed by a housing manager's department; all the costing work may be centralised in the finance department in one authority, whilst each department may keep its own cost accounts in another. The size of an authority is an important factor in determining many matters, such as the extent to which the executive departments are responsible for the collection and banking of their own income. In order to cover the broad principles, however, we shall ignore local variations and consider the many functions for which a chief finance officer may find himself responsible. They may be classified as follows:—

(1) Acting as receiver and paymaster.

(2) Keeping the accounts and furnishing financial information.
(3) Controlling the finances.
(4) Advising committees and the council on the financial aspect of their activities.
(5) Miscellaneous.

Each of these functions will now be considered in more detail in order to indicate its scope.

Receipts and Payments

We discussed the main types of income and the procedure relating to payments in Chapter III. In his capacity as receiver, a finance officer may be concerned with three classes of income, namely (1) cash receipts, (2) income for which a charge is initiated by an executive department but collected by the finance department, such as for work done by a highways or cleansing department, and (3) income from rates, rents, government grants and other sources, which is the sole concern of the finance department. In regard to cash receipts, it is often necessary to authorise departments to bank their receipts direct, an obvious example being that of cash collected by passenger transport undertakings. For security purposes and in order to save unnecessary journeys, outlying establishments such as parks, baths and restaurants may also be allowed to pay into bank instead of to the finance department, night safes being used where appropriate. Owing to the wide area covered by county councils, local banking arrangements are an essential feature of their organisation. In regard to credit accounts, the finance department's duties extend to all action for recovery of the debts up to the time that court proceedings become necessary, when in most cases the debts are referred to the legal department. The recovery of rates constitutes an important exception in that in this case the finance department takes out summonses and deals with all subsequent legal proceedings. The centralisation of income collection in the finance department provides considerable scope for the use of addressing machines, cash registers, and accounting machines which

eliminate much routine manual work by preparing the invoice, the ledger account, and a summary of the invoices rendered, at one and the same time.

As paymaster, the finance officer is responsible not only for preparing and signing all cheques in payment of tradesmen's accounts and interest on stocks and mortgages, but for the payment of salaries, wages and pensions, whether by cheque, cash or other means. Ancillary duties usually include the preparation of employees' P.A.Y.E. income tax records; the stamping of insurance cards; and all matters relating to superannuation and pension schemes.

Accountancy

In his capacity as chief accountant, the finance officer is responsible not only for ensuring that the various revenue accounts and balance sheets are properly drawn up, but that the primary records in the executive departments are satisfactory, and the whole accounting system such that all amounts due to and payable by the council are properly recorded and adequate records maintained both for cash and stocks of materials. Allied to the duty of keeping the accounts is that of furnishing financial information of all kinds to committees and other departments. The information may be supplied as and when called for or may take the form of regular periodical statements, such as of the amount of rates and other revenues collected, expenditure to date compared with budgetary provision, trading departments' income and expenditure accounts, the cost of sickness allowances to employees, etc.

The work of the finance officer regarding the capital transactions of an authority covers both the accounting for capital expenditure to ensure that it is in accordance with contracts and loan sanctions and is properly recorded, and the making of arrangements for financing the expenditure. He is responsible for the raising, renewal and repayment of loans and for handling all investments, and may also be called upon to act as the registrar for stock issues and mortgages.

Other important features of the accountancy duties are the

preparation of statistical statements and claims for grant for submission to government departments, whose requirements in this connection we noted in Chapter V, and the making of returns and computations of an authority's tax liability on trading and other accounts. All negotiations and settlements of tax matters are normally effected between the chief financial officer and H.M. Inspector of Taxes.

Financial Control

The main duties of the finance officer in regard to the control of an authority's finances are the preparation and enforcement of the annual budget, and the internal audit of the income and expenditure of all departments. These aspects were discussed at some length in Chapters IV and V. Constant vigilance is needed on the part of the finance department to ensure that the budget is adhered to and the council's regulations regarding supplementary votes and expenditure on new schemes complied with. The internal audit staff are required to ensure that all cash and stores are properly accounted for, all sums due to the council are recorded, all payments are in order, sound accounting systems are employed in all departments, the council's regulations are observed and that any irregularities which may be discovered are reported upon.

Financial Advice

In some respects the most important duty of a chief financial officer is that of advising departments and committees on the financial aspect of their activities. Close co-operation with the clerk's and other departments is needed, and the finance department must be in a position to afford information and advice at all times. The committees of most councils are accustomed to the chief financial officer or his representative being present at their meetings in order that on any project or matter before them they may be advised as to the financial implications, whether these relate to the committees' estimates and accounts, the method of financing a project, the government grant position, or otherwise.

This advice should be available before decisions are reached, as it may be difficult to revise them subsequently if financial considerations make it advisable to do so.

It is impracticable to furnish an exhaustive list of the matters upon which a chief financial officer may be called upon to advise, but in addition to the everyday matters already mentioned, he must be prepared to report upon the financial effect of new legislation and statutory instruments affecting local authorities; financial clauses in parliamentary bills promoted by his local authority, whether relating to proposals for the extension of boundaries or to new powers which are sought; financial adjustments and agreements with other local authorities relating, for example, to boundary alterations, the joint use of institutions, schools, sewers, etc., and the services of fire brigades and ambulances; the revision of charges by trading services or of housing rents; and upon such matters as his authority's own standing orders and financial regulations and the transfer of functions between committees, in regard to which financial points frequently arise.

Miscellaneous

Among the miscellaneous duties which are sometimes allocated to the finance officer are:—

(1) The management of an insurance fund which is in part substitution for insurance with outside companies; and the negotiation of policies, premiums and claims with insurance companies.

(2) Acting for the local authority on all matters relating to the valuation of property for rating purposes. Such duties will include the discussion of assessments with the Inland Revenue Valuation Department; the making of recommendations as to proposals by the local authority for alterations of the valuation list and as to objections to and appeals against proposals made by other parties; and the keeping of the valuation list.

(3) The management of property and estates, including the registration of applicants for houses, the arrangement of lettings and the collection of rents.

(4) Establishment matters relating to the salary gradings of officers; the awards of joint industrial councils relating to manual employees; the superannuation position of employees; travelling and subsistence allowances; and conditions of service generally.

(5) The co-ordination of departmental purchases of stationery and other requirements, including arrangements for the adoption of common standards.

The nature and extent of the miscellaneous duties attached to a finance department depend largely upon the size of the authority concerned. For example, a large authority will probably employ a manager for its housing estates and may appoint an establishment officer to deal with the items in (4) above, whereas in a small authority the chief financial officer may find himself responsible for the supervision of a civic restaurant, the finances of which could not support the salary of a separate manager.

Organisation of Finance Department

In view of the complexity of local government in this country and the different types and sizes of local authorities, it would be surprising to find uniformity in the organisation of finance departments. Nevertheless, there are basic principles capable of selection, one of which is essential to adequate control of the finances, and a sound organisation can be founded upon those principles irrespective of the size and functions of the local authority concerned.

The two important basic principles are:—

(1) *Internal Check*

Internal check must not be confused with internal audit, although it is a matter to which every auditor must give attention. The object is to divorce the handling of cash from the book-

keeping so that it is made as difficult as possible for a member of the staff to cover up defalcations by manipulation of the accounts. Collusion between two or more members could, of course, take place, but the risks are considerably reduced if the duties of the staff are properly spread. Incoming mail should not be handled by the book-keeping staff, nor should remittances received be handed to cashiers until the officer opening the mail has rubber stamped the cheques, postal orders, etc., with a bank 'crossing' thus preventing the remittances being encashed. Rent or rate collectors should not be allowed to make entries in the tenants' or ratepayers' accounts in the ledgers. Officers passing invoices for payment by the authority, or compiling wages records and pay rolls, ought not to be concerned with the actual payment, whether by cash or cheque. These are a few of the obvious points to be covered by the office organisation; it is necessary to ensure that the system is secure in the first place and that unauthorised changes do not take place.

(2) *Division of Functions or Specialisation*

Whilst it is desirable that members of the staff should obtain a wide knowledge of the department by their individual duties being changed from time to time, good organisation requires that there shall be a suitable division of labour within a department. Thus, if several assistants are needed to cover accountancy and audit duties it is clearly advisable to effect a complete segregation of the audit work and place it in the hands of the requisite number of assistants, leaving the remainder to spend all their time on accountancy duties. Both sets of officers then become more expert and efficient in their work; absences owing to sickness and holidays can be more easily covered; and the training of new members is facilitated. Further, the danger of capable senior officers spending part of their time on routine or junior duties can be avoided. Such a division of functions does not prevent the interchange of duties at suitable intervals in order to keep the staff interested and alert. For similar reasons, the work relating to the receipt and banking of all revenues and the payment of accounts,

salaries and wages should be dealt with in one cashiers' section. In a very large department the scope for organisation on a functional basis is considerable, whilst in small departments it is obviously limited.

In most authorities, the organisation of duties on a functional basis implies that the work relating to all committees and services is dealt with by the appropriate section of the staff; for example, one accountancy section would prepare the accounts for all committees. Exceptionally, however, a particular committee or service in a large authority may be of a size which warrants some of the operations being organised on a functional basis within the service itself. Thus, a separate section of the finance department may deal only with the education service, specialisation taking place in relation to that service itself. When this type of organisation exists the need for adequate internal check may well lead to certain functions, such as the receipt of revenue, being divorced from the education finance section, and other duties, such as typing and the handling of outgoing mail, may also be more economically dealt with for the department as a whole. This type of organisation on a committee or service basis is unusual in an authority where all the financial work is centralised in the finance department, and is suitable only for the major services in a large authority.

Other principles of organisation relate to the recruitment and training of staff, the physical lay-out of the department, and the effective use of labour saving devices, mechanical or otherwise. So far as the staff are concerned, side by side with their practical training they are usually urged to study for professional accountancy examinations, particularly those of the Institute of Municipal Treasurers and Accountants, which caters specifically for the finance staffs in local government, the hospital service and the nationalised gas and electricity undertakings. In the lay-out of the department, unnecessary movement on the part of the staff should be eliminated by housing them all on one floor, if possible, and providing adequate means of inter-communication. Accommodation on the ground floor is usually allocated to the finance

department for the convenience of the public in paying rates and other charges. The large volume of transactions of a like nature is a notable feature of a finance department, examples of various activities being the collection of debtors' accounts for rates and other charges; the receipt of cash at the counter; the payment of creditors' accounts; and the collection of housing rents. There is, therefore, considerable scope for the segregation of routine duties which can be performed by junior clerical staff or female machine operators, thus freeing other officers for more responsible duties. Careful attention to all records and systems in finance departments produces many economies, as even a slight saving on a particular operation becomes worthwhile when the number of transactions is large. Another detail of organisation which repays careful study is the elimination of 'peak' periods by spreading the work wherever possible; thus, various payment dates may be arranged for periodical items of income, such as smallholdings and allotment rents, in order to avoid the whole of the accounts having to be prepared and despatched at one time. This arrangement also tends to provide an even flow of receipts to be dealt with by cashiers and of cash entries in the ledgers. On the same principle, the arrangement of different half-yearly payment dates for interest on stocks and mortgages has a beneficial effect upon the office organisation.

Bearing in mind the need for adequate internal check and the fact that the organisation of duties on a functional basis is the most suitable for all but the very large authorities, the main sectional organisation is usually on the following lines:—

(*a*) *Accountancy*

The duties of this section mainly comprise the analysis of income and expenditure and the compilation of revenue accounts and balance sheets; the preparation of rate estimates, the annual abstract of accounts, statistical returns and claims for government grants; dealing with income tax, loans and investments; preparing schedules of accounts for committees; and, where the work is performed in the finance department and not in the executive department, the cost accounting.

(*b*) *Audit*

The scope of this work varies in different authorities, but generally the section will verify all income and expenditure but will not examine the revenue accounts and balance sheets, which are certified by the authority's external auditors. Sometimes, in the smaller offices, the audit section is also responsible for statistical work.

(*c*) *Revenue or Income*

This section deals with the accounts of ratepayers and debtors for rents, home helps, removing refuse, street works and all other miscellaneous credit income. It takes the requisite action for the recovery of rates and co-operates with the legal department in action to enforce payment of other debts. Internal check is safeguarded by the separation of the book-keeping duties from those relating to the collection of cash by the counter cashiers or outdoor collectors.

(*d*) *Cash*

The receipt and banking of revenues is frequently undertaken by a cashier or cashiers attached to the income section, in which case the payment of creditors' accounts is probably a duty of the accountancy staff. In many authorities, however, the cashiers' section deals with both receipts and payments.

These constitute the four main divisions of a finance department, although many deviations are found in practice in regard to minor matters of organisation. In a small office, although not actually sectionalised, the work of typists and junior clerks dealing with outgoing mail and other routine office matters is probably supervised by the head of the accountancy section, whereas in the larger offices there may be a separate section for such officers under the control of a chief clerk or chief administrative assistant. In a larger office there may also be a sufficient volume of work to warrant separate sections for loans and investments, establishment duties (superannuation, salaries and wages) and statistics; in addition, sections may be sub-divided. The accountancy section,

for example, might be divided into three sub-sections—(1) general duties, (2) costing, and (3) machine accounting. County council finance departments are in general organised on the broad sectional basis we have noted, but a special feature of their administration is the need for the localisation of certain activities in outlying county areas. Thus, area collection offices will almost certainly be required for the convenience of debtors; but the general principle stands, and the records from such offices will be incorporated in those of the revenues or income section of the finance department. This is a problem which generally arises only in the largest *urban* areas, although collection offices are sometimes opened in smaller authorities for the convenience of tenants on housing estates situated some distance from the administrative centre. Another feature of county administration is the organisation of functions—for example, education and health services—on a divisional basis, which may lead to a decentralisation of the financial duties.

The work of the finance department is related to that of every other department of the local authority, and one of the main essentials is the production of accurate information for all committees and departments whenever it is required, and of reliable records of the state of individual ratepayers' and other debtors' accounts. The aim must be to inspire the utmost confidence in the minds of the members of the council, executive departments, government departments and the general public. If we regard a sound organisation as the foundation, therefore, it is very important that there shall be built upon it an efficient administration in the hands of suitably trained and competent officers. The local council is charged with the difficult task of ensuring that an adequate supply of suitable recruits is forthcoming in order that, once obtained, the continuation of a state of efficiency may be assured.

Inspection and Publication of Accounts

The statutory provisions relating to the inspection and publication of local authorities' accounts are contained in the Local

Government Act, 1933. This Act provides that accounts are to be made up to the 31st March in each year. The *treasurer* of a borough must *print* an abstract of those accounts which are not subject to district audit and this abstract may be inspected by any local government elector for the borough. Accounts subject to district audit are covered by audit regulations made under powers contained in the 1933 Act. These regulations provide that after completion of the government audit the *local authority* must prepare—not necessarily print—an abstract of the accounts and, within one month after receipt of the auditor's report, advertise in one or more of the local newspapers the completion of the audit, the deposit of the abstract in a specified office (usually the finance department) and the availability of the abstract for inspection by any local government elector. In addition, the books and all records and vouchers relating to accounts subject to government audit must be deposited in the offices of the local authority and be open to inspection for seven clear days before the audit commences; notice of the date of the audit must be advertised locally. The reader will observe that the regulations as to accounts audited by the district auditors are more numerous than those for accounts of boroughs which are not subject to this form of audit. It may perhaps be taken as a sign of the electors' confidence in the administration that their rights to inspect accounts are very rarely exercised.

Some comments on the contents of abstracts of accounts were necessarily made in Chapter V from the viewpoint of financial control, and we saw that whilst there is no prescription in the 1933 Act of the form of the abstract, in practice it normally contains a detailed statement of the financial transactions. The technical nature of the accounts and the mass of detail presented have led chief financial officers to exercise their ingenuity in an endeavour to find a simplified method of presentation which will furnish all the information normally required by members of the councils, interested bodies and ratepayers. The result has been that many authorities now publish a condensed statement of their accounts and financial statistics, frequently incorporating graphs

and diagrams which convey the information in pictorial form. These statements have several advantages over the detailed abstract. The main facts are easily found and can be set out in tabular form so that no special accountancy knowledge is required to understand them, and the cost is comparatively small, with the result that a much wider circulation is possible.

Published Statistics

The main financial statistics covering the whole field of local government are the 'Local Government Financial Statistics' collected and published by the Ministry of Local Government and Planning, which we have previously noted in various connections. In addition to the delay in publication, however, these statistics suffer from the further disadvantage that they do not contain sufficient detailed information relating to particular services to be of value to chief financial officers seeking comparative costs or to research workers or students of local government, nor do they show the costs for individual authorities. The lack of detailed information about local government finance is rapidly being overcome, however, as a result of the collection and publication by the Institute of Municipal Treasurers and Accountants and the County Treasurers' Society of annual statistics relating to various important services, those already available being related to the costs of education, police, fire brigades, welfare services and housing.

There are several useful returns published annually in regard to rates levied and rating statistics. The Government publish a yearly statement of rates and rateable values which gives information relating to every rating authority, with some very useful statistical comparisons and data. The publication of this return, however, is somewhat delayed owing to the time taken for the collection of the data. The Institute of Municipal Treasurers and Accountants publishes annual statements of rates to be levied and rateable values, containing the figures for all county boroughs and metropolitan boroughs, and for many of the smaller areas other than rural district councils. The Society of County Treasurers

also publishes returns of the rates to be levied by the district councils in each county. Both these returns differ from the Government's in that they are published in the year to which they relate and the rate to be levied for each service is shown. The Rural District Councils Association publishes a statement of rates levied by all rural district councils which meets the situation arising in these authorities owing to the fact that the statistics must relate not only to the general rate levied over the whole area, but to the special rates levied for particular parishes in the districts. The Institute of Municipal Treasurers and Accountants also publishes annual rate collection statistics.

Other government publications are the Ministry of Education report, which contains useful financial statistics relating to the education service, and the 'Costing Statistics—England and Wales' issued by the same Ministry, which contains information as to costs per pupil in primary and secondary schools. There is little in the way of published financial statistics for trading services other than the aggregate tables in the 'Local Government Financial Statistics'.

In regard to loan debt, the Public Works Loan Board's annual report usually contains information as to the volume of borrowing from the Board for various purposes by the local authorities, and the Institute of Municipal Treasurers and Accountants each year publishes a comprehensive return of the loan debt, analysed over certain services, for all counties, county boroughs and metropolitan boroughs, and for a large selection of non-county boroughs and urban districts.

Although this review of published statistics has necessarily been brief and the contents of the various returns have not been discussed in detail, the outline will perhaps be sufficient to indicate the scope of the information available to anyone interested.

CHAPTER X

Miscellaneous Financial Matters

THE preceding chapters have dealt in broad outline with the fundamental aspects of our local government financial system, but there are many features of special interest which fall outside the general survey. A few of these matters have been selected for review in this chapter.

Superannuation Funds

The various Acts of Parliament and government regulations relating to the superannuation rights of local government employees have grown to a state in which they almost rival the income tax Acts in their complexity. Each change in local government functions adds to the difficulties, because of the need to preserve the pension rights of employees affected, and legislation since the end of the second world war under which hospital, poor law, gas and electricity staffs have been transferred from the local authorities to the State or other bodies has heavily engaged the members of finance departments responsible for superannuation records. Readers will appreciate the complications which arise from a meticulous preservation of existing rights when it is pointed out that the introduction of higher contributions and State pensions under the national insurance scheme has produced two classes of local government officers for superannuation purposes—those who pay reduced contributions and receive correspondingly lower pensions, because of their contributions and benefits under the national scheme, and those who elected to continue paying full contributions to their local authorities in order to obtain their maximum entitlement from the authorities in addition to the State pension. An officer moving from one local authority to another carries with him his rights in this connection. The main Act administered by the local authorities is the Local

Government Superannuation Act of 1937, which established superannuation on a compulsory basis for all staffs other than teachers, police, firemen, certain poor law officers and mental hospital employees who were already catered for by other legislation, and manual employees, who are excluded from the operation of the Act unless a local authority passes a special resolution bringing them in. Before the 1937 Act was passed, many authorities were operating schemes under local Acts or under the Local Government and Other Officers' Superannuation Act of 1922, which was not a compulsory Act. Except for county districts with less than 100 employees to provide for, all authorities were authorised by the 1937 Act to establish and maintain a superannuation fund; many of them, of course, already possessed funds established under the 1922 Act or a local Act. The county districts not allowed to maintain their own funds are usually participants in the fund of the county council or members of a fund established under a combination scheme administered by a joint committee on behalf of several authorities.

The employees are required to contribute to the fund 6 per cent of their remuneration (including the value of emoluments such as uniforms, rent-free houses, etc.) but officers who were paying 5 per cent under the 1922 Act continue to pay at their old rate, and manual employees are also required to pay only 5 per cent. The local authority makes an 'equivalent contribution' to the fund, i.e. pays to the fund an amount equal to that contributed by the employees during the year, and must also pay into the fund each year an amount known as an 'equal annual charge' or 'deficiency contribution', which represents the amount required to keep the fund solvent. The initial charge had to be ascertained by an actuary at the inception of a fund under the 1937 Act, but if a fund already existed under the 1922 or a local Act, for which this charge had previously been calculated, the actuary had to certify any additional annual amount required as a result of additional employees being admitted to the fund under the 1937 Act. The initial charge is spread over a period not exceeding 40 years. The 1937 Act also provides that a fund shall be valued every

five years and that any deficiency disclosed must be met by further payments into the fund, which may be spread over a period approved by the Ministry of Local Government and Planning. Any surplus shown by the valuation may be disposed of in a manner agreed by the Ministry—probably by a reduction of the equal annual charge.

The need for payment of an equal annual charge to a superannuation fund arises from the fact that contributors are entitled to count for superannuation purposes all local government service after the age of 18 years, whether or not contributions have been paid under the Act. The fund must be enabled to meet its liability to pay pensions calculated upon periods of both contributing and non-contributing service, and the equal annual charge is computed by the actuary to provide for the non-contributing portion. The quinquennial valuation of the assets and liabilities of a fund is based upon such factors as the assumed rate of interest, past experience as to resignations and retirements, mortality tables giving the life-expectation of pensioners, and salary and wage levels. The test of solvency applied to a pension fund is that if at any time the fund is closed and no new members admitted, there should be sufficient assets and annual income to meet all liabilities until the last pensioner dies.

A contributor is entitled to a pension upon retirement if he has—

(1) become incapable of efficiently discharging his duties because of permanent ill-health or infirmity of mind or body and has completed 10 years' service.
(2) attained the age of 60 and completed at least 40 years' service, or
(3) attained the age of 65, which is the age for compulsory retirement, and has completed 10 years' service.

There is provision in the Act for female nurses, midwives and health visitors to retire on or after reaching the age of 55 subject to the completion of at least 30 years' service, and their compulsory retiring age is 60. Such officers serving at the time the 1937

Act came into operation had the right to elect that the retiring ages shown in (2) and (3) above should continue to apply to them. Pensions are based upon the average remuneration for the last five years of service, the entitlement being at the rate of $\frac{1}{60}$th for each year of contributing service and $\frac{1}{120}$th for each year of non-contributing service. The calculation proceeds as follows:—

(*a*)	Average annual remuneration for last five years of service, say . . .	£480
(*b*)	Contributing service . . .	20 years
(*c*)	Non-contributing service . . .	10 years
(*d*)	Pension per annum is:—	
	$\frac{20}{60} + \frac{10}{120}$ of £480	= £200

An employing authority has power to fix the fraction for each year of non-contributing service at any figure between $\frac{1}{120}$th and $\frac{1}{60}$th but the cost of any such increase in the allowance falls upon the account out of which the salary or wage was paid and not on the superannuation fund. Thus, in the above illustration, the pension could be increased to a maximum of $\frac{30}{60}$ths of £480, i.e. £240, of which £200 would be paid from the superannuation fund and £40 from some other account. The maximum pension payable under the 1937 Act is two-thirds of average yearly remuneration. Employees who resign before becoming entitled to a pension have their contributions refunded to them—in certain circumstances with compound interest at 3 per cent.

In order to facilitate the movement of officers engaged in the medical services, the superannuation regulations introduced by the Ministry of Health for hospital staffs, upon the transfer of hospitals from their former owners to the State, were made applicable to local authority medical staff at the option of the employees. Some local authorities, therefore, now have within the one fund two substantially different schemes operating. The main points of difference between the National Health Service scheme and the 1937 Act provisions are that under the former, (1) the annual pension is a lower fraction of the average remunera-

tion (based upon the last three years of service)—$\frac{1}{80}$th for each year of contributing service and $\frac{1}{160}$th for non-contributing service—but there is paid in addition a lump sum retirement allowance, (2) the maximum pension is one-half of the average remuneration plus a lump sum equal to one and a half times the average remuneration, and (3) there is provision for payment of a pension to the spouse upon the death of an employee after 10 years' service, whereas under the 1937 Act a widow can be provided for only by an employee allocating part of his pension for this purpose at the time of his retirement.

The interchangeability of staffs between local authorities and other bodies is catered for from the superannuation point of view by a system of transfer values, which are paid out of or received by the several superannuation funds and are based upon the transferred employees' length of service and remuneration at the dates of the transfers. Arrangements of this kind now cover transfers between local authorities and almost all other forms of public employment. The conditions of employment in the civil service, local government, the teaching profession, the hospital service and nationalised services such as gas and electricity, are so similar that it seems unfortunate that it has not proved possible to establish a uniform superannuation code which would eliminate a great deal of the administrative work involved in the present arrangements.

The fund under the 1937 Act is the only one maintained by a local authority. Teachers are included in a national scheme administered by the Ministry of Education, whilst no funds are established for the pension schemes relating to police and firemen.

Insurances

It is most important to the finances of a local authority that adequate and skilled attention be paid to all questions of insurance. On the one hand, the multifarious activities of local authorities may render them liable for heavy damages or subject them to substantial losses, particularly from accidents or by fire; whilst, on the other hand, the expenditure on premiums must be kept

within reasonable limits. A balance must be struck between over-cautiousness and the taking of undue risks. A typical example of the choice to be made arises in connection with food-poisoning risks at civic restaurants. Clearly, the risk of damages is almost unlimited if the most pessimistic view is taken and the possibility of many deaths arising is visualised. A calamity of this kind, however, is most improbable if proper precautions are taken in the preparation and serving of meals, and there is no need to burden the finances of the undertaking with excessive insurance premiums. An intermediate course is desirable which will take into account the serious nature of the risk but avoid over-insurance. Apart altogether from the covering of risks by insurance, it cannot be stressed too strongly that every possible precaution should be taken in the ordinary conduct of a local authority's activities. As explained in the previous chapter, careful organisation will reduce the possibility of losses from defalcations; instructions to staff, routine inspection of heating arrangements and the patrolling of large buildings outside office hours will reduce fire risks; periodical boiler inspection is needed to avoid the risk of explosions; careful training of omnibus, ambulance, police and other motor vehicle drivers will reduce the risk of accidents; and care in such matters as the construction and repair of highways and the supervision of school playgrounds reduces the possibility of claims for injury or damage on the ground of negligence. We are, of course, considering these questions from the financial point of view and not in their humane aspect. Constant vigilance and care in every activity not only ensures that only reasonable insurance provision is needed but may also reduce the cost of insurance itself, in that a good claims experience enables insurance companies to quote lower terms.

Under the normal administrative procedure in local authorities, the duty of advising on insurance matters, effecting policies, making claims and keeping all records, is placed upon the chief financial officer. Executive departments are required to bring to the notice of the finance department all matters necessitating insurance action, such as the purchase or erection of property, the

acquisition or disposal of motor vehicles, school outings, and art exhibitions for which valuable pictures may be borrowed. The utmost co-operation is required to ensure the protection of the local authority's interests in every direction and at all times. In regard to the arrangement of policies, a reduction in premiums can often be obtained by entering into a long-term contract for a period of, say, five years, and a local authority is also usually treated as an agent of the insurance company and granted the normal 15 per cent commission.

Many local authorities have power under local Acts to establish their own insurance funds. Under these powers, some authorities operate only a fire insurance fund whilst others maintain a fund which also includes such risks as fidelity guarantee —covering losses from defalcations by employees; motor vehicle insurance; liability to third parties for injury or damage due to the negligence of the authority's employees; liability for accidents to employees; and miscellaneous items such as losses from burglary or theft. The usual procedure is for the departments concerned to be charged premiums not in excess of those which would have been paid to an insurance company, the amounts so charged being carried to the insurance fund, out of which any claims are met. Any surplus on the fund is invested either in the authority's loans fund or outside. The local Act usually provides that when the fund reaches a certain figure the payment of premiums may cease and also that the authority may borrow to meet an exceptional loss which would exhaust the fund.

A prudent selection of the risks to be carried by an authority's own insurance fund is essential, but substantial savings are obtainable if the fund is carefully managed. The fundamental point to be borne in mind is that insurance companies can quote low premiums and accept substantial liability because the risks are widely spread and over a period of years losses are unlikely to exceed the income. If a particular risk is very heavy, a company will protect itself by reinsuring with other companies for some part of the risk. It follows that a local authority should place in its own fund only those risks which are widespread, and then only

to an amount which cannot produce crippling losses. For example, it would be unwise to insure against the loss of a mayor's valuable chain of office in an authority's own fund. There is only one such chain and its loss might equal the amount of 1,000 years' premiums. A risk of this kind is best placed with a company which covers many similar risks and therefore obtains a wide 'spread' of the risk. The size of a local authority and the extent of its activities are clearly important factors and a large authority can with advantage carry all fire risks below a certain amount, and probably all motor vehicle and fidelity guarantee risks. There is no great likelihood of heavy fire losses in the case of housing schemes and some authorities do not insure their houses at all, preferring to meet any losses out of the Housing Repairs Fund. The fire risk is naturally substantial for buildings such as schools, old people's homes, council offices, markets, public baths, omnibus and tramway depots, and many other properties. For such premises, an authority which has been able to build up a substantial fund may decide to carry the whole of the risk on a particular property if the replacement cost does not exceed, say, £10,000 and on larger risks may cover a percentage of the sum involved. Savings in payments to insurance companies can then be effected without undue risks being taken. The characteristics of each property must be considered, as the fire risk is not the same, for example, for a school built in four separate blocks as for one which is a single unit, although the total value may be the same.

Financial Adjustments between Local Authorities

Anyone interested in local government finance may read or hear mention of financial adjustments taking place between local authorities and wonder what these are and why they are necessary. Such adjustments may arise in many ways, of which the principal are:—

(1) Transfers of functions, which in recent years have mainly consisted of transfers from county districts to county councils.

(2) Alterations of boundaries.

In the first class, there have been the transfer of police, education and certain health functions to the county councils, and we may recall that when the fire brigades were returned to local control in 1948 the authorities made responsible for this service were the county boroughs and the county councils, whereas before the National Fire Service was established during the second world war, the county districts exercised fire brigade functions. The financial adjustments in such cases are fairly straightforward—although points of principle may arise on particular aspects and be settled on a national basis—and usually amount to the transferee authority taking over the property used for the service and accepting liability for any loan debt outstanding. Adjustments will also normally be required for the pension liability attaching to the new authority in respect of the rights of transferred employees. More complex problems arise from alterations of boundaries, although the principle is the same, i.e. that an equitable adjustment of financial matters should be made between the transferor and transferee authorities.

Boundary alterations mainly arise from (1) a Provisional Order or local Act under which a county borough acquires territory from the surrounding county areas or (2) a review of the boundaries of county districts made by the county council under the periodical duty to do so imposed by the Local Government Act of 1933. The financial adjustments in these cases must not only take into account the transferred property and liability, but also other matters such as outstanding arrears of rates in the territory transferred; amounts due from debtors in respect of private street works; the cost of completing works which were commenced but not finished at the date appointed for the transfer of the area; consequential alterations of agreements relating to sewerage and sewage disposal, etc.; the superannuation of transferred employees; and the adjustment of revenue balances. In regard to the last item, when a county borough extends its boundaries it may absorb part of one or more rural districts, and the financial adjustment will allow for payment to the county borough of the portion of any balances in the hands of the county and rural

district councils concerned which is estimated to be derived from contributions paid to those authorities by the area added to the county borough.

A boundary extension by a county borough may affect, say, two counties, two or three county districts and several parishes, in the area surrounding the county borough, and readers will be able to visualise the complicated nature of the adjustment of financial matters which may arise. It is a common practice for one or both sides to utilise the services of individuals or firms who have specialised in these matters in order to reach a settlement, and on occasion it may be necessary to resort to arbitration.

Joint Committees and Boards

The combination of local authorities in joint committees or boards represents an attempt to solve the problems created by the fact that the size and other attributes of the local government units are not always suited to their functions. In some instances, the difficulty can be overcome by one authority utilising the services provided by a neighbouring authority, subject to a satisfactory arrangement as to the amount to be paid for the services rendered, which is usually fixed upon a cost basis and includes no element of profit. Examples of this kind of arrangement are found in the attendance of students from one area at educational establishments provided by another; the disposal of sewage from premises near the boundary of two authorities, where, owing to the natural features of the district, it is more convenient for the sewage to be conveyed from one authority's area to the other authority's sewage disposal works; the bulk supply of water by one authority to another; and the through-running of public conveyances from one area to another in order to avoid the need for passengers to change at the boundary line. Often, however, the problem may be such that the best way to deal with it is by the formation of a joint committee or board to act on behalf of all the authorities concerned.

The Local Government Act of 1933 allows a local authority to combine with other authorities in appointing a joint committee

for any purpose in which they are jointly interested. The joint committee may be given delegated powers to carry out the functions of the authorities, other than the power to levy a rate, issue a precept or borrow money. The Act also provides that the expenditure of the committee is to be defrayed by the constituent authorities in proportions to be agreed upon. In the event of disagreement, the matter is settled by the Minister, unless all the local authorities are county districts within the area of one county council, in which case the county council decides the issue. The Public Health Act of 1936 also provides for the making of Orders constituting joint boards for public health functions, and that the expenses of a board are to be defrayed out of a common fund contributed by the constituent authorities in proportion to their respective rateable values, unless the order itself determines otherwise. Before the creation of the present regional hospital boards and hospital management committees, local authorities frequently combined in providing hospitals and institutions, in particular those for the care of mental deficiency and for infectious diseases and smallpox cases, but this form of joint action is no longer required. Joint committees and boards are, however, in existence for water supply, passenger transport, superannuation, drainage, sewerage, town planning, welfare of the blind, smoke abatement and other purposes.

There is no prescribed basis for the sharing by the constituent authorities of the income and expenditure of a joint committee or board other than the non-compulsory basis for boards under the Public Health Act, 1936; nor would any one basis be appropriate to widely differing circumstances. An apportionment according to their respective rateable values is frequently acceptable to the authorities and may be used in particular for any deficiency of a joint water board or a drainage board. There are other cases in which it is possible to determine the degrees of benefit derived by the respective authorities, or in which expenses may be apportioned partly according to rateable value and partly according to estimated benefit derived. The respective populations estimated to be served might be adopted as an approximate measure of the

use of and benefit derived from a park or open space shared by two or more authorities. If the purpose for which the committee or board was constituted requires the provision of an establishment or institution, the expenses may be divided between standing charges and variable expenses, the first being apportioned on a fixed basis such as rateable value, population or the number of reserved places for each authority; the second class of expense being charged to each authority as a daily or weekly cost per inmate from the authority's area. The original capital outlay, if any, is usually met in the agreed proportions, each authority raising and discharging its own loans, unless it chooses to charge the outlay to revenue account. Sometimes, the question of admitting an authority to an existing joint committee or board may arise, and in this case agreement will be required on the amount to be contributed by the new authority towards the capital outlay, taking into account the age of the assets and other circumstances. The constitution may provide for the manner in which assets and liabilities are to be shared in the event of dissolution or this may be a matter left to be settled at the time by agreement or arbitration.

The order or agreement constituting the board or committee usually makes provision for the preparation and approval of estimated income and expenditure in order that the constituent authorities may include the amounts required in their own budgets. The estimates may need approval of the joint committee or board only, or control over the expenditure may be exercised by a provision for the prior approval of each authority to be sought. In other cases, the expenditure of the joint body may be limited either in total or by reference to a specified rate poundage, and a further variation is sometimes found in which each of the constituent authorities agrees a fixed amount beyond which it will not be liable to contribute, although it may consent to increase its payment if the financial position of the joint body becomes such that further assistance is needed. The order or agreement also usually specifies the dates for payment of contributions and the manner in which the financial accounts are to be submitted each year.

Additional Sources of Revenue

The inelasticity of rate income, coupled with the growth of expenditure on local government, has naturally tended to promote a search for additional methods of obtaining local revenues which would strengthen the local authorities and make them less, or at any rate no further than at present, dependent upon grants from the central government.

Without suggesting that any essential service is being neglected by any authority because of lack of money, there can be no doubt that a limited income has its effect upon services such as highways maintenance and improvement, repairs and painting of property, the amenities of the district, including parks and recreational facilities, and cultural pursuits, such as music and art. Those in close touch with local government know the tendency, indeed very often the necessity, to meet the increased requirements of services such as education and housing, which are continually expanding, partly by effecting economies in other directions and partly by increasing the rate. And at some time in the future it will surely be necessary to call a halt to the continual increases in rate poundages, if only because of the regressive nature of the rates as a tax, which we noted in Chapter II.

It is so difficult to imagine the abandonment of a method of raising local revenues as deeply rooted in our social and economic life as the present rating system, that the further methods now to be discussed are referred to as additional and not alternative sources of revenue, although a local income tax has frequently been advocated as a substitute for the rate, mainly because of the failure of the latter to take into account an individual's ability to pay as measured by his income. Considerations of space will allow only a brief exposition of the various suggestions which have been made for augmenting the income of local authorities. The main ones are:—

(1) A local income tax.
(2) The rating of site values.
(3) Local taxes or transfer of state taxes.
(4) Increased charges for services rendered.

There is little that need be said about item (4) in this list. Whilst it would be possible to make charges for services at present met entirely out of rates and, in some cases, increase the income at present received from such activities as parks and baths, no substantial relief could be obtained in this way. The major expenditure is on education, roads and sewers, police and health services, for which it would be difficult, if not anti-social, to make specific charges.

That the idea of a local income tax, levied in accordance with the assessments for national income tax purposes, has proved attractive is indicated by the fact that it was considered by a Royal Commission as long ago as 1896. A Departmental Committee on Local Taxation in 1911 also discussed the proposal. The idea appears to have been dismissed as impracticable by both bodies, the administrative difficulties being regarded as almost insuperable. The reader need only ask himself how a taxpayer's income would be shared among the places from which it was derived and his place or places of residence to appreciate one of the difficulties. Nevertheless, the administrative problems involved have apparently been overcome in several other countries where a local income tax is actually levied. A serious objection to the proposal is that it could interfere with national policy regarding the total amount by which incomes should be taxed. Divided control of this instrument of taxation might obviously present difficult problems for the government of the day, and with the national rate of tax at its present level it seems unlikely that the question of local additions would be given serious thought.

The rating of site values would not present such substantial administrative difficulties, nor would it interfere with national fiscal policy in the same way as a local income tax. It is, therefore, a practical proposition which merits the investigation being conducted at the time of writing by a committee appointed by the government. That there are difficulties, however, is evidenced by the fact that so long ago as 1885 a Royal Commission recommended that land should be separately rated, yet the proposal has never been implemented. The reader will recall that under the

present system rates are levied upon the annual value of *occupied* land and buildings. Two of the main arguments in favour of rating site values separately have always been that (1) the outlay of the local authority's money on improvements to roads and amenities increases the value of sites in private ownership and produces an 'unearned increment' which ought to be taxed for the benefit of the community, and (2) development would be encouraged and the owner of unoccupied land deterred from waiting for appreciation in the value of the land before selling. Site value rating has been a success in South Africa, New Zealand, Australia, and other countries, but there seems little doubt that this success is mainly due to the fact that their towns were not built up when the rating system was introduced, with the result that they got the full benefit of the two main points mentioned above. The nearest approach to practical action in this country was the promotion of a private Bill in 1938 by the London County Council. Parliament did not allow the Bill to proceed; but, briefly, the proposals were to make a separate valuation of the *annual* site value of each property (in some places the charge is made upon the *capital* value of the site) and to charge a yearly rate of two shillings in the pound on such values. Ordinarily, the occupier would pay the rate in the first instance and reimburse himself by deduction from rent, the intention being that the incidence of the rate should be upon the owner of the land. One of the difficulties of or objections to site value rating in this country is this question of incidence. It would not be easy to prevent the owner passing some at least of the burden to the lessee by increasing the rent at the earliest opportunity, and sub-leases would further complicate the matter.

The taxation of 'unearned increment' is now provided for by the Town and Country Planning Act, 1947, under which development charges are made whenever land value increases following a change of use, but the income so derived does not go to the local authorities. Further, nothing would be gained by charging site value rates upon land owned by a local authority itself, and most local authorities are now, or are rapidly becoming, large land-

owners by reason of their housing and town planning developments. A revaluation of property has to be made for ordinary rating purposes, and it would be a tremendous additional task to embark upon a concurrent site valuation for the whole country. In addition, by the very nature of a site-value rate it would, except in the case of the owner-occupier, have to be paid out of the ground rent received by the owner, and could never be anything but a modest impost. The opinion may be expressed, therefore, that there is little prospect of materially improving the revenues of local authorities by this proposal, although it would not be wise to be dogmatic on the point.

The third proposal relates to the levying of local taxes or the transfer to local authorities of certain state taxes. Local revenues already benefit from the charges for dog, pawnbrokers', money-lenders' and other licences, but these are not taxes in the usual sense of the term. In some continental countries and in America, local authorities frequently levy local taxes in the form of customs duties or sales taxes and it has sometimes been suggested that local authorities in this country should be allowed the same rights. In view, however, of the introduction of the national purchase tax, and its wide range, it is inconceivable that the local authorities would be granted power to compete in this field and we need not pursue the matter further. The transfer of selected state taxes holds out greater possibilities, as there would be nothing to prevent, say, the entertainments duty from being added to local revenues. This proposal would, of course, deplete the state revenues to the like extent, but the amount involved is relatively unimportant as an item in the national budget. The drawback to this suggestion is that, clearly, the local authorities could not be allowed to fix their own rates of duty nor would it be desirable that the collection of such revenues should be transferred from the present offices if the administrative cost would be increased—as it very often is when one function is removed from an integrated system. So that presumably the procedure would have to be similar to that for dog licences, in respect of which the charge

is fixed nationally and the post offices collect the money for transfer to the local authorities. This being so, the question may be posed 'what is the advantage of such a proposal compared with a straightforward government grant to local authorities?' and the answer must be 'very little, provided no " strings " are attached to the grant'.

No doubt the search for additional or alternative methods of raising local revenues will go on, and the main lines upon which the search may proceed have been outlined for the reader, but it is difficult to envisage any substantial addition to local funds which would not conflict with national policy or be otherwise objectionable. The solution to the problem seems to lie, as it always has done in the past, in increased direct assistance from the national exchequer, but the hope may be expressed that some way of granting this assistance can be found without undermining the independence of the local authorities and their sense of financial responsibility. The Exchequer Equalisation Grant may eventually prove to be the basis on which a satisfactory block grant system, extended to cater for the needs of all authorities, can be established.

* * * *

It is hoped that readers of this book will by now have concluded that English local government finance, equipped with numerous safeguards in the interest of the ratepayers and controlled by a parliamentary system in the British tradition, is fundamentally sound, and efficient in practice. The reputation of our local government system is deservedly very high throughout the world, and its precepts are widely copied. It may well be that not the least important reasons for this lie in its purity of financial administration, the manner in which the local authorities have always met their obligations and the essential soundness of the financial structure which we have examined together throughout these pages.

APPENDIX "A"

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Return of Outstanding Debt (England and Wales).

Separate returns containing financial statistics relating to major local government services.

APPENDIX "B"

Principal Government Grants payable to Local Authorities

Service	Basis of Grant
Aged and Infirm:	
Capital expenditure on the provision of residential accommodation under Part III of the National Assistance Act, 1948.	*New premises.*—Annual payment of £7 10*s.* per single bedroom and £6 10*s.* per person provided for in other bedrooms. Contribution normally payable for a period of 60 years.
	Existing premises.—The amount and period of the contribution will be fixed by the Minister and will not exceed two-thirds of the difference between the estimated loan charges on the acquisition and adaptation of the premises and the product of £7 16*s.* multiplied by the number of residents accommodated, and in any case will not exceed the annual contribution payable on new premises providing similar accommodation.
Blind Persons:	
(1) Employment of Blind Persons in Workshops for the Blind.	(*a*) Annual capitation grant not exceeding £80 per blind person in respect of expenses incurred in the provision of employment facilities in special workshops. (*b*) 75 per cent of approved capital expenditure.
(2) Employment of Blind Persons in Home Workers Schemes.	(*a*) 75 per cent of net administrative costs, subject to an annual *per capita* maximum grant of £20. (*b*) 75 per cent of expenditure incurred in the provision of working accommodation and provision and maintenance of tools and equipment.
(3) Training of Blind Persons in Workshops for the Blind.	(*a*) Standard annual *per capita* fee determined by Ministry for each workshop, subject to a maximum of £100. (*b*) Training allowance—100 per cent.
Building Licensing:	
Additional expenses incurred in connection with Building Licensing.	75 per cent of approved expenditure.
Children:	
(1) Children in care.	50 per cent of approved net expenditure, less a contribution towards the cost of providing training in child care and making grants to voluntary homes.
(2) Approved Schools . . .	50 per cent of approved net expenditure.
(3) Remand Homes . . .	50 per cent of approved net expenditure.

Service	Basis of Grant
Civil Defence	Provisionally (at time of writing):— Major capital works—100 per cent of approved expenditure. Revenue expenditure—75 per cent of approved expenditure.
Education:	
(1) Main Grant	120 shillings for each unit of the average number of pupils on the registers, increased by 60 per cent of the net recognisable expenditure and reduced by the product of a rate of 30 pence for the year for which the main grant is payable. Net recognisable expenditure ascertained for grant for paragraphs (2), (3) and (4) hereunder is excluded from the calculation of the main grant.
(2) School Milk and Meals . .	*Milk Grant.*—100 per cent of net recognisable expenditure. *Premises Grant.*—100 per cent of approved net expenditure on establishing and equipping premises and transport facilities for the provision of meals. *Dinner Grant.*—100 per cent, if the unit cost per meal, as determined by the Ministry, is not exceeded by the actual costs. *Other Meals.*—Net expenditure treated as part of net recognisable expenditure in the calculation of the main grant.
(3) Establishment, equipment or maintenance of any Training College or Hostel.	100 per cent of net recognisable expenditure by the administering authority. Every education authority contributes a share of the aggregate amount of the Training College Grant so payable, as defined in Regulations.
(4) Emergency or special training of teachers.	100 per cent of net recognisable expenditure.
Exchequer Equalisation Grant . .	See Chapter VI.
Fire Brigade	25 per cent of approved net expenditure, less a contribution towards the cost of a Central Training Establishment.
Fuel Control:	
Administration of Fuel Control .	100 per cent of approved expenditure.
Health Services:	
Local Health Services, including Ambulances.	50 per cent of approved net expenditure.
Highways and Road Safety:	
(1) Maintenance and minor improvement in counties other than London. (2) Works of major improvement and new construction in all areas. (3) Installation and maintenance of light signals for the control of traffic, speed limit signs, pedestrian crossings and guard rails.	Approved expenditure on— Class I roads—75 per cent. Class II , 60 per cent. Class III ,, 50 per cent.

Service	Basis of Grant
(4) Local road safety activities.	50 per cent of approved expenditure.
(5) Salaries and travelling expenses of Surveyor and technical staff.	50 per cent, subject to certain conditions, of the amount attributable to duties as Road Surveyor.
Housing:	
(*a*) *Stereotyped Grants under former Housing Legislation:*	
(1) 1919 Act	The deficit on the schemes, less the produce of a penny rate, is met by the Government.
(2) 1924 Act	£9 (£12 10*s*. in agricultural parishes) per house per annum for 40 years, afterwards reduced to £7 10*s*. (£11 in agricultural parishes) per house.
(3) 1930 Act Slum Clearance.	An annual contribution for 40 years of £2 5*s*. (£2 10*s*. in agricultural parishes) per person displaced, and for whom new accommodation was made available, increased where accommodation was provided in flats on sites of high values.
(4) 1938 Act Slum Clearance and Overcrowding.	£5 10*s*. per house or flat (£10 in respect of houses provided for the agricultural population) for 40 years, increased where the cost of the developed site was in excess of £1,500 per acre.
(*b*) *Housing (Temporary Accommodation) Act*, 1944.	The Government contribution is the cost of the provision and erection of temporary houses, subject to a payment out of rent income by the local authority (normally £23 10*s*. per house per annum).
(*c*) *Housing (Financial and Miscellaneous Provisions) Act*, 1946.	£16 10*s*. per house per annum for 60 years, increased to £25 10*s*. in respect of houses provided for the agricultural population or by county district councils with populations of low rent-paying capacity. Where flats are provided on sites the cost of which as developed exceeds £1,500 per acre, the Exchequer contribution is based on a graduated scale commencing at £28 10*s*. per flat per annum for 60 years. Additional grants are available where lifts are provided in blocks of flats; where it is necessary to take precautions against subsidence of land; for houses provided in highly rated areas with a high housing rate; and for houses built at additional cost by non-traditional methods.

Service	Basis of Grant
(*d*) *Housing Act*, 1949 . . .	Among the more important grant provisions of this Act are:— (1) A grant for 20 years of three-quarters of the probable loss on the provision of dwellings by the conversion of houses and buildings and on the improvement of existing dwellings, subject to prior approval of schemes. (2) A grant for 20 years of three-quarters of the annual loan charges (calculated on a 20-year period) on amounts paid by a local authority to private owners for the conversion or improvement of dwellings. The local authority may pay to an owner up to 50 per cent of his approved expenditure. (3) The provision of hostels may attract a grant up to a maximum of £5 a year for 60 years for each bedroom provided. (4) There is further provision as to grants in respect of flats on expensive sites and also for increased contributions towards any extra cost of erection due to the preservation of the character of the surroundings.
Juvenile Employment: Juvenile Employment Schemes and Unemployment Insurance Administration.	75 per cent of net recognisable expenditure.
Milk.—Compensation: Compensation payable to persons for damage or loss sustained by reason of prohibition or restriction imposed by regulations on the sale, supply or use of milk which is infected or suspected of being infected.	75 per cent of amounts paid by way of compensation.
Nurseries.—Welfare Food Service: Children up to the age of five in:	
Day Nurseries	Reimbursement of the cost up to two-thirds pint of milk per child each day for drinking purposes only, limited to the price payable for ordinary milk.
Institutions	The difference between 1*s.* per gallon and the cost per gallon of ordinary milk. The maximum rate of consumption recognised for reimbursement is one pint a day by each eligible beneficiary.

Service	Basis of Grant
Police:	
(1) Main Grant	50 per cent of approved net expenditure, less a contribution to the Special Services Fund towards the cost of Forensic Science Laboratories, Home Office Wireless Depots, the Police Training Scheme and the Police College. (*N.B.*—The Ministry of Transport grants from the Road Fund in respect of Police Motor Patrols are brought into credit in the calculation of the Police grant.)
(2) Motor Patrols	(1) According to scale based on— (*a*) Miles per annum on traffic patrol. (*b*) Type and horse power of vehicles. (2) Installation of loud speaker equipment on motor patrol cars— 50 per cent of approved expenditure.
Probation of Offenders	50 per cent of approved net expenditure, less a contribution towards the cost of training probation officers. 100 per cent of expenditure on probation officers in training.
Reception Centres: For persons without a settled way of living.	100 per cent of approved net expenditure.
Registration of Electors . . .	50 per cent of the cost calculated in accordance with a scale approved by the Treasury. The cost of printing is paid by the Treasury and 50 per cent charged to local authorities.
Rodent Control: Prevention of damage by pests . .	Subject to compliance with certain conditions, 50 per cent of the irrecoverable expenditure incurred in the performance of functions under Part I of the Prevention of Damage by Pests Act, 1949.
Rural Water Supplies and Sewerage: (1) Providing a supply, or improving an existing supply, of water in a rural locality. (2) Making adequate provision for the sewerage, or the disposal of the sewage, of a rural locality.	The grant will usually be assessed on the estimated net annual cost of the scheme, due regard being had to the ability of the local authority itself to meet the cost. The general principle will be followed of the Exchequer, the County and the County District sharing an equal financial partnership in the scheme.
Small Holdings: Losses incurred in carrying out approved schemes for the provision, laying-out, alteration or equipment of small holdings	75 per cent of the estimated annual deficiency on approved schemes when in full operation.

<table>
<tr><th>Service</th><th>Basis of Grant</th></tr>
<tr><td>Town and Country Planning:
Acquisition and clearing of land for—
(a) the redevelopment as a whole of—
(1) areas of extensive war damage.</td><td>90 per cent of the net loss arising from the redevelopment for an initial period of five years with a possible extension up to eight years, and 50 per cent for the remaining period of the 60 years for which loans may be raised.</td></tr>
<tr><td>(2) areas of bad layout or obsolete development.
(b) the relocation of population or industry ('overspill' land), or the replacement of open space in the course of redevelopment of areas shown in (a).
(c) bringing derelict land into use.</td><td>The annual rates of grant will vary according to the general financial position of the local authority concerned. Counties and county boroughs are grouped according to their rateable values per head of population, weighted in respect of children up to 15 years of age, and varying rates of grant are payable according to four scales. The average of all councils is ascertained and then the average of those (a) below and (b) above that average. Those below the average of (a) receive Scale I grants and those above Scale II. Those below the average of (b) receive Scale III and those above Scale IV.
The appropriate percentage rates of grant are:—
<table><tr><th>Scale</th><th>First 5 years (possible 8)</th><th>Next period up to 12th year</th><th>Remaining 48 years</th></tr><tr><td>(I)</td><td>80</td><td>50</td><td>50</td></tr><tr><td>(II)</td><td>70</td><td>50</td><td>40</td></tr><tr><td>(III)</td><td>60</td><td>40</td><td>30</td></tr><tr><td>(IV)</td><td>50</td><td>30</td><td>20</td></tr></table>In the case of areas of bad layout or obsolete development, if the rate burden exceeds a rate of 6d. in the £, a grant of 10 per cent on the expenditure causing the excess is payable.</td></tr>
<tr><td>Other land acquired for planning purposes and compensation payable by local authorities for refusal of permission to develop, etc.</td><td>The grants will be limited to the maximum shown in the final column above (50, 40, 30 or 20 per cent), and may be payable either as lump sums or annuities.</td></tr>
<tr><td>Water Supply (Farms) . . .</td><td>Subject to compliance with certain conditions :—
25 per cent of approved expenditure where the scheme depends on a public water supply;
40 per cent of approved expenditure where the scheme makes use of a private water supply.</td></tr>
</table>

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