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THE FINANCE OF
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THE FINANCE OF LOCAL GOVERNMENT AUTHORITIES

BY

J. H. BURTON

FELLOW OF THE INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS
MEMBER OF THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS
BOROUGH TREASURER AND ACCOUNTANT

AUTHOR OF

"LOCAL AUTHORITY FINANCE, ACCOUNTS AND AUDITING"

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1934

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PREFACE

IN preparing this treatise on the finance of local government authorities the author has aimed at keeping as closely as possible to his subject. There are many works extant dealing with local government, embracing mainly the legal and administrative points of view, and there are volumes treating the accountancy viewpoint. But few, if any, books are available on the financial aspect, despite the fact that such phase is the one which most directly and materially affects everybody—ratepayers and even non-ratepayers.

It is hoped and confidently believed that a perusal of the present work will provide a good introduction to, and a sound explanation of, this intricate subject and that it will enable the reader to acquire a wider conception of the multitudinous and multifarious activities and transactions which statutorily find a place in local government departments to-day.

The work embodies the relevant provisions of the Local Government Act, 1933, which became law on the first day of June, 1934, and so is quite up to date.

The special features concerning the Metropolis have been set out and the differences relating to the various classes of local authorities have not been overlooked.

A comprehensive bibliography has been included in order that the subject may be studied more fully by those who desire to do so.

J. H. B.

LONDON, *August*, 1934.

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THE FINANCE OF LOCAL GOVERNMENT AUTHORITIES

CHAPTER I.

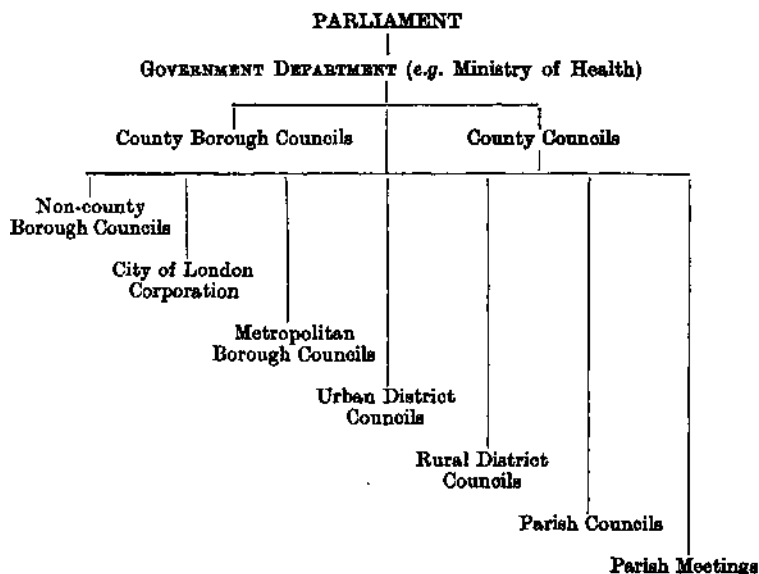
HOW WE ARE GOVERNED LOCALLY.

LOCAL government in England and Wales rests in the hands of certain bodies each of which is invested with the duty of performing certain services and functions. There is no uniformity in the sense that would obtain if the town of X were subject to the same Acts of Parliament and Orders of Government Departments and its services administered by a body having similar powers as the neighbouring town of Y. X may be subject to entirely different laws relating for instance to making rates, holding elections, and administering education and other services. Local government in Scotland is different from that in England and Wales, and even that in the Metropolitan Area is different, to an appreciable degree, from that in the rest of England and Wales. This being so, it is considered preferable to review first the system appertaining to England and Wales, leaving for the present a study of the corresponding position in Scotland. A chapter on Scottish local government is included later in the book.

In order to obtain a knowledge of the basis on which local government proceeds the following little diagram with explanatory matter is presented, from which one may readily gain a knowledge, in outline at least, of the authorities which are in a greater or lesser degree endowed with the powers and duties of local

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government. Endeavour has been made to indicate the relationship between the supreme legislative body and the other bodies.



It will be observed that County Borough Councils and County Councils are accountable directly to the Government Departments. Non-county Borough Councils are accountable partly to the County Council and partly to the Ministry of Health or other Government Department; Urban District Councils, Rural District Councils, Parish Councils and Parish Meetings are subject to the control of the County Council, with right of appeal on disputed points to the Ministry of Health or other Government Department.

Parish Councils and Parish Meetings.—These authorities provide the local needs in rural parishes in respect of minor matters, such as baths, libraries, street lighting, etc. Considerable supervision is exercised over them by the Rural District Council and the County Council. Their funds are obtained from the Rural District Council on whom they serve a precept for their requirements. They may borrow money subject to the consent of the County Council and the Government Department.

Parish Councils and Parish Meetings were created by the provisions of the Local Government Act, 1894, and are governed mainly by the Local Government Act, 1933, under which they

may levy rates. In the case of a Parish Council the amount to be so levied may not exceed fourpence in the pound (except with the consent of the Parish Meeting, when it may be raised to eightpence), for general parochial expenses. In addition it may, however, incur expenses under the adoptive Acts, viz. those relating to Baths and Wash-houses, Burial, Public Libraries, Public Improvements, Lighting and Watching, and a few other matters. Where there is no Parish Council, the Parish Meeting may not make a rate which, including expenses under the adoptive Acts, would exceed eightpence in the pound. The Minister of Health has power to consent, by order, to higher rates in the cases of both Parish Councils and Parish Meetings, however.

A Parish Council *must* be appointed if there are 300 or more inhabitants, but where the population is between 100 and 300 it is optional. Where there is no Parish Council appointed, the sole representative authority is the Parish Meeting, comprising all local government electors in the parish.

Rural District Councils.—Rural District Councils are the local authorities having jurisdiction in rural, thinly populated areas, in respect of which Parish Councils and Parish Meetings are in existence, except for the purposes for which the Parish Councils and Parish Meetings are the authorities as already indicated. In other words Rural District Councils embrace all parishes (or parts of parishes) not comprised in an Urban District. Their powers are somewhat restricted. They levy and collect rates for their areas. Their other duties are principally to provide the needs of the several parishes in regard to certain highways and sanitary purposes, including parks and water supply. They were formed under the provisions of the Local Government Act, 1894, and are supervised to a considerable degree by the County Council in whose area they are situate. They can borrow money for capital purposes subject to proper consent first being obtained.

Urban District Councils.—Urban District Councils are the local governing bodies in districts more populous but geographically smaller than those of Rural District Councils but which generally are not large enough to obtain a charter and become Municipal Corporations. They are the highways and sanitary authorities for their areas, and maintain public services such as sewers, sanatoria, scavenging, etc. Where the local authority is an Urban District Council there is no Rural District Council, Parish Council or Parish Meeting having any jurisdiction in that area. The larger Urban District Councils are empowered

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to provide and maintain elementary education in their districts' They levy and collect the rate requirements for their areas, and they have borrowing powers as in the case of Rural District Councils.

Though most of the Urban District Councils have a population of fewer than 50,000 inhabitants, there are several with a much greater number.

Non-county Boroughs.—Non-county Boroughs are the authorities next in order of importance. A Non-county Borough is a Municipal Corporation that has received a Charter of Incorporation, either in olden times or under the Municipal Corporations Acts. The Local Government Act, 1933, in its First Schedule (Part III) names the 273 Non-county Boroughs in England and Wales in existence at the time of the passing of the Act. Further Non-county Boroughs may be formed by Charter of Incorporation obtained from the King after petition by the inhabitants. This virtually amounts to promotion from an Urban District Council or other authority of lower status. On incorporation as a Borough additional powers accrue, viz. those of a Municipality, varying to some extent with the number of inhabitants. Such Boroughs levy and collect a general rate to meet the deficiency on the general rate fund, the only rate fund now in existence.

Non-county Boroughs are not entirely immune from the County Council's interference. The County Council's functions in these areas relate principally to main roads, higher education, police, mental hospitals, etc. The Boroughs may borrow money subject to proper sanction first being obtained. Some further observations on Borough Councils appear later in this chapter.

County Borough Councils.—County Borough Councils comprise the highest form of local government granted by Parliament. They are the authorities for *all* local government purposes in most of the larger towns, though some of the smaller Boroughs have this status. They were originally created by the Local Government Act, 1888, at the same time as County Councils. They now number 83 in England and Wales and are named in the Second Schedule of the Local Government Act, 1933. The Government has recognised that they represent towns of such size and importance as to merit absolute self-government entirely free from any control by the County Council in whose geographical area they exist. They were mainly such towns as had a population in 1888 exceeding 50,000 (at that time they numbered 61). Since the year 1888 County Borough Councils have been created by the Ministry of Health under provisional orders in the case

of towns having the requisite qualifications. A minimum population of 75,000 is now necessary before a local authority may seek County Borough powers.

The funds of County Boroughs are raised by means of the General Rate, levied and collected by the Council itself through its officers. A County Borough is a Municipal Corporation, with all the powers originally given to such authority by the Municipal Corporations Act, 1882, and the powers of the Public Health Act, 1875, as given to an Urban District Council, and in addition the powers of a County Council for its *own area only*. A County Borough may however enter into an agreement with the County Council to share county institutions such as asylums, police forces, etc. A County Borough does not have to levy any portion of the county rate in its area, since the County Council does not perform any services in that area. Borrowing powers are similar to those of a Non-county Borough. County Boroughs and Non-county Boroughs are called Municipal Corporations and act by meetings of the Town Councils. Their acts are authenticated by affixing the seal of the Corporation. Further observations on Borough Councils appear later in this chapter.

County Councils.—County Councils were created in 1888 by the Local Government Act of that year. They took over the former duties in respect of local government of the County Justices and Quarter Sessions. A County Council is a body of persons elected by the scattered districts of the administrative (not necessarily geographical) county called electoral divisions, similar to the wards of a town. There are (including the London County) 62 administrative counties, each governed by a County Council. These are named in the First Schedule of the Local Government Act, 1933. Each is a corporate body with perpetual succession and a seal. The County Council obtains its funds from the appropriate local rating authorities in its area. Its principal duties and functions are to maintain courts of justice, county police, highways, reformatory schools and lunatic asylums. Shortly stated, it is responsible for all duties which the district local authorities, such as the Non-county Borough Councils, the Urban District Councils and the Rural District Councils are not themselves empowered to carry out. County Councils have no jurisdiction over County Boroughs. In Non-county Boroughs they provide for higher education, and in Non-county Boroughs which in 1901 had a population of under 10,000, and in Urban District Councils whose population at that time was, under 20,000, they provide for elementary education also. They provide a police force for any Borough not having one of its

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own, and for all the rest of the county, excluding County Boroughs (except where such a County Borough has agreed to be policed by the County Council). They have borrowing powers similar to those of other local authorities.

London.—The system of local government in the Metropolitan Area differs from that in the provinces in many respects. It proceeds on the principle that such government is partly local and partly central in character. Those matters which are central and apply to the whole County of London (about 118 square miles in extent) are controlled principally by the London County Council, those which are local by the 28 Metropolitan Borough Councils and the Corporation of the City of London. But the London County Council is not a rating authority.

The London County Council, like other County Councils, was created by the Local Government Act, 1888, and took the place of a body called the Metropolitan Board of Works. It possesses several powers not granted to other County Councils, but it lacks certain other powers entrusted to provincial County Councils—the most notable of these is in the provision of police,, which in the Metropolitan Police Area is under the supervision of the Secretary of State (except in the area of the City of London, where the authority for police purposes is the Common Council). The London County Council is the local education authority for elementary and higher education for the whole administrative county, also for public assistance, fire brigade services, main sewerage and partly for open spaces, parks, drainage and street improvements. It is the sanctioning authority in respect of certain of the loans of the Metropolitan Borough Councils.

Local government in the 28 Metropolitan Boroughs is controlled mainly by the London Government Act, 1899, and is, in many respects, similar to that of a Non-county Borough in the provinces, but a Metropolitan Borough Council has no power to provide a police force, tramways, education, mental hospitals, fire brigade and main drainage. It is however the authority for the preparation of the valuation lists, and the levying and collecting of the general rate. The general statutes applicable to provincial Borough Councils do not extend to Metropolitan Borough Councils, nor does the Local Government Act, 1933, except to a small extent (viz. Parts X and XI).

Local government in the City of London (about 1 square mile) is unique.

Port Sanitary Authorities*—As the name implies, these authorities are to be found in port towns. Their constitution is by a Provisional Order of the Ministry of Health under the

provisions of the Public Health Act, 1875, and the Order constitutes one or more sanitary authorities in the area as the Port Sanitary Authority for the waters of the port and so much of the areas of the abutting authorities as may be determined upon. The duties of the Port Sanitary Authority are of a sanitary nature and may be performed by the authority or may be delegated to one or more of the constituent authorities.

Establishment of a Borough Council.

As already stated, a Municipal Corporation is a body corporate which has been constituted a Municipal Corporation by Charter of Incorporation. It is necessary for the Council of the district seeking a charter to prepare a petition to the King, and to inform the Ministry of Health and the County Council in which the district is situate. There is no minimum of population or rateable value. The King refers the petition to the Privy Council, which appoints a committee (called the "Committee of Council") from its numbers to report on the matter. That Committee may request the Minister of Health to hold a local inquiry and to hear evidence of parties both for and against incorporation. In the event of an unfavourable report the project lapses for the time being, but should the Minister report favourably he drafts a scheme of incorporation. The scheme is published in the *London Gazette*, and if unopposed within one month an Order in Council is issued granting the Charter. Where opposition takes place within the month, which may be by any local authority or by one-twentieth of the owners or ratepayers, an Act of Parliament is necessary before a Charter of Incorporation can be granted.

Special Types of Boroughs.

There are different types of Boroughs quite apart from the distinction between County and Non-county Boroughs. These comprise :—

- (1) Boroughs possessing judicial functions.
- (2) Boroughs possessing special functions according to population.
- (3) Metropolitan Boroughs.

In the first category come those with a separate Commission of the Peace at **which the borough magistrates preside. A clerk to the justices must be appointed. A stipendiary magistrate**

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may be appointed. The Council is a separate licensing **authority** for dealing with liquor licences. There are also **boroughs which have a** separate Court of Quarter Sessions, a **salaried Recorder**, a Clerk of the Peace, and (except in a few cases) a Coroner **and a** deputy.

Boroughs in category (2), with a population of 10,000 or over, are the authorities for police, the administration of **the** Diseases of Animals Acts, the Weights and Measures Acts, and the Food and Drugs Acts, and are the local education authorities for elementary education. Where the inhabitants exceed 20,000 the Council is the local pension authority under the Old Age Pension Acts. A population of 25,000 entitles the Council to petition the Home Secretary to appoint a stipendiary magistrate.

Certain Boroughs have special Courts of Civil Jurisdiction which are survivals of ancient institutions, and certain other Boroughs by ancient privilege are Counties in themselves and have a High Sheriff who acts independently of the High Sheriff for the County. These latter authorities have the privilege of attaching to their chief magistrate the added dignity of Lord Mayor.

Metropolitan Boroughs are not Municipal Corporations. They are reviewed in Chapter XIV.

Cities and Lord Mayors.

The question is sometimes asked, what is a City? How does it differ from a Borough? It is generally thought that if a town is the seat of a Bishopric it is a City. That is not so. There really is no connection between the two matters. A City is not necessarily a populous town, nor is its Chief Magistrate necessarily styled the Lord Mayor. If a town wishes to obtain the title of City, the correct procedure to adopt is to address a petition to the King through the Home Office. Shortly defined, a City is a Borough on which has been conferred the right to style itself a City.

Seventeen large towns have had conferred upon the chief magistrate by letters patent, the title of Lord Mayor, but only the Lord Mayors of London and York are entitled to the **style** of " Right Honourable."

CHAPTER II.

HOW LOCAL GOVERNMENT AUTHORITIES ARE FINANCED.

No business firm can either start or continue without capital. Equally does this rule apply to local government bodies, and on exactly similar principles are their finances regulated. Their income and expenditure fall into the same two main categories—capital and revenue, the former relating to expenditure on the acquisition, extension or equipment of an asset, a service or an undertaking, and the latter being concerned in the maintenance and working of the asset.

Thus may be deduced the elementary principle that expenditure on something which is not exhausted within the current financial period (*e.g.* one year) and so will benefit the future should not be charged wholly against the single year in which the payment is made, but should be spread over **the** period which will derive advantage therefrom. This is called capitalisation of expenditure. Examples are the acquisition of land, buildings, machinery, etc. On the other hand expenditure which relates to and benefits only the period in which it is incurred is purely of a revenue nature and should be met wholly in the year which obtains the benefit. Examples of revenue expenditure are rent, rates, taxes, wages, etc.

Income.—Before studying in more detail the matters which fall within the two main categories aforementioned, one may with advantage briefly review the various sources from which income is derived by local authorities. These consist of the following :—

- (1) Natural income from services performed as a local authority.
- (2) Trading profits.
- (3) Gifts and income from investments thereof.
- (4) Grants from the Government.
- (5) Loans (borrowed monies),
- (6) Rates.

(1) *Natural Income.*—Under this heading come :—

- (a) Income from estates.

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(6) Income from charges for work done and services rendered as a public health and administrative body, e.g. licence fees, sales of publications, charges for inspection of books and charges of non-trading departments generally, such as library fines, charges for removing rubbish, etc.

(2) *Trading Profits*.—If a local authority possesses trading undertakings, such are attached to the rate fund whether the transactions are directly merged therein, as is the case with some local authorities who have effected this by local Act, or whether the accounts are kept quite separate. In the former case profits and losses automatically reduce or increase the amount to be raised by rate. In the latter circumstance profits and losses are/ after making necessary reserves, etc., as a rule transferable to the rate fund.

(3) *Gifts*.—Income under this heading is generally of a miscellaneous character. It includes as the name implies any receipts arising from specific gifts. These are not common, though recently a gentleman left a very large sum to be invested, the income from which is to be given to the rate fund of his native town. There are other cases on record.

(4) *Grants*.—Contributions from the Government amount to a considerable proportion of a local authority's total income. These are reviewed in detail in a subsequent chapter.

(5) *Loans (borrowed monies)*.—The objects of borrowing are briefly shown later in this chapter and the subject is treated in considerable detail in its many aspects in Chapter TIT.

(6) *Rates*.—Though receipts under this heading may be the largest item of the six sections into which a local authority's income has been divided, it really falls for consideration last, because rates are resorted to only to make up the deficiency (if any) on the rate fund.' As there is nearly always a deficiency (and a large one too) the necessity for raising money by rates is certain. The subjects of estimating and rating are treated in Chapter XII.

Expenditure.—A local governing body is not empowered to spend money just as it may think fit. It can do so only on authorised purposes, and the body having power to give such authorisation is not the Council of the local authority, but Parliament. The statutory power is contained in Acts of Parliament either directing or empowering local governing bodies, according to their status, to perform certain duties, or functions, or to provide specific services, and to raise the money necessary to meet the cost in a specific way.

Quite apart from whether expenditure is met wholly or in

part out of one or more of the six sources of income already named, expenditure (and incidentally income too) falls to be grouped under three main heads :—

- (1) General Rate Fund Accounts.
- (2) Trading Undertakings Accounts, *e.g.* Gas, Electricity, Tramways, Water, etc.
- (3) Special Accounts.

Revenue Expenditure and Income.—The net cost, *i.e.* the excess of expenditure over income, of providing services which devolve upon a local authority in its administrative capacity and those maintained by it in the capacity of sanitary authority is defrayed by levying and collecting the General Rate. Trading undertakings generally are self-supporting, and in some cases profit-making enterprises. They consist of commercial undertakings, such as might be, and in many cases are, conducted by private firms, as compared with those services which are performed compulsorily by public bodies and which no ordinary business company would undertake. The principal trading undertakings are—Tramways, Electric Lighting and Power Works, Gas Works, and Water Works. Instances of each of these undertakings being carried on by private firms can readily be found. Though generally kept in a class apart from the General Rate Fund Account, any deficiency on the year's workings, except in so far as it may be taken from Reserve Fund or made up from subsequent profits, must be made good out of such rate. Conversely, any profit must in effect be applied in aid of the rate. Thus it will be observed that all such enterprises are attached to, or rather form part of, the General Rate Fund.

A modification of the method of dealing with deficiencies and profits on trading undertakings may, of course, be effected by local Acts. For instance re-adjustment of the charges may be the means adopted so that neither profit nor loss shall be made. In the absence of any such procedure, it may happen that owing to circumstances not likely to recur the deficiency on a period's working is carried forward in the hope that it will be covered by profits in the immediate future. This course is not prudent unless it is reasonably certain that the hopes will be realised, because a deficiency will eventually have to be made good out of rates and may fall to be met at a time less convenient than the present.

The main items of expenditure on the General Rate Fund are :—

Municipal Buildings (upkeep), Salaries of Officers, Office

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Establishment Charges, Legal and Parliamentary Charges, Election Expenses, Cost of Registration of Electors, Police Force, Cemeteries and Crematoria, Administration of Justice, Criminal Prosecutions (Counsels' Fees), Coroner's Inquests, Blind Persons (provision of assistance), Interest and Sinking Fund on Loans, Art Galleries, War Memorials, Free Libraries, Administration of—Midwives Act, 1902, Poisons and Pharmacy Act, 1908, Explosives and Petroleum Acts, Dogs Act, 1908, Motor Car Acts, Locomotive Acts, Mental Deficiency Act, 1913, Diseases of Animals Acts, Weights and Measures Acts, Sale of Food and Drugs Acts, Shop Regulations Acts, Elementary Education, Higher Education (County Boroughs only), Lunatic Asylums (County Boroughs only), Inebriates Asylums (County Boroughs only), Industrial Schools (County Boroughs only).

The foregoing items, prior to the creation of the General Rate Fund by the Rating and Valuation Act, 1905, formed the Borough Fund expenditure, while the following items were those of the District Fund :—

Sewerage and Sewage Disposal, Parks and Recreation Grounds, Public Lighting of Streets, Scavenging of Streets and Refuse Collection and Disposal, Hospitals and Sanatoria, Baths and Wash-houses, Fire Brigade, Public Street Improvements, Public Abattoirs, Salaries and Administration Expenses, Interest and Sinking Fund on Capital Outlay, Main Roads and other Roads, Dealing with Nuisances, Lodging Houses, Allotments, Public Conveniences, Notification of Infectious Diseases, Clearance of Slum Areas, Water Supply, Treatment of Tuberculosis, Treatment of Venereal Diseases, Maternity and Child Welfare, Housing Schemes.

Against the expenditure named, income is forthcoming in respect of many of the items, mainly as follows :—

Rents of Property, Justices' Court Fees, Weights and Measures Fees, Licences, Art Gallery Charges, Baths and Wash-houses Charges, Library Fines, Sales of Materials, Maintenance of Patients in Hospitals, Lodging House Charges, Rents of Allotments, Cemetery Fees, Parks Income, *e.g.* from Games, Boating, Cafes, Concerts, etc., Government Grants towards cost of Education, Police Force, Housing, etc., and the General and Special Exchequer (block) Grants.

The foregoing summary of heads of expenditure and income does not purport to constitute an exhaustive list of the items which may be found in the transactions of any specific municipal authority. A great many of such bodies have at times promoted bills which have eventually become local Acts enabling the

particular authority to perform services, etc., not authorised by the statutes generally applicable to local governing bodies.

All Income and Expenditure Handled by the Borough Treasurer.—Acts of Parliament relating to the financial transactions of local authorities definitely prescribe that all payments to and out of an authority's funds must be made to and by the Treasurer to that authority. Hence the Treasurer is a statutory officer and a local authority may not, even if it wanted to, dispense with, avoid or abolish the office of Treasurer.

Some further observations on the functions of this person will be made presently, but before passing on to that phase of the subject it may conveniently be stated here that although the Treasurer is the custodian of the civic purse, the statutes governing the disbursement of moneys of the authority prescribe that no payments may be made without an order of the Council duly signed by three members and countersigned by the Town Clerk or Clerk to the Council (another statutory officer about whom nothing further is said in this book because this treatise is concerned with finance of local authorities and the Clerk is the legal officer having nothing to do with the finances. So marked and definite is the law on this point that it prescribes that the Clerk and Treasurer must not be the same person.

To the rule that no payments may be made except in pursuance of an order of the Council, the Local Government Act, 1933, which applies to all Municipal Corporations, permits of certain exceptions, as follows :—Payments in pursuance of the specific requirement of any enactment; payments in pursuance of an Order of a competent court, or of a Justice of the Peace acting in discharge of his judicial functions ; remuneration of the Mayor, the Recorder in his capacity of Recorder or of Judge of a borough civil court, the Stipendiary Magistrate, the Clerk of the Peace (when paid by salary), the Clerk of the Borough Justices, and all other officers or persons whose remuneration is payable by the Council; remuneration and allowances certified by the Treasury to be payable to the Treasury in relation to an election petition; remuneration certified by a Recorder to be due to an Assistant Recorder, Assistant Clerk of the Peace or additional Crier.

Capital Expenditure and Income.—A business firm must have oapital (provided by the proprietors) in order to bring its undertakings into existence, and so must a local authority, although in the latter case while it would not be illegal to obtain the initial outlay from the burgesses or ratepayers by a direct levy on them, it would not be practicable nor would it be reasonable.

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If this course were adopted the effect would be to charge one year's ratepayers with expenditure the benefit of which would extend to many future years.

The procedure adopted by a company in obtaining its money requirements resembles, in many respects, the method of a local authority. The chief difference is that the company gets its capital from its members, or by issuing shares to such of the public as will subscribe for them (without any provision for repayment), in the hope of an adequate return in the form of dividend arising out of the net profits from the working of the undertaking, while a local authority obtains its capital requirements by borrowing from the public or other source for a definite period and subject to a pre-arranged rate of interest. Instead of its being a speculation, an investment with such an authority is redeemable (except in a few cases of old loans no more of which may now be issued) at a fixed or determinable future date, and carries an agreed rate of interest.

Unlike the company, which treats its capital as permanent, a local authority (compulsorily) considers its capital payments as expenditure to be provided for over a number of years, and so redeems a proportion each year, or creates a sinking fund or redemption fund by making an annual contribution thereto, charged in the revenue account, of such an amount as will accumulate to the requisite sum in the specified period. This period is fixed by the Ministry of Health or other Government Department after inquiry into the circumstances of the case, or by local Act, and is calculated so as not to exceed the life of the asset or work for which it is sanctioned.

These principles apply to non-trading undertakings charged on the rate fund, such as sewers, parks, municipal buildings, depots, etc., and to trading undertakings in which cases the capital raised is applied in acquiring and equipping or extending the undertakings. The contributions to sinking funds, or the periodical repayments, in the case of loans for trading undertakings are charged against the profits of such concerns, and consequently do not *directly* become a burden on the ratepayers. If, however, the working of the concern continuously results in a net loss, the loss and the sinking fund contributions or repayments are chargeable on the local rates.

The Treasurer and Accountant (Chief Financial Officer).—It is reasonable to assume that by the Public Health Act, 1875, and the Municipal Corporations Act, 1882, and now by the Local Government Act, 1933, which provides that a Treasurer **shall** be appointed, it is intended that such office shall not fall

on a person other than a paid servant of the local authority. In some towns, however (both in the Metropolis and in the provinces, especially in the areas of Urban District Councils), the Treasurer is a local bank manager, while an Accountant is separately appointed, who is, for all practical purposes, both Treasurer and Accountant.

The office of Treasurer is a personal one, and apparently cannot be held by a banking company as such, and it is very doubtful whether such an appointment could be supported in the Law Courts, in view of the personal nature of the office and the penalties for neglect. Where a local bank manager acts as Treasurer, the local authority's bank account should stand in the name of the Treasurer—such as "John Brown, Treasurer of the———Council," and not "———Council, John Brown, Treasurer."

It is extremely doubtful if the practice of appointing a local bank manager as Treasurer complies strictly with the statutes, for it leaves the real control of finance in the hand of the Town Clerk (or Clerk to the Urban District Council), who is by law prevented from holding the office of Treasurer, for the very obvious reason that it is desired to keep the control of finance separate from the business of the Clerk. Especially is this emphasised by Section 106 of the Local Government Act, 1933, (which merely perpetuates the provisions of Section 18 of the Municipal Corporations Act, 1882, and the Public Health Act, 1875), which states that the Town Clerk and the Borough Treasurer shall not be the same person, nor stand in relation to one another as partners or as employer and employee. It is obvious that the office of Chief Financial Officer is entirely independent of that of the Town Clerk.

Certain statutory duties devolve upon the Borough Treasurer, the proper fulfilment of which renders it necessary that he shall be Borough Accountant also. In a few instances separate paid persons have been appointed as Accountant and Treasurer, neither of such persons being the local bankers with whom the Council's accounts are kept.

There are objections to both of the above methods, as it is difficult to draw a distinction between the duties of the Borough Treasurer and those of the Borough Accountant, and as the Treasurer is statutorily responsible for duties really appertaining to the office of Accountant, he is made accountable for **work** over which he has no control, resulting in an unsatisfactory state of affairs. In the instances (which are rapidly getting fewer) where the Treasurer is bank manager, he usually discharges

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no duty for the authority other than the formal signing of cheques, receipts, etc., and he obviously cannot do even this act with proper knowledge and certainty as to accuracy and authentication.

A bank manager Treasurer could not comply with the statutory provisions which require the Treasurer

- (1) to make up his accounts half-yearly,
- (2) to submit his accounts to the borough auditors,
- (3) to print an abstract of his accounts for the year,
- (4) to place his accounts open for the inspection of the Council,

as the only book he has is the pass book, and this alone would be useless for these purposes. Further, the Treasurer has to make returns to Government Departments, receive Government grants, conduct correspondence with regard to the finances and accounts, etc. None of these duties can a bank manager do properly, the result being that they are performed by the Borough Accountant, who is statutorily neither liable nor responsible therefor. The bank manager, further, is not a servant of the Council and not under its complete control.

The Local Government Act, 1933 (in re-enacting the provisions of the Public Health Act, 1875), provides that an Urban authority shall appoint a Treasurer subject to restrictions similar to those which apply in the case of a borough council. The office of Accountant is not expressly mentioned, but the Act authorises the appointment of such other officers as may be thought necessary for the efficient discharge of the functions of the Council.

Treasurer and Accountant.—The dual office is in the majority of towns now performed by one person who generally takes the title of Treasurer, and sometimes "Treasurer and Accountant," but in any case is the paid servant of the Council. By this means the disadvantages already quoted are obviated, and the legislative intention followed. This is undoubtedly the better method, especially where a good system of internal check is in operation.

Controller or Comptroller.—This term has been adopted by some authorities. It apparently does not signify much, though it does indicate that the holder of the office is the general financial adviser and accountant to the authority. But so is every paid Borough Treasurer. In some large towns where the trading undertakings are of considerable magnitude it appears to be considered that the Treasurer cannot keep in detailed touch with their accounting and finances, and so Departmental

Accountants under the general control of the Treasurer are appointed.

Bating and Valuation Officer.—Since the coming into operation of the Rating and Valuation Act, 1925, and the consequent transfer of the duties of rating and valuation to local authorities from the Overseers (abolished by the Act), the duties relating to rating and to valuation have in many cases fallen on the Chief Financial Officer.

Registrar of Loans.—In many towns the office of Registrar of Stocks and Bonds is coupled with that of Treasurer.

Duties of a Treasurer to a Local Authority.—One cannot, except in general terms, define the duties which appear to be appropriate to the office of Chief Financial Officer, because differences in constitution, size and conditions of local authorities cause a considerable degree of local variation. Broadly, however, the duties may be said to fall under the following five main headings :—

- (a) Financial adviser on all questions affecting the finances of the local authority.
- (b) Financial controller and chief accountant to the local authority.
- (c) Statutory receiver and paymaster of the local authority.
- (d) Rating and valuation officer to the local authority.
- (e) Registrar of stocks and bonds.

The task of financial adviser is probably the most important and is one which has largely to be performed personally by the Chief Financial Officer. In the case of the larger authorities it is of vast importance. It involves responsibility for the general financial and accountancy organisation of the local authority as a whole and for the sound conduct, from the financial point of view, of each of the authority's many activities.

The Chief Financial Officer's duties as chief accountant vary to an appreciable extent according to the size and type of local authority, but he is generally responsible for keeping the main accounts of a local authority and for supervising all accounts. Another important duty is to maintain a system of internal audit of all transactions of the local authority.

As receiver and paymaster of a local authority the Chief Financial Officer is responsible for receiving all income from whatever source it may be derived and for disbursing all expenditure.

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Many additional duties are also assigned to the Chief Financial Officer. These include work relating to insurance, superannuation and pension funds, registration and management of stock and other securities, and supervision of valuations for assessment purpose.

Schedule of Duties of a Chief Financial Officer.—Very few people have any conception of the varied and exacting nature of the many tasks which statutorily devolve upon a Chief Financial Officer. It is not infrequent, however, for a Council to prescribe certain of his duties. Such a procedure is good, not merely because it defines the services which that Officer has to perform, but also, if the list is in any measure complete, it will place on permanent record his many and exacting responsibilities and the high degree of skill in finance, accounting and organisation that he must possess.

The duties concerning finance, accountancy and administration would form a very comprehensive schedule if it were practicable or possible to compile such a list. An idea as to the range of services the Officer has to perform may be gathered from the following items, which are only a few of his many tasks :—

(1) He is responsible for the supervision and control of all income and expenditure of the authority.

(2) He must possess a good knowledge of the money market so that he can raise loans, redeem debts, manage redemption funds, control banking accounts, and in fact perform services of this character in such a manner as will be *intra vires*, economical, and advantageous to the Council and the ratepayers.

(3) He has to be able to negotiate with Government Departments, and others.

(4) He should be prepared to investigate and report upon all matters and problems both financial and accounting, including matters relating to taxation, Imperial subventions, grants by the local authority to others, etc., financial relations with other local authorities in connection with alteration of boundaries, transfer of burdens and financial adjustments generally, superannuation schemes, etc.

(5) He must prepare all financial and statistical returns.

(6) He must conduct an efficient system of internal audit of all departments of the local authority.

(7) He is responsible for the investment or other dealing with all sinking funds, redemption funds, reserve funds, renewal and depreciation funds, insurance funds, superannuation funds, etc.

(8) It devolves upon him to see that income tax assessments are correct. There must be neither over nor under payments.

(9) He is responsible for the institution and management of proper systems of stores and cost accounts.

(10) It is his duty to act as paymaster of the local authority, including loan accounts, trade accounts, salaries, wages, National health and unemployment insurance, workmen's compensation insurance, etc.

(11) He must effect fire, burglary, plate glass and other insurances of the local authority's properties, and if required create an insurance fund on sound lines.

(12) He must see that proper fidelity and guarantee insurance policies are in existence where necessary.

(13) He must undertake all accountancy work of the local authority, including that of

- (a) All trading departments (such as those relating to gas, water, electricity, tramway, bus, etc., undertakings).
- (b) Non-trading or rate-fund services.
- (c) Education accounts.
- (d) Rate collection accounts.
- (e) Charities accounts (where managed by the authority).
- (f) Loan debt accounts (including all methods of raising and redeeming loans).

(14) He must supervise the preparation of estimates for rates for all departments and funds of the local authority; he must calculate the poundage to be levied and must see that the rate or precept is properly made, levied, collected and spent or accounted for.

(15) He must be a valuer of property and have a thorough knowledge of the law of rating, valuation and assessment of properties.

(16) He must be able to act as registrar of stocks and bonds.

The foregoing outline is by no means an exhaustive one, but it will illustrate the multitudinous and multifarious phases of accountancy and finance that fall to the lot of a local authority's Chief Financial Officer as compared with the singleness of a special trade for which the average commercial accountant officer has only to be responsible.

Treasurer'ship also an Independent Office.—An important point not to be overlooked is the fact that a Borough Treasurer, while holding an appointment as a servant of the Council, is a statutory officer with statutory duties, and as such he occupies an independent position. He is not bound to obey any orders of the Council which would cause him to do an illegal act. He

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is the custodian of public funds. He is a trustee and is subject to all the duties and liabilities of trustees. This matter is quite clear, as shown by the decision of Mr. Justice Farwell in the case of *Attorney General v. De Winton* in 1906.

It may be interesting to note that before the Municipal Corporations Act, 1835, came into operation, a Corporation was the owner of its corporate funds and could dispose of them as thought fit; but on the passing of that Act the Borough Fund (now termed the General Rate Fund) became a trust fund and can only be applied in the manner provided by law.

Interest in Contracts with the Council.—The Treasurer (and any other officer or servant of a local authority) must, if it comes to his knowledge that a contract in which he has any pecuniary interest (direct or indirect) other than a contract to which he is himself a party, has been or is proposed to be entered into by the local authority or any committee, give notice as soon as practicable, in writing, to the local authority to the effect that he is interested therein. The penalty on an officer for failing to comply with this provision, or for accepting any fee or reward other than his proper salary or allowances, is on summary conviction a fine not exceeding £50.

CHAPTER III.

BORROWING FOR CAPITAL REQUIREMENTS AND
SPENDING-AS-ONE-GOES.

THE most common method by which a local authority obtains its capital requirements is by raising loans for the amount, to be redeemed within the period sanctioned, which period is, almost without exception, shorter than the probable life or period of continuing utility of the assets to be acquired. Indeed, borrowing is in many cases the only practical way of proceeding.

If the sum required is large it would obviously be both impracticable and unfair to cause ratepayers to raise the whole amount in the current year's rates, and so, after obtaining the necessary power and sanction to raise a loan, one or other of the available methods of borrowing is resorted to.

The Local Government Act, 1933, empowers local authorities (except Metropolitan Borough Councils) with the consent of the sanctioning authority to borrow for any of the following purposes—

- (a) Acquiring land,
- (b) Erecting buildings,
- (c) Executing permanent work, and providing plant,
- (d) Any other authorised purpose,

and without the consent of the sanctioning authority a County Council may borrow for the purpose of lending to a Parish Council any money which the Parish Council is authorised to borrow.

Modes of Borrowing.—The modes of borrowing authorised by the Local Government Act, 1933 (except by Parish Councils, which may use method (a) only), are—

- (a) By creating mortgages,
- (b) By issuing stock (with the specific consent of the Ministry of Health),

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- (c) By debentures or annuity certificates issued under the Local Loans Act, 1875 (as amended).

A debenture issued by a County Council may not be for less than five pounds.

There are additional methods of raising money in appropriate circumstances besides those just enumerated. They are treated later in the present chapter.

Security.—The security offered, except in the case of temporary loans or bank overdrafts, is a charge indifferently on all the revenues of the local authority, all ranking *pari passu*.

Periods of Loans.—Statute fixes maximum periods to which the sanctioning authority may consent. But these maximum periods may be reduced either by the sanctioning authority or by the local authority. The maximum periods are as follows :—

- (1) Under the Local Government Act, 1933, . . . 60 years
(But usual periods granted are :—

Freehold lands, ... 60 years

Buildings, sewers, water
mains, reservoirs, bridges,
underground conveniences, 30 „

Walls, sea-defence works,
granite paving, new road
construction, ... 20 „

Refuse destructors, machinery
and furniture of buildings, 15 „

Fire engines, road rollers, iron
urinals, lamp columns,
carts, hard-wood paving, 10 „

Gravel footways, horses and
harness, soft-wood paving
and macadam), ... 5 „

- (2) Under The Tramways Act, 1870, ... 30 „

- (3) Under The Allotments Acts, 1908-1931, ... 80 „

- (4) Under The Small Holdings Acts, 1908-1931, ... 80 „

- (6) Under The Housing Acts, 1925 and 1930, ... 80 „

- (6) Under The Housing (Rural Workers) Acts,
1926 and 1931, ... 80 „

- (7) Under The Road Traffic Act, 1930, such period
as may be prescribed by the Minister of
Transport.

Suspension of Redemption Provision.—In the case of borrowings for the construction or extension of revenue-producing undertakings, provision for the redemption of the loans may be suspended for such period (not exceeding the unremunerative period or five years from the commencement of the financial year next after that in which the expenditure commences to be incurred, whichever is the shorter) and subject to such conditions as the sanctioning authority may determine.

Excess Borrowings.—Moneys borrowed in excess of actual requirements (but within the amount sanctioned) may, with the consent of the Ministry of Health, be applied to any other purpose for which capital money is applicable.

Mortgage Register.—A form of mortgage is prescribed by the 1933 Act and mortgages must be by deed in that form or in a form to the like effect, except that in respect of loans raised from the Public Works Loans Commissioners the deed must be in the form prescribed by the Public Works Loans Acts, 1875-1882. A form of transfer is also prescribed by the 1933 Act, and mortgagees may transfer their rights by deed in that form or in a form to a like effect.

A register of mortgages must be kept at the Council offices, in which must be recorded within fourteen days after the date of the mortgage the number, date, names and descriptions of the parties thereto, and the amount borrowed. A charge, in the discretion of the local authority (but not exceeding five shillings), may be made for recording in the register transfers and transmissions. The register must be open at all reasonable times to public inspection without payment. The penalty for refusal to allow inspection or to make an entry in the register is, on summary conviction, a fine not exceeding £5 and £20 respectively.

Lenders need not inquire whether the borrowing of money by the local authority is or was legal or regular, or whether properly applied, and are not prejudiced by any illegality or irregularity.

Notices of trusts, expressed, implied or constructive, affecting a mortgage created by a local authority, may not be entered in the register or be receivable by the authority. Where there are joint holders of a mortgage any one of them may give an effectual receipt for the interest thereon unless notice in writing to the contrary has been given to the local authority by any other of the lenders. The receipt of a guardian of an infant is a sufficient discharge for money payable (either interest or principal) to an infant in respect of a mortgage.

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Default by a Local Authority.—If interest or principal due remains unpaid for two months after demand in writing, the person entitled thereto may without prejudice to any other remedy apply to the High Court for the appointment of a receiver, provided the amount so owing is not less than £500, which may be made up of sums due to two or more persons. The receiver may be empowered to collect, receive or recover such rates and issue such precepts as could have been done by the local authority.

Promotion of a Local Act.—Where there is no general statute which authorises borrowing for the particular purposes, or under such conditions as, or in such manner as, the local authority desires, the method usually resorted to is that of promoting a local Act. The necessary procedure is indicated in detail in the author's larger work "*Local Authority Finance, Accounts and Auditing*" *

Provisional Orders.—A Provisional Order is an Order made by a Government Department, such as the Ministry of Health, and confirmed by Parliament. A local enquiry is held into the circumstances concerning which a local authority has made application for borrowing powers. The Ministry prepares a scheme, which is embodied in an Order, and this appears, along with others, in a Parliament Orders Confirmation Bill which eventually (when confirmed by Parliament) becomes an Act.

A Provisional Order is resorted to to obtain power to do something which has not been made fully permissible by Act of Parliament but of which Parliament has already approved the principle.

Methods of Borrowing.

The available methods of borrowing are as follows :—

- (1) By the issue of mortgages.
- (2) By the issue of stock.
- (3) By loans on deposit (usually small sums),
- (4) By debentures, etc., under the Local Loans Acts. 1875 and 1885.
- (5) By bills of exchange.
- (6) By annuities.
- (7) By bank overdraft.

- (8) By utilisation of sinking funds and redemption funds, reserve funds, superannuation funds, etc.
- (9) By claiming a proportion of the proceeds of Savings Certificates sold in the area.
- (10) By loans on mortgage from the Public Works Loans Commissioners (in certain cases only).
- (11) By issue of housing bonds (bearer bonds).
- (12) By issue of Corporation bonds.

The periods fixed by the statutes named (p. 22) are the maximum periods for which the Government may authorise a local authority to borrow for permanent works. A local authority need not borrow for the full term sanctioned. It may adopt any shorter period it so desires.

There are some formalities to be complied with before the Treasurer may raise the money.

Preliminaries to Borrowing.—A local authority cannot (except in the circumstances named later), by its own resolution, authorise the raising of loans. It can only decide to apply for sanction to borrow. The application may take the form of a direct recourse to Parliament by promoting a private bill, or a provisional order may be applied for (which is an order by a Government Department, *e.g.* the Ministry of Health, the Ministry of Transport, the Board of Trade, the Board of Education, or the Ministry of Agriculture, granting the applicant power to perform its requests). The latter, which is available only for objects of which Parliament has already approved the principle, is less costly, more expeditious and simpler than a bill. Or (as obtains in most cases) an application to a State Department for the necessary sanction under provisions of a general Act of Parliament such as has already been cited may be made.

Before it will grant sanction, the Government requires to be satisfied as to the necessity or advisability of the scheme, and it may and often does hold a local inquiry to ascertain the wishes of the ratepayers. All applications for sanction should be accompanied by statements of rateable value, and of the existing debt of the local authority, and, where the application is for sanction to borrow for any objects which necessitate the carrying out of works, there should also be sent plans, sections and detailed estimates thereof. The amount of the proposed loan, the objects for which it is required and the period proposed for redemption must also be furnished. A specimen statistical

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statement such as would be submitted to an Inspector holding an inquiry is as under :—

Name of Authority.
 Area (in acres)
 Population (1) (last census)
 (2) Registrar General's estimate (latest)

(3) Medical Officer of Health's estimate (latest)

Rateable Value (present)
 Assessable Value (present)
Penny Rate.—Amount realised by a rate of one penny in the pound on the above assessable value.

Statement of Rates Levied.	Year 19....	Year 19....	Year 19....	Year 19....
General Rate, . Special Rates (if any), Differential Rates (if any), .				

Following this will be a statement showing outstanding debt, unused borrowing powers and sinking funds or redemption funds in hand—analysed under services and undertakings.

When the necessary sanction has been obtained the Chief Financial Officer may proceed to raise the money, though he will, of course, have due regard to the date when payments thereout will be made, as it is uneconomical to borrow simply to swell the bank balance and incidentally pay a higher rate of interest to the mortgagees than the Council will receive from the bank. Conversely the opposite standpoint must be watched, and in this connection it often happens that payments are made in anticipation of the receipt of loans.

As the loans are raised they will be allocated to a specific sanction against which they are borrowed, or will be credited to a Consolidated Loans Fund, and apportioned to the various sanctions later as required. The former method is adopted more particularly by the smaller authorities, who try to borrow their requirements under each sanction in one sum, and for the whole period of the sanction. The latter system is taken advantage of by many of the larger corporations in consequence of the many benefits arising thereunder.

It is not deemed necessary in a treatise such as this to expound the technicalities or the merits and demerits of each of the alternative ways of raising loans. But as the two methods designated "housing bonds" and "corporation bonds" are a comparatively recent innovation, and as they have achieved a certain popularity, a description in some detail is offered.

Housing Bonds.—Borrowing by the issue of housing bonds is available to all local authorities which have powers relating to housing purposes, but consent of the Ministry of Health to the issue of housing bonds is necessary. They are usually issued in denominations of £5, £10, £50 and £100 and in multiples of £100 (for a period of not less than five years) at par. They are exempt from stamp duty on issue, but not on transfer. Transfer may only be by deed and may cover the whole or a part.

The security accorded to investors in housing bonds while embracing all rates, properties and revenues of the local authority (including properties erected under housing schemes), also comprises Government subsidies in respect of housing.

Interest on housing bonds is payable without deduction of tax in the case of bonds not exceeding in the aggregate £100 held by one investor. The recipient of the interest must, however, account for the interest in his income tax return.

The statutory authorities under which a local authority may apply for permission to issue housing bonds (and which regulate the conditions, terms, etc., of them) are the Housing (Additional Powers) Act, 1919, Section 7, the Housing (Local Bonds) Regulations, 1920, the General Housing Memorandum, No. 21, and the Housing Act, 1925.

Corporation Bonds.—The issue of Corporation bonds is not a new method of borrowing. It is but a slight variation of the housing bond method. There is no general legislation authorising the issue of local bonds, and so where the method is desired to be used resort has to be made to obtain the necessary power by local Act.

A typical illustration of this form of borrowing was afforded by the Coventry Corporation in 1926. The main features relating to issues in this method are as follows—Bonds may be issued for £5 or any multiple thereof, each holder receiving a certificate in respect of his holding. Bonds may be transferred by deed either wholly or in part. There is no transfer fee and the Corporation pays the stamp duty on deeds of transfer. Special facilities are given for repayment before the due date to the legal representatives of a deceased bond-holder, a concession which should be appreciated by investors.

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The nominal rate of interest on the bonds is 4 per cent., payable half-yearly by warrant, but not without deduction of tax, as in the case of housing bonds. Bonds may be obtained with a currency of any number of years between 5 and 20, and the price of issue varies according to the term for which the bond is current. Thus a bond repayable five years hence may be obtained at the price of, say, £96 per cent., while a ten-year bond would cost £92 10s. per cent., and a twenty-year bond £88 10s. per cent. The schedule of prices may be varied by the Corporation at any time in order to provide for fluctuations in the current price of money.

The main differences between housing bonds and corporation bonds are :—

- (a) Housing bonds may be issued only for housing purposes.
- (b) Housing bonds are exempt from capital stamp duty of 2s. 6d. per cent.; corporation bonds are not. (Neither bond is exempt from stamp duty on transfer.)
- (c) The rate of interest on housing bonds is prescribed by the Treasury; interest on corporation bonds is fixed by the local authority.
- (d) Housing bonds may only be issued at par ; corporation bonds may be issued at such prices as the Corporation may determine.
- (e) Where the total holding of housing bonds does not exceed £100, interest is payable without deduction of income tax. This, however, is not so in respect of corporation bonds.

National Savings Certificates.—It is interesting to note that a local authority is entitled to claim, as a right in the exercise of statutory borrowing powers, a proportion of the proceeds of sales of National Savings Certificates sold in such authority's area.

The Finance Act, 1920 (Section 59), provided that as from the 1st October, 1920, half the gross proceeds of the sale of Savings Certificates in an authority's area would be available for loans to local authorities (except County Councils) for housing purposes. As from 1st October, 1921, the purposes for which the money could be advanced were extended to include any purpose for which the Public Works Loans Commissioners have power to lend money. The amount for which a local authority may apply is a figure not exceeding one-half of the gross proceeds of Certificates sold in that authority's area.

The right to borrow the amount available must be exercised

within one year of the sale of the Certificates. The right is not accumulative.

Alternatives to Borrowing.

There are several alternatives to raising loans for the acquisition of capital assets, in which circumstances no sanction is required. The methods are—

(1) To charge the cost to current rate or revenue account, and/or to surpluses of rate funds or revenues that cannot legally be held in reserve.

(2) To utilise surplus reserve funds or redemption funds (if any) as the source of financial supply, or to use the proceeds of sales of capital assets against which no debt is outstanding.

(3) To acquire the assets on the hire-purchase or payment-by-instalments system.

(4) To rent the assets in lieu of acquiring ownership (where possible).

The So-called " Pay-as-We-Go " System.

In considering (1), the " pay-as-we-go " system, one ought to have a correct and complete picture of the whole process of permanent works throughout a long period of years. If one treats each work individually, without relation to those that precede or follow, one cannot see much (if any) merit in the system of charging everything to revenue account. When the process of permanent improvements is one of a gradual and steady expansion or growth, however, the so-called " pay-as-we-go " policy may be an expedient in financing. When the process is altogether irregular and interrupted, consisting of a few isolated improvements separated from each other by long intervals of time, and each involving a relatively large expenditure of money, borrowing is undoubtedly the proper procedure, and when (as is usually the case with an authority which has reached a fair stage of development) the process is continuous but not altogether steady (a certain amount of permanent works being performed each year, but that amount becoming especially large at times) a combination of the "pay-as-we-go" and " borrowing " may be appropriate. In these circumstances the normal proportion of improvements would be paid for wholly out of current income and the abnormal or peak parts by the raising of loans. It thus follows that either method may be proper under certain conditions and within certain limitations, and that a combination of the two is desirable in certain circumstances.

A policy of "pay-as-we-go" is easier of practical attainment in the case of a large local authority than with a small and probably less progressive one. This arises by reason of the operation of "average." Evidence of this is available from the policy of the Government, whose practice is largely to pay for permanent assets out of current revenue except those of a revenue-producing character.

The Government is noticeably inconsistent, however, in that it will not allow capital expenditure to be debited to revenue or rate account in respect of grant-aided services. It is not easy to appreciate the State's point of view here because if the policy of defraying the cost of permanent works out of current revenue is an economical one, surely it would be practising economy to a greater extent if it discharged its liabilities for grants in a commuted form, as would operate if local authorities were permitted to charge expenditure on grant-earning services to revenue account.

The problem erroneously labelled "*borrowing versus paying-as-one-goes*," but which would, perhaps, be more aptly described as "*correct allocation of expenditure versus paying in advance*," merits some comments.

If one would consider the advantages and disadvantages of a system of charging capital expenditure to revenue account, one must necessarily be possessed of knowledge as to the circumstances of the case. What is most advantageous to one authority may be the reverse to its neighbour, and a course that is highly expedient to one local authority may be practically (if not theoretically) impossible of adoption by another.

A very important factor always to be borne in mind when estimating the amount of capital expenditure which can conveniently be borne by current revenue account is that the existing debt charges have still to be paid, and thus to the extent to which further assets are acquired out of revenue moneys an additional burden is inflicted on the present rate-payers.

The Utopian idea, borne out perhaps to the full by correct statistics, that the annual debt charges of the average local authority exceed the average annual capital expenditure, is doubtless excellent in theory. The flaw is apparent, however, when one tries to put it into practice. It almost presupposes that a newly created authority could spread its capital payments fairly evenly over the future. The impossibility of this is obvious. The bulk of the expenditure on assets has to be provided *at once*.

The advantages and disadvantages of a system of paying

out of current revenue (where appropriate) instead of loan moneys are as follows :—

Advantages :—

(1) No debt is incurred and, consequently, no loan sanction is necessary.

(2) There is no need for borrowing powers to be possessed.

(3) Simplification and economy in records result owing to absence of sinking funds, dividend warrants, loan registers, etc.

(4) The balance sheet discloses a very strong position, i.e. assets possessed without counterbalancing liabilities.

(5) Rates are lower because the average capital expenditure over a period is less than the average debt charges (but see (3) under " disadvantages ").

(6) If carried out universally by local authorities and to the fullest possible extent, there would, owing to the absence of demand for loans by these bodies, be a greater amount of available money for industrial purposes and for loans to the Government (if they did not do likewise) and thus money would be cheaper, which fact *ought* to be reflected in cheaper borrowings by the Government and thus in consequence of lower taxes cheaper commodities from the manufacturers, and so on.

Disadvantages :—

(1) It is practically impossible to charge large items to revenue account without seriously affecting the rates. If all capital expenditure were so treated as it was incurred, rates would be subject to violent fluctuations.

(2) Many schemes, both necessary and economical, would have to be abandoned by reason of (1), and progress would be hindered if not entirely stopped.

(3) If a steady and gradually increasing proportion only of new capital expenditure be charged to revenue until such time as the existing debt is redeemed, an additional burden is put on ratepayers.

(4) To the big ratepayers to whom money is worth more in their businesses than the local authority has to pay on loans, it is decidedly uneconomical. It may mean a loss of 10 per cent. to gain 5 per cent. Even to the small ratepayer the " fructification " principle applies equally in theory. The loss is not so great only so long as he does not invest or use his money to advantage. If he buys National Savings Certificates

he would set a greater return on his money than he would save in reduced local rates.

(5) The alleged saving of interest to the Council would, in most cases, be less than at first imagined. Much of the income tax set off would be lost. For example, to the extent to which interest on loans is paid out of profits brought into charge, the tax deducted before payment of such interest may be retained. This would be lost if no interest were paid, and thus the anticipated 5 per cent, saving would really only be equal to 4 per cent.

(6) The system is wrong from an accountancy standpoint inasmuch as one year's revenue account is charged with expenditure that is only partly attributable to it, while the next period bears no share of the cost of assets bought in the previous year but which it is fully benefiting by. Though it may be argued that, taken over a period, each year would stand a fair average, it is reducing the accounting procedure to a system of receipts and payments, and a similar argument that the average would be quite good enough could equally well be adduced to support a system of receipts and payments accounting (embracing all its disadvantages, inaccuracies and dangers) against the more scientific basis of income and expenditure.

The other alternatives to obtaining sanction to borrow and the raising of moneys on loan in order to defray capital expenditure, are as follows (see p. 29) :—

- (2) To use surplus reserve or redemption funds where available.
- (3) To defray the capital expenditure or to acquire the assets on the hire-purchase system, or on the payment-by-instalments plan.

Number (2) is seldom available, but is very useful where it can be resorted to. In number (3) hire-purchase and instalment-purchase are similar in some respects and may be said to **be** the most true form of "paying-as-one-goes." Under either **plan** a fairly near approach to buying out of revenue account in an easy way is secured. There is no actual borrowing of money and thus no sanction appears to be needed. The assets **are acquired** and an agreement is entered into to pay by fixed **periodical** instalments over a future period. The **instalments, of course, include interest on the capital outstanding, but as there has been no borrowing,** there is no debt to redeem.

Under a strict hire-purchase agreement **the property in the**

goods does not legally pass to the purchaser at the time of purchase but only on payment of the last instalment. Where the hire-purchase method is adopted it is suggested that in the balance sheet at the end of a financial year the value of the assets be shown in full in the ordinary way and the hire-purchase firm be classed as a creditor for the capital or purchase section of the amount outstanding. Such is not absolutely necessary. An alternative is to bring the assets in at a value equivalent to the purchase price paid to date, *i.e.* the total of the capital portion of the instalments paid.

Under the payment-by-instalments system the property passes at the time of agreeing to buy, and it is certainly suggested that in a balance sheet the asset be brought in at full value and the vendor shown as a creditor for the capital or purchase section of the amount outstanding.

Payment of Interest on Loans.

The payment of interest on loans is effected in one of four ways :—

(1) *By Interest Warrants* (cheques) posted periodically as the interest becomes due. Income tax at the current rate is deducted. The statement portion of the document shows how the net interest has been calculated and acts as a certificate as to payment of so much tax by the mortgagee.

(2) *By Coupons* attached to the bonds (covering the whole period), and being in the form of cheques on the authority's banker (but not stamped with revenue stamps) and showing the gross interest only. The banker deducts tax at the current rate before making payment. The coupons may be paid into the recipient's bank, but a period of several days elapses before credit is given, this being the period of collection.

(3) *By Discount* in the case of bills of exchange. No actual interest is paid. Persons tendering for the bills state the price they are prepared to give for £100 so many months hence. The difference between this amount and the nominal amount is the interest on the amount paid for the bills. The same figure (*i.e.* difference) represents the interest payable by the local authority on the net amount received from the purchasers of the bills. No tax is deducted. It is not annual interest within the meaning of the Income Tax Acts.

(4) *Under Annuity Borrowings* interest is included in the periodical instalments.

CHAPTER IV.

DEBT AND ITS REDEMPTION.

UNLIKE capital raised by a public company, a commercial undertaking or a private concern, which is regarded as permanent, a local authority is statutorily bound to provide for and actually effect repayment of its borrowings.

Difference between "Redemption" and "Repayment" of Loans.—There is a difference between "redemption" and "repayment" in regard to the loans of local government bodies. Such difference is important from a technical point though the two words are often—one might state generally—used indiscriminately.

The terms are taken to be synonymous in meaning, but it is here submitted that a distinction should be made between them. A sanction to borrow for a stated period is a sanction to re-borrow, if necessary, provided that the whole of the loan is discharged finally by a date not later than the end of the period sanctioned, counting from the first borrowing of such loans, and provided also that at no time during such term is the authorised amount of borrowing power exceeded. When a loan is finally paid off it is *redeemed* or *discharged* once for all, and such redemption can take place only when it is effected by means of moneys specifically and compulsorily applicable for such purpose, i.e. sinking funds (including proceeds of sales of properties bought out of the loan and borrowings in excess of requirements), and redemptions out of revenue account direct. Any repayment out of capital account, suspense account or similar account is not usually intended to be a final discharge of the loan but only a temporary measure pending the substitution of other loan creditors.

It is understood that a sanction to borrow is a permission to incur liability of creditors for the *full* period granted, for the *full* amount, and that repaying one creditor and replacing the loan by another is of no more importance or concern either to the State or the local authority than if the first mortgagee

merely changed his name by means of a deed poll. The fact that a new mortgagee has come on the scene to *replace* the old one does not imply that the loan has been *redeemed* or *discharged*, but simply that the liability of the authority to one person has been *replaced* by *transfer* to another. Thus one gets a meaning (so far as loans are concerned) of the terms "repayment" and "replacement" of loans totally different from the meaning of "redemption" and "re-borrowing" of loans.

No Necessity for Sanction to Borrow for Replacements.—Generally sanction to re-borrow for replacement is granted (without further reference to any sanctioning authority) by the Local Government Act, 1933.

Methods of Redeeming Loans.

Loans may be redeemed in various ways, but the method of borrowing is an important factor in determining the system. In dealing with loans raised by the methods enumerated in the previous chapter, Nos. (5) and (7) can be dealt with summarily, the treatment being self-explanatory. Bills of exchange are met at maturity, and are then no longer debt. The remedy for bank overdrafts is obvious. Borrowings by the other methods are discharged in one of the following three ways :—

- (a) By paying to the lender equal instalments of principal during the whole period of the loan along with interest on the diminishing balance. By this method the charge to the local authority decreases with every payment.
- (b) By paying to the lender equal instalments consisting of principal and interest during the period of the loan ; thus the amount of principal included in the annual payment increases yearly as the interest on the remaining balance of outstanding principal decreases. The charge to revenue is constant throughout the period. This is known as the *Annuity* system.
- (c) By redeeming the whole loan in one amount out of the accumulations of a fund consisting of annual appropriations of such sums as will amount to the required figure on the expiration of the period for which the loan was sanctioned. Interest is paid on the full amount borrowed during the whole period. This is called the *Sinking Fund Method*, and the annual charge to revenue is constant.

Annuity loans are redeemed by what is called the "annuity" method ; Stock, by the sinking fund method (though the fund

is termed "redemption fund"). Loans raised by the other means are cleared by any one of the three methods, (a), (6) or (c), in the discretion of the Council and its advisers.

When short-term loans fall due for repayment, and the mortgagees are not willing to renew, the repayments may be made out of capital account or suspense account and a similar sum re-borrowed for a term not exceeding the unexpired portion of the period originally sanctioned. For example, a borrowing power of £10,000 for a period of 30 years is granted for the provision of a public elementary school. The money is raised by short-term mortgages, of which £2,000 falls due for repayment after 16 years. This figure may be repaid out of capital account or suspense account and re-borrowed (*i.e.* merely replaced) for not exceeding 14 years, *viz.* the unexpired portion of the 30 years sanctioned.

A practical example of the three methods of discharge, showing the comparative cost under each, will illustrate the matter.

Assuming the loan is for £10,000 at 5 per cent. :—

(1) *The Equal Fixed Instalment of Principal System.*—The cost of redeeming a loan of £10,000 in 10 years at 5 per cent. by this system would be as follows :—

			Principal paid off	Interest	Total Charge
			£	£	£
1st Year	.	.	1,000	500	1,500
2nd "	.	.	1,000	450	1,450
3rd "	.	.	1,000	400	1,400
4th "	.	.	1,000	350	1,350
5th "	.	.	1,000	300	1,300
6th "	.	.	1,000	250	1,250
7th "	.	.	1,000	200	1,200
8th "	.	.	1,000	150	1,150
9th "	.	.	1,000	100	1,100
10th "	.	.	1,000	50	1,050
			£10,000	£2,750	£12,750

(2) *The Annuity System.*—The cost by the annuity system is £10,000 X 0.12950457 per annum == £1,295 0s. 11d., and the total cost, therefore, is £1,295 0s. 11d. X 10 = £12,950 9s. 2d. This method, therefore, costs £200 9s. 2d. more than the fixed instalment system, but to counterbalance this the annual charge is equal throughout the whole period of the loan, so that in the early years less money is required to be drawn from revenue.

The following figures show the cost in each year by this method:—

	Amount outstanding at end of year		Principal paid off		Interest		Total Charge	
	£	s. d.	£	s. d.	£	s. d.	£	s. d.
1st Year	9,204	19 1	795	0 11	500	0 0	1,295	0 11
2nd "	8,370	3 1	834	16 0	460	4 11	1,295	0 11
3rd "	7,493	12 4	876	10 9	418	10 2	1,295	0 11
4th "	6,573	5 0	920	7 4	374	13 7	1,295	0 11
5th "	5,606	17 4	966	7 8	328	13 3	1,295	0 11
6th "	4,592	3 3	1,014	14 1	280	6 10	1,295	0 11
7th "	3,526	14 6	1,066	8 9	229	12 2	1,295	0 11
8th "	2,408	0 4	1,118	14 2	176	6 9	1,295	0 11
9th "	1,233	7 5	1,174	12 11	120	8 0	1,295	0 11
10th "	...		1,233	7 5	61	13 6	1,295	0 11
	...		£10,000	0 0	£2,950	9 2	£12,950	9 2

(3) *The Sinking Fund System*.—Calculations showing the annual sinking fund required to redeem a loan of £10,000 in 10 years, the rate of accumulation being, say, 5 per cent., are as follows:—

Year ending	Annual instalment charged to Revenue to accumulate at 5 per cent.	Annual interest earned on Investment of the Fund	Annual payments into the Sinking Fund (Columns 2 and 3)	Total amounts in the Sinking Fund at end of each year (amount at end of previous year + Column 4).
(1)	(2)	(3)	(4)	(5)
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
31st March, 1921	795 0 11	...	795 0 11	795 0 11
" 1922	795 0 11	39 15 0	834 15 11	1,629 16 10
" 1923	795 0 11	81 9 10	876 10 9	2,506 7 7
" 1924	795 0 11	125 6 4	920 7 3	3,426 14 10
" 1925	795 0 11	171 6 9	966 7 8	4,393 2 6
" 1926	795 0 11	219 13 2	1,014 14 1	5,407 16 7
" 1927	795 0 11	270 7 10	1,065 8 9	6,473 5 4
" 1928	795 0 11	323 13 3	1,118 14 2	7,591 19 6
" 1929	795 0 11	379 12 0	1,174 12 11	8,766 12 5
" 1930	795 0 11	438 6 8	1,233 7 7	10,000 0 0
	£7,950 9 2	£2,049 10 10	£10,000 0 0	...

The rate of interest payable on the loan has again been taken at 5 per cent. It is assumed that at the end of each year the sinking fund contribution for that year, plus the interest on the fund already invested, will be invested at a rate of not less than 5 per cent. Often a much lower rate is adopted, in which case

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though the figure may appear low, it must always be remembered that it is safer to err on the side of prudence, as if the sinking fund did not reach the amount required to redeem the loan at the expiration of the period, the statutory requirements would not have been complied with ; but on the other hand, if the fund reaches its goal too soon, no harm is done, the annual contribution being reduced or discontinued, while a reverse state of affairs, viz. an increase in the contribution in the last year or years, might in the case of a small authority have an unpleasant and embarrassing (though not illegal) effect.

The relative cost to the local authority by the three methods respectively is shown in the following table :—

	Method 1 (Equal fixed capital instalments)		Method 2 (Annuity)		Method 3 (Sinking Fund)	
Principal	£	s. d.	£	s. d.	£	s. d.
Interest	10,000	0 0	10,000	0 0	7,950	9 2
	2,750	0 0	2,950	9 2	5,000	0 0
Total charge	£12,750	0 0	£12,950	9 2	£12,950	9 2

The foregoing figures show that the total charge to rates or revenue account is least when the equal fixed instalment method is adopted, the annuity and sinking fund systems each being greater by £200 9s. 2d. A false impression is here likely to arise, resulting in a unanimous decision for the cheaper course ; but the saving is more apparent than real, and when judged from a commercial and economical point of view there is really no difference, or, if any, it goes in favour of the apparently more expensive methods. What makes the latter methods appear dearer arises because less principal is paid off (or provided for) in the earlier years, thus entailing the payment of interest on a larger outstanding balance ; but to counterbalance this, the annual amount of principal repaid is less than in the other circumstances. Thus more money is retained in hand or in the bank as working balance, and there earns bank interest, or in the case of a commercial or trading undertaking may help to increase turnover. But this book is only concerned with local authorities' accounts, and practically no interest accrues on bank balance, because the year's requirements are obtained mainly through the rate levied ; consequently the ratepayers are asked for a smaller sum in method (1), and so save the interest themselves in a direct manner.

Advantages and Disadvantages of the Three Methods (and suitability to circumstances).—(1) *The Fixed Instalment Method* is considered suitable where the authority is in a strong financial position, and can bear the heavier cost in the early years, and where the work for which the loan is borrowed is not of really permanent benefit, and where the expenditure on repairs and upkeep is likely to increase year by year within the period of the loan. *Advantages* are :—

- (i) *Simplicity* of bookkeeping records, calculations and procedure generally. There are no sinking funds and no investments to make, few transfers by mortgagees and consequently little opportunity for fraud,
- (ii) *Economy*.—The total cost is least of all methods. There is economy in labour ; there are no investments to be sought and no loss by depreciation of capital value of investments,
- (iii) *Equity of distribution of charge*.—A heavier charge is involved in earlier years, but this is fair because such earlier years receive the greater benefit by reason of newness of the asset and repairs being few ; more expensive repairs fall in years when the revenue charge for interest is lower.

Disadvantages are:—

- (i) The greater difficulty of borrowing from people who must be prepared to receive back their capital by instalments.
- (ii) When borrowed for long periods, inability to pay off the loan should a more favourable market present itself.
- (iii) Higher rate of interest generally payable.
- (iv) Restriction to one method of redeeming the loan.
- (v) Heavy redemption charges in early years.

(2) *The Annuity System* is generally favoured when the work is undoubtedly of a permanent character.

Advantages :—

- (i) Simplicity of treatment in the accounts (see Advantage (i) above),
- (ii) Economy as compared with the sinking fund method (see Advantage (ii) above).
- (iii) Uniformity of the annual charge.

Disadvantages:—

These are similar to those which apply to the fixed instalment method (excepting (v)), with (i) perhaps even more marked because the lender does not as a rule know how much of his annuity represents return of capital and how much is interest.

(3) *The Sinking Fund Method.*—Where the mortgagees prefer their loans to be repaid in one lump sum, where the period sanctioned is a long one, where both short- and long-term loans are in existence, and where the staff is a highly trained one, the sinking fund method is the method *par excellence*.

Advantages (accumulating sinking funds) :—

- (i) Loans may be raised in small sums for short periods,
- (ii) Interest is usually lower and wider markets are open.
- (iii) If loan debt consists of stock, advantage may be taken of any fall in market value to repay it at a discount.
- (iv) Sinking funds are available for new capital purposes.
- (v) There is an equal distribution of cost of loans.
- (vi) Sinking funds can be used to redeem loans as these fall due, instead of investing them. This generally means a saving of more interest than would accrue on the investment.

Advantages (non-accumulating sinking funds) :—

- (i) Bookkeeping and calculations are less complicated.
- (ii) The total cost is lower.
- (iii) There is not the loss by deduction of tax from interest on investments of statutorily accumulating sinking funds.

Disadvantages (accumulating sinking funds) :—

- (i) Difficulty of finding suitable investments.
- (ii) Book records and calculations are more complicated.
- (iii) Cost of making and realising investments and collecting interest is considerable.
- (iv) Possible loss through reduction in value of investments.
- (v) Loss of income tax on interest on investments where not available as set off.
- (vi) Total cost is heavier than under the fixed capital instalment method.
- (vii) There are greater risks of fraud.
- (viii) Cost of frequent re-borrowing is heavy.

Disadvantages (non-accumulating sinking funds):—

- (i) Redemption charges are not equally apportioned over the whole period.
- (ii) Heavy total charges in early years.

Capital Expenditure Defrayed out of Current Income
(Whether Trading Revenue or Rates).

When expenditure of a capital nature is contemplated, the usual custom is to apply for a sanction to borrow the money for the *longest* possible term. This arises because the longer the period during which provision for redemption is to be made the smaller is the *annual* debt charge falling to be met. But the fact should not be overlooked that the *total ultimate* cost to the local authority will be greater as a consequence. The reason for this is that interest on the amount of the unredeemed loan is accruing and being paid all the time, and the sooner the debt will be discharged the less the interest thereon. It is the *interest*, and not the *provision for redemption*, that causes the chief difference in ultimate total cost.

A more prudent course, instead of requesting a lengthy loan period would be to determine what is the largest annual charge revenue or rate accounts can bear and then to seek a sanction for a term involving that amount. Even if sanction be given to borrow for a long period there is no obligation to exercise it to the full extent. Consent is given for a period "not exceeding so many years from date of borrowing."

Many persons, including members of Councils, have the impression that if work be carried out with loan moneys the expenditure does not burden the rates. Though it may seem strange, it is nevertheless a fact that the reverse is nearer the truth.

Effects of Long- and Short-Term Loans Compared.—The charging of capital expenditure to loan account directly increases current rates and future rates for a very long time, while on the other hand, if such expenditure be met wholly out of current rates subsequent rates are relieved of loan charges.

For a comprehensive treatise on the subject of loans and borrowing powers of local authorities, readers are recommended to peruse the present author's volume bearing that title.

A loan of £10,000 borrowed at 5 per cent, interest for a period of fifty years involves a total charge during that period of £27,388 7s. 5d. (made up of £25,000 for interest, and

Disadvantages:—

These are similar to those which apply to the fixed instalment method (excepting (v)), with (i) perhaps even more marked because the lender does not as a rule know how much of his annuity represents return of capital and how much is interest.

(3) *The Sinking Fund Method.*—Where the mortgagees prefer their loans to be repaid in one lump sum, where the period sanctioned is a long one, where both short- and long-term loans are in existence, and where the staff is a highly trained one, the sinking fund method is the method *par excellence*.

Advantages (accumulating sinking funds) :—

- (i) Loans may be raised in small sums for short periods.
- (ii) Interest is usually lower and wider markets are open.
- (iii) If loan debt consists of stock, advantage may be taken of any fall in market value to repay it at a discount.
- (iv) Sinking funds are available for new capital purposes.
- (v) There is an equal distribution of cost of loans.
- (vi) Sinking funds can be used to redeem loans as these fall due, instead of investing them. This generally means a saving of more interest than would accrue on the investment.

Advantages (non-accumulating sinking funds) :—

- (i) Bookkeeping and calculations are less complicated.
- (ii) The total cost is lower.
- (iii) There is not the loss by deduction of tax from interest on investments of statutorily accumulating sinking funds.

Disadvantages (accumulating sinking funds) :—

- (i) Difficulty of finding suitable investments.
- (ii) Book records and calculations are more complicated.
- (iii) Cost of making and realising investments and collecting interest is considerable.
- (iv) Possible loss through reduction in value of investments.
- (v) Loss of income tax on interest on investments where not available as set off.
- (vi) Total cost is heavier than under the fixed capital instalment method.
- (vii) There are greater risks of fraud.
- (viii) Cost of frequent re-borrowing is heavy.

Disadvantages (non-accumulating **sinking funds**):—

- (i) Redemption charges **are** not equally apportioned **over** the whole period.
- (ii) Heavy total charges in early years.

Capital Expenditure Defrayed out of Current Income (Whether Trading Revenue or Rates).

When expenditure of a capital nature is contemplated, the usual custom is to apply for a sanction to borrow the money **for** the *longest* possible term. This arises because the longer the period during which provision for redemption is to be made the smaller is the *annual* debt charge falling to be met. But the fact should not be overlooked that the *total ultimate* cost to the local authority will be greater as a consequence. The reason for this is that interest on the amount of the unredeemed loan is accruing and being paid all the time, and the sooner the debt will be discharged the less the interest thereon. It is the *interest*, and not the *provision for redemption*, that causes the chief difference in ultimate total cost.

A more prudent course, instead of requesting a lengthy loan period would be to determine what is the largest annual charge revenue or rate accounts can bear and then to seek **a** sanction for a term involving that amount. Even if sanction be given to borrow for a long period there is no obligation to exercise it to the full extent. Consent is given for a period "not exceeding so many years from date of borrowing."

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£2,388 7s. 5d. for sinking fund contributions). If borrowed for thirty years the total cost is £19,515 8s. 8d. (being £15,000 for interest and £4,515 8s. 8d. for redemption). A similar loan for ten years entails a total cost of only £12,950 9s. 2d. (being £5,000 for interest and £7,950 9s. 2d. for discharge of principal). The same amount of capital expenditure, viz. £10,000, defrayed out of current rates or revenues direct, involves a maximum charge of £10,000, there being no interest and no redemption to provide for.

The following table shows the position in concise form, and includes other periods as well :—

Period, Years	TOTAL COST			Percentage of total cost in excess of principal amounts
	Redemption of Principal	Interest	Total	
80	£ 824	£ 40,000	£ 40,824	£ 308.24
50	1,697	30,000	31,697	216.97
50	2,388	25,000	27,388	173.88
30	4,515	15,000	19,515	95.15
10	7,950	5,000	12,950	29.50
Charged to revenue or rates direct	10,000	...	10,000	Nil

Annual Debt Charges Greater than Capital Expenditure out of Loans.—A reference to the financial transactions of most towns reveals a startling surprise, viz. that the annual amount paid for interest on debt and provision for redemption of debt greatly exceeds the average annual amount expended on capital works.

Local Authorities have **no "Real" Capital Expenditure**.—There is no such thing as "capital" expenditure in the case of a local authority in the sense that expenditure may be defrayed out of "capital" as distinct from "revenue." Rather is it revenue expenditure which it is decided shall, instead of being charged in the accounts of the current year, be spread over a period. No matter how long the period of the loan, it must in the end be provided wholly out of revenue.

While it would be within the bounds of legality to defray the whole of each year's capital expenditure out of current revenue, it may not be practicable nor equitable. Nevertheless, the cutting down of periods of future borrowings to an absolute minimum with a view to getting as near to the ideal as possible is undoubtedly worthy of consideration.

CHAPTER V.

HOW EXPENDITURE AND INCOME ARE CONTROLLED.

ORGANISATION ensuring efficient financial control of income and expenditure is a matter of great importance. Nevertheless it is one which too generally receives inadequate attention. Though a good system of control requires—(1) that the Chief Financial Officer shall have the supervision and control of all accounts, including those of executive departments, and (2) that he be responsible for all the finances of the local authority, it must be realised that if full benefit is to be obtained there must be proper co-ordination between that officer and the departmental managers of the Council's services and undertakings. If these persons view the desired objective in the right spirit tremendous advantages must accrue. It is possible for each executive officer so to arrange the routine and operations of his department that he himself has in force a very effective measure of efficient financial control.

SUPERVISION AND CONTROL OF EXPENDITURE.

Objects of Financial Control.—The prime objects of a scheme to effect a satisfactory system of supervision and control of expenditure are the securing of efficiency simultaneously with economy and the prevention of waste. A financial officer should not neglect any opportunity of securing these objects. True economy is not necessarily the avoidance of expenditure, but rather a wise application of moneys. Economy should be applied *inter alia* to time and materials. It is none-the-less important that these two last-named channels of expenditure should receive as much consideration as is given to money itself.

Though rate estimates may advantageously be cut down where possible to a reasonable extent, it is bad policy to reduce the estimates of a spending committee to such a degree that necessary work is precluded from being carried out in consequence of lack of funds. If the work is found to be absolutely essential, and if there is no money in the estimates to meet it, it becomes

necessary to resort to the submission of supplementary estimates after the rate has been made. This leads to a deficiency at the end of the financial period with an unavoidable increase in the next ensuing rate.

It is not unusual to find that an executive department keeps records of a similar nature to those in the finance department. This is a deplorable waste of time and stationery. The usual excuse of the departmental head is that he must have a system of accounting that will enable him to ascertain the cost of work and obtain other information right up-to-date at any moment he may want it. Simple co-operation and co-ordination with the finance and accountancy department should ensure an avoidance of unnecessary duplication without any loss of efficiency.

Other objects of a system of supervision and control are the detection and prevention of fraud, a uniformity, as far as expedient, of the accounts of all departments, and the immediate application of all improvements in systems and methods as discovered to all such accounts.

Without the necessary co-operation, departmental committees, if allowed to control their own expenditure (capital or revenue), without supervision, may unwittingly embark upon elaborate and costly schemes. If they do not possess the spirit of unity regarding the whole of the local authority's operations as against those of *one* body, they are apt to become obsessed with an altogether abnormal sense of the importance of their own particular spheres. A most elaborate, up-to-date and efficient undertaking that will be the *envy* of all contemporaries may be their object irrespective of the financial aspect and the burden they are imposing upon the consumers and ratepayers of their local authority.

Another point not to be ignored when considering the necessity of an adequate system of control of expenditure is that with the advent of "State aids" in many directions the opportunities and desires for extravagance have increased considerably.

Essentials of an Efficient Scheme.—A good system of accounting is the prime factor leading to efficient control, and incidentally to the establishment of an effective system of internal check. The whole of the accountancy work should both legally and logically be under the direct control of the Chief Financial Officer. The accounting should be kept up-to-date, so that any reasonable requests from a departmental manager for information as to the costs of work and results of operations may be complied with before the knowledge is too

late to be of real service. The system should be simply designed and made as easy to work as possible.

How Financial Control may be Effected.

Financial control is effected in several ways :—

(1) By the public by means of inspection of accounts, and at enquiries held by Government Inspectors, where the public may object to proposed expenditure, etc.

(2) By the auditors of the authority's accounts.

(3) By the Government.

(4) By the local authority itself through (a) the Finance Committee, (b) the Chief Financial Officer.

Control by Public and Auditors.—The measure of control effected by the public and the auditors except in the case of Government auditors, is almost negligible.

Government Control.—Supervision and control under this heading is achieved in various ways :—By Statute and Orders, by district auditors, by sanctioning loans (or withholding sanction) and by means of returns and statistics compulsorily furnished to the Government by local authorities.

That obtained by Statute is less direct and is effected mainly by the local authorities themselves through compulsorily established finance committees (in the case of County Councils and Metropolitan Borough Councils), by prescribing detailed instructions as to the preparation of rate estimates, by the limitations placed upon borrowing powers, by the limits fixed as to the amount of rates which may be raised for certain purposes, by specifying the nature of expenditure which may be met out of certain rates and the statutory procedure to be followed in making payments.

The district auditors of the Ministry of Health certainly help to effect a prevention of wrongful expenditure. Their power, however, does not really ensure proper economies, but rather tends to disallow purely illegal items, which is something totally different.

The supervision achieved by requiring proper sanction to be obtained before loans can be raised has a tendency to keep down capital expenditure and the resultant revenue charges in respect of interest and redemption of debt. It does not, however, affect ordinary revenue expenditure or even capital expenditure **if** not defrayed out of borrowed moneys.

Control exercised by means of returns and statistics is effective only so far as grant-aided expenditure is concerned.

In cases where subsidies are given, based on expenditure or deficiency, only such expenditure as is *approved* by the Government department is allowed to rank for the grant. Items not "approved" fall upon the local authority unaided. Though instalments are often made on account of grants during the financial year, the balance is retained until after the Government audit or approval. Control over expenditure is also to a certain extent effected in that the Ministry of Health has the duty of sanctioning the appointment and remuneration of certain officials, e.g. Medical Officers of Health and Sanitary Inspectors.

There is also the control effected by the necessity for the Government's approval to the provisions included in certain local Acts ; by inspection of the efficiency of certain services such as police, education, and health ; by the necessity for consent before lands may be alienated ; by the necessity for the approval of bye-laws, scales of cemetery, street traders, etc. charges ; by control of scales of charges for trading services ; and by prescribing forms of accounts.

Financial Control by the Local Authority.—Control by the local authority may conveniently be considered under two sub-headings :—

(a) By the Finance Committee.

(b) By the Chief Financial Officer.

These phases are of vast and vital importance and will be reviewed in detail.

(a) Control by Finance Committee.

As already indicated, the establishment of a Finance Committee, except in the case of County Councils and Metropolitan Boroughs, is not compulsory, though the practice is very widely adopted. There is no doubt that the policy is a wise one. If technical experts are considered necessary on a departmental committee such as that relative to Art Galleries, Education, or Libraries, the establishment of a committee (with financial experts on it) to regulate and control the finances of a local authority is equally highly advisable. The Departmental Committee on Local Authorities' Accounts, in its report in 1907, stated :—

" The settlement of such questions as the allocation of establishment charges, and the like, which cannot be **left** satisfactorily **to** the executive committees, who are **naturally interested in showing economical results in the departments**

for which they are responsible, is one of the most important functions of a finance committee. In our opinion it should be compulsory for every authority of sufficient size (as is now the case with county councils under Section 80 of the Local Government Act, 1888) * to appoint a finance committee with general powers of control and supervision over all matters of finance."

Corporations which have followed the procedure of appointing Finance Committees have adopted a code of financial regulations defining in much detail the scope of the control and the means whereby such supervision is to be effected.

The part played by the Finance Committee of any local authority in the supervision and control of income and expenditure is affected largely by the circumstance as to whether it is merely a committee charged (through the Treasurer) with the collection of all or part of the revenues of the Council, the disbursement of moneys, the allocation of loans, the investment of sinking funds and the examination and supervision of all accounts, or whether it is one of the most important committees of the local authority, possessing the right to review *all* matters relating to finance and to report to the Council on the financial aspect of every proposal brought before the latter for consideration by any of the other committees.

A Finance Committee should, by virtue of comprehensive regulations approved by the Council, be in a position to supervise all accounts put forward for payment out of rate funds, and the Treasurer should be in a position to refer back to the committees concerned for further information any items which, in his opinion, do not conform to the regulations.

By this means any unauthorised payment out of funds is prevented.

The duties of a Finance Committee embrace the examination of all proposals for capital expenditure and the making of a report thereon to the Council; the obtaining of all necessary borrowing powers for capital expenditure approved by the Council; the control of all debt matters and the borrowing of the necessary moneys from time to time required to meet capital expenditure and redemption of loans; the payment of dividends on moneys borrowed ; the creation of redemption and sinking funds; the receipt from the several spending committees of the local authority of the estimates of expenditure proposed to be charged to rates and the preparation of a summary thereof and its

* Now Section 86 of the Local Government Act, 1933.

submission to the Council for the purpose of making the rate ; the authorisation of all payments by the Council to be made by the Treasurer ; the control over the collection of the whole of the income of the authority ; and generally the advising of the Council on all matters financial.

All accountancy work should be under the control of the Chief Financial Officer and so far as practicable be done in his department.

Before sanction of the Government Department is sought for borrowing powers, the Finance Committee should, if satisfied, approve and recommend such action to the Council. Proposed capital expenditure should be considered by the Committee, which should, if thought fit, recommend the Council to authorise it. Attending submissions of this kind should be explanations and statistics prepared by the officer of the spending committee and the Chief Financial Officer.

An important point with regard to capital expenditure is, as already indicated, the general endeavour to obtain sanction to borrow for the longest possible period. The longer the term the lower is the *annual* charge falling on revenue or rates in respect of interest and redemption provision. But the yearly cost is less solely because the provision for redeeming the loan is spread over a longer period. The annual interest payment is the same throughout until the debt is paid off, whether the term be long or short. It will thus be seen that the longer the period of the borrowing the greater is the *total* cost. From an economical standpoint a short-term loan or even a provision for the capital expenditure to be met out of the current year's revenue account is not to be deprecated. If the amount of capital expenditure is too great to be charged in one year, the wisest course probably is to determine the largest sum per annum that can be raised from revenue for the purpose of redemption and so ascertain the number of years during which the proposed loan can be redeemed, or in other words ascertain the shortest loan period that can reasonably be adopted.

It is interesting to note that the annual loan charges in many towns exceed the annual capital expenditure. From this it can be logically deduced that to defray the cost of all permanent works out of the current year's revenue account in lieu of charging thereto interest on loans and redemption provision for such debt is in theory a sound financial proposal. A means of putting this into practice may sometime be evolved.

The annual estimates of the departmental committees' income and expenditure on revenue account in considerable detail is

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submitted to the Finance Committee, which considers the effect upon the rates. All supplementary estimates must be similarly approved. It ought to be a rule that no item of a departmental committee's estimate may be exceeded without an approved supplementary estimate or a transfer approved by the Finance Committee of some other (not required) part of an item of the departmental committee's estimate.

Periodically, the Finance Committee reviews a statement of actual income and expenditure to date of the various committees, with the appropriate estimated figures, and it carefully watches for possible overspendings.

All orders for payment passed by the departmental committees should be approved by the Finance Committee and submitted to the Council for payment. It should be laid down that no expenditure may be incurred or commitment made exceeding £.. (a stipulated figure, say £50) without the Finance Committee's previous approval. Exceptions may be made in cases of grave urgency, but these should be subject to careful scrutiny, and submitted for confirmation by the Finance Committee at its next meeting. Provision should also be made for the establishment of stock, stores, and cost accounts ; for the certification of accounts ; and for the working of an efficient internal audit.

Financial Regulations.—It is customary and desirable to have in force a set of financial regulations. The following scheme is given as a specimen :—

(1) Annual (or other periodical) estimates on revenue account and capital account shall be forwarded by each committee of the Council to the Finance Committee.

(2) In the case of any work or object the expenditure on which may extend over more than one financial year, the estimate shall show (a) the total expenditure, (6) the amount proposed to be spent during the period of the estimate, and (c) the amount (if any) already expended.

(3) The Finance Committee shall report to each committee the effect of its estimates upon the rate, and if deemed necessary shall confer with any committee with a view to revision of its estimates.

(4) The Finance Committee shall present to the Council complete estimates of the several committees, together with such summaries, statements and reports in relation thereto as it may deem desirable for the information of the Council.

(5) Wherever an excess of expenditure on sums appropriated under any estimate on revenue or capital account is anticipated, a *supplementary estimate* shall be forwarded by the responsible

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committee to the Finance Committee, who shall in due course present it to the Council.

(6) No expenditure under (5) shall be incurred until such supplementary estimate is approved and passed.

(7) It shall not be in order to submit to the Council any proposal involving expenditure during the currency of a financial period unless provision for such expenditure is made in whole or in part in the estimates, *or unless the case is one of emergency*, which the Council shall determine upon a report from the committee concerned, or unless the case is one in which the Council is under obligation to proceed. In respect of any such expenditure for which provision is not made in whole or in part in the current estimates, a *special estimate* shall be forwarded by the responsible committee to the Finance Committee, who shall in due course present it to the Council, but with certain qualifications where the proposed expenditure relates to a trading undertaking.

(8) By arrangement with the Finance Committee the purposes of any item in the estimates of a committee may be varied or enlarged to meet expenditure on any object of a nature similar or analogous to that for which the estimate provides, provided that such variation or enlargement will not cause the estimate to be exceeded; and any saving on an amount appropriated under any estimate for one purpose may be applied to meet an excess on an amount appropriated for another purpose, and no supplementary estimate shall in that case be necessary. The Finance Committee shall report to the Council alterations made under this clause.

(9) No committee shall incur any capital expenditure or recommend an application to a Government Department for borrowing powers without first submitting a detailed report to the Finance Committee stating the annual charge for interest and redemption provision and other annual expenditure involved and the probable income (if any) which will accrue from the proposed capital outlay. The Finance Committee shall present the same to the Council with such statements and observations as it may deem desirable or necessary, including all necessary information relating to existing borrowing powers, and the expenditure shall not be incurred until approved and authorised by the Council.

(10) A member of the Council intending to place upon the agenda of a Council meeting a notice involving capital expenditure shall, before doing so, communicate to the Finance Committee the particulars and estimated amount of such proposed

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expenditure and the purpose thereof, and the Finance Committee shall present to the Council a report similar to that indicated in clause (9).

(11) Any committee considering any new proposal involving expenditure on capital account shall forthwith send notification thereof to the Finance Committee.

(12) No committee (other than a trading committee) shall incur any expenditure on rate or revenue account exceeding £50 for works or services which have not already been sanctioned by the Council, or recommend the Council to approve in principle any expenditure, or recommend an application to Parliament for powers the exercise of which would involve expenditure by the Council, without first submitting to the Finance Committee an estimate of the total costs, liabilities, etc. to be incurred.

(13) No proposal dealing with new or existing sources of revenue, including rates, rents, charges, fares, fees, tolls or other moneys receivable by the Council, shall be considered by the Council until a report on the financial effect of the proposal is submitted by the Finance Committee. Provided that as regards a proposal of any trading committee this clause shall only apply where such proposal is of general application, and where its effect will be to reduce the grant or payment-in-aid of the rates which has been sanctioned by the Council.

(14) No money shall be spent on capital account, and no contract shall be entered into or tender accepted involving expenditure on capital account, by any committee without a certificate of the Town Clerk that the necessary borrowing powers or funds are available, and it shall be the duty of the Finance Committee to suspend payment of any account submitted by any committee where it appears that the amount of such account is not included in any estimate or borrowing power, and the Finance Committee shall forthwith present a report on the subject to the Council.

(15) It shall be the duty of every officer responsible for the -supervision of expenditure to inform (in writing) the committee under which he serves whenever an excess is to be anticipated on sums appropriated under any estimate by reason of extra works or from any other cause, in order that a supplementary estimate may be put forward as early as possible.

(16) Chief officers, when submitting to committees reports recommending expenditure, shall state therein whether or not such expenditure has been provided for in the annual estimates ; and in the case of any proposed expenditure exceeding £50 not specifically included in the annual estimates the Treasurer shall

certify to the several committees whether or not such expenditure has been provided for. Provided that this clause shall not apply to trading committees.

(17) The head of a department when submitting to a committee an estimate of expenditure shall call the attention of the committee to any feature or item therein which would cause an increased scale of expenditure beyond what has previously been approved for similar works or proposals, or which is of an exceptional character.

(18) The Chief Financial Officer shall, on the completion of every work carried out by direct labour exceeding in cost the sum of £50, prepare and submit to the committee concerned, and the Finance Committee, a statement of actual cost together with original estimates.

(19) The Finance Committee shall cause periodical returns to be submitted to it showing the progress of expenditure under the various annual capital and revenue estimates of committees and shall present to the Council at the expiration of the financial year a statement of the estimates and of the expenditure thereunder, with such comments thereon as it may think advisable.

(20) The Finance Committee shall prepare a half-yearly return of the Council's commitments upon capital account under all heads, and shall present to the Council once a year a similar return when submitting the annual estimates of capital expenditure.

(21) The Finance Committee shall prepare and submit to the Council annually an abstract of its finances for such period (not being less than 10 years) as the Committee may decide.

(22) It shall be the duty of the Chief Financial Officer to see that the provisions of the regulations have been duly observed in respect of all matters included in any account submitted to the Finance Committee for payment.

(23) The collection of all accounts due to the Council shall be under the control of the Treasurer.

(24) Every account submitted to a committee for payment shall have indicated thereon by the certifying official (by means of a rubber stamp or otherwise)—

- (1) The name of the committee against which it is charged,
- (2) The account out of which it is to be paid,
- (3) Whether it is subject to discount or not, and in the former case to what rate of discount,
- (4) A reference to the requisition or resolution authorising the expenditure,

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- (5) A reference to the item in the estimates in which the expenditure is included.

No account for work done or goods supplied shall be passed for payment for which authority cannot be found in the requisition book or minute book, and the Treasurer and auditors shall be empowered to compare the accounts passed with the requisition books, minute books and accepted tenders, in order that all contracts may be satisfactorily checked and audited.

(25) (a) A requisition book shall be provided for each committee, in which shall be entered all work requiring to be done, or goods requiring to be purchased, the cost of which will not exceed £50, or which arises under a contract already approved by the Council, and such book, after being signed by the head of the department, shall be produced at every meeting of the committee, and, if approved, signed by the chairman. Work done or goods ordered to meet emergencies, between meetings of the committees, shall be entered in the requisition book, and reported at the next succeeding meeting.

(b) Any work or articles not under a contract already approved by the Council, and the cost of which exceeds £50, shall be the subject of a resolution. In the resolutions of a committee ordering work to be done, or purchases to be made, the work or purchases which shall be so ordered shall, in all cases where practicable, be distinctly specified, and the maximum amount authorised either by the Council or the committee set out.

(c) Each department shall be provided with forms of order, with consecutive numbers, on which all orders for work to be done or articles to be supplied shall be given, such forms to be obtained only from the Treasurer.

(d) The head of each department shall notify the Treasurer (to such extent and in such manner as shall be prescribed by regulations to be made by the Finance Committee) the particulars of every order issued involving expenditure.

(e) All stores in any department shall be properly recorded in books of account by the head of the department, and the Finance Committee shall make regulations as to the keeping of the books, inventories, issue of stores, store depot expenses and cost accounts where necessary, and shall make provision for audit and stock checking.

(26) All documents, being contracts, agreements or other matters involving receipt or payment of moneys, shall be submitted to the Chief Financial Officer in order that the necessary extract may be made so that full effect shall be given to the matter.

Statutory Finance Committees.

The compulsory appointment of Finance Committees is prescribed only for County Councils and Metropolitan Borough Councils.

Metropolis.—The functions of the Statutory Finance Committee under the London Government Act, 1899 (Section 8 (3)), are—The regulation and control of the whole of the finances of the Council; the recommendation to the Council of all payments, whether on account of capital or revenue ; the consideration of and submission to the Council of an estimate before any costs, debt or liability in excess of £50 is incurred ; the signing by three members of the Finance Committee present at the Council meeting at which the payment was ordered of all orders for payment of money out of the funds of the Council.

County Councils.—The duties of the Statutory Finance Committee, as set out in the Local Government Act, 1933, are :—A County Council shall appoint a Finance Committee consisting of such number of members of the Council as it thinks fit for regulating and controlling the finance of the County and shall fix the term of office of the members of the Committee. 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 £50 shall be incurred by a County Council except upon a resolution of the Council passed on an estimate submitted by the Finance Committee.

This section does not apply to County Boroughs.

Consideration of financial control by Finance Committee may be concluded with the observation that the Finance Committee must be in a position to regulate and control *all* the finances of the local authority.

(b) Control by Chief Financial Officer.

The Chief Financial Officer ought to be invested with the power of general and complete control of all the finances of the local authority, subject to the Finance Committee.

He should, and generally does, exercise control over all financial operations of the local authority, either by reason of their coming in his own department, or, where departmental heads have accounting and financial responsibility, by having supervision and control over the financial matters which are dealt with in such executive departments. Through the Chief Financial Officer the system of control by the Finance Committee

is effected. In addition, the system of accounting is subject to his organisation and supervision, and for it he is responsible.

It is not considered necessary to review in detail the internal organisation whereby the Chief Financial Officer effects his control, and so a brief reference to some of the main points only, is offered here.

The internal organisation embraces proper supervision in connection with the payment of salaries and wages (a direction of expenditure in which much fraud and loss can be occasioned unless a strict control be effected).

No less important in this respect is the necessity for adequate safeguards in connection with materials. A stringent control should commence *before* the goods are ordered and be maintained until they are paid for and the records made in the books of account. In securing adequate control, stores accounts, and (where appropriate) cost accounts too, are not merely a great aid but almost a necessity. The installation of suitable stores and costing accounts provides benefits which fully compensate for the expenditure entailed in their institution and maintenance.

Strange though it may seem on first thought, it is generally a very economical procedure to liquidate liabilities promptly. The gains arise in several ways, both direct and indirect. Many firms allow a cash discount for early settlement. Though this offer may appear to be small, *e.g.* $2\frac{1}{2}$ to 5 per cent., it should be borne in mind that it is not at the rate of such figure per annum, but may be secured by paying say a fortnight or a month earlier than would be the case if matters took a normal course. This offer is thus equal to 30 to 60 per cent. per annum on the money so used. And this, large as it may be, is not the sole benefit, because a good name for prompt payment secures access to the best markets at lowest prices, ability to pick up bargains and to obtain preference generally.

SUPERVISION AND CONTROL OF INCOME.

No less important than a strict and well organised supervision and control of expenditure is a corresponding procedure concerning income. With the exception of raising loans, the regulation of income is not designed to hold it back, but rather to ensure that no receivable moneys are lost or unaccounted for.

How Supervision and Control of Income are Effected.

The same controlling bodies operate in connection with income as with expenditure, except perhaps that the super-

vision falls to a greater extent on the Chief Financial Officer. Some slight measure of oversight is also exercisable by :—

- (1) The public (by inspection of accounts).
- (2) The auditors.
- (3) The Government.
- (4) The local authority itself through

- (a) the Finance Committee,
- (b) the Chief Financial Officer.

(1) By the Public.—Here again the degree of *surveillance* by the public is negligible.

(2) By the Auditors.—The auditors watch (or should do) certain matters, *e.g.* :—

- (a) That all loans raised have been properly sanctioned.
- (b) That rate limits (if any) are not exceeded.
- (c) That full grants from the Government (where applicable) are received.
- (d) That the income on sinking funds and redemption funds is adequate.
- (e) That ordinary revenue and rate moneys are properly received and accounted for.

(3) By the Government.—The control by the Government is effected—

- (a) Through the District Auditors (where applicable).
- (b) By returns and statistics.
- (c) By statutes, orders and sanctions.

District Auditors endeavour to carry out the duties relative to supervision of income in a greater degree than do Statutory Auditors, and consequently their work is probably the more effective in this direction.

Control by returns and statistics is achieved largely by the Government withholding or reducing grants and subsidies to local authorities where these bodies have not raised as much income as, in the opinion of the Government departments, ought to have been produced (*e.g.* in regard to housing rents).

Ministration by statutes, orders and sanctions involves the giving or withholding of sanctions to borrow and the fixing of rate limits.

(4) By the Local Authority.

(a) *Through the Finance Committee.*—The principal control effected by the Finance Committee is by considering and

recommending the Council to approve rate estimates, applications for borrowing powers, etc., and the periodical comparative inspection of statements of income received to date, with estimates, with that of previous periods, etc. The efficacy of the Finance Committee's superintendence depends almost exclusively on the efficiency of the Chief Financial Officer's system of accounting organisation.

(b) *By the Chief Financial Officer.*—This phase of municipal financial control, involving as it does a proper organisation of accounts and an effective system of internal audit, aims at—

- (1) The frustration and circumvention of fraud.
- (2) The prevention of loss by carelessness.
- (3) The arrangement of book-keeping and accounts by which income may best be recorded.

For the purpose of a clearer view of the field of operations income may be classified under two headings.

(a) Income receivable at the office of the Chief Financial Officer direct—

- (1) Rents of property, etc.
- (2) Rates.
- (3) Charges for electricity, gas and water,
- (4) Charges for work done and materials supplied.

(6) Income receivable in the first place by other officers of the local authority who in turn pay it over to the Treasurer in bulk or to the bank direct, *e.g.* that arising in respect of—

- (1) Tramways.
 - (2) Baths.
 - (3) Markets.
 - (4) Parks.
 - (5) Libraries.
- Etc.

This latter type of income is of a cash nature, any credit transactions of the departments concerned being dealt with by the Chief Financial Officer. Control over cash income is adequately dealt with in a study of internal audits. One point may however be referred to here with advantage. Whenever money is received by any department, instruction should be given that it be regularly paid over to the Treasurer or to the bank direct if more convenient. In either case slips detailing

the amounts so dealt with should be forwarded to the Treasurer. These constitute the detailed posting medium for the ledgers.

Probably the best method of ascertaining that moneys purporting to have been paid to the bank have actually been so treated is one in which an arrangement is made with the bankers to send to the Chief Financial Officer each morning (under cover) and marked "private and confidential" an advice as to the separate amounts paid into the various accounts of the Council on the previous day (specifying each account separately) and stating by whom each item was paid in. This system is very effective and especially useful where collectors and others are allowed to bank moneys direct. The envelopes should be opened by the Chief Financial Officer himself (or by an approved deputy), and the advice used to check the amounts written up in the daily cash books purporting to have been paid to the bank by officials and others, and those in the pass books. A weekly advice should also be requested showing the balance on each account and the grand total of the amount standing to the Council's credit at that date. By this means an effective check is maintained and any irregularity may be traced not later than the day following that on which a misappropriation took place. Incidentally it enables payments to the local authority's credit at the bank by outsiders (as is sometimes done by lenders and the Government Departments when paying grants, etc.), to be traced quickly, and it acts as a safeguard against the introduction of spurious bank pass books.

As in the control and supervision of expenditure the Chief Financial Officer's part in the application of the same principles to income (a phase of control generally overlooked) is largely effected by good internal organisation. Every method within reason that makes for security against losses of revenue should be employed. Opportunities are many and varied and embrace the collection of rates, rents, charges for services and trading revenue.

Control Generally.—Frequent statements of a comparative nature designed to show actual expenditure and income to date, against the estimated figures on which the rates have been levied should be furnished to spending committees and to the Finance Committee. Such documents are a great help in enabling the last-named committee to perform its statutory function of regulating and controlling the finances of the Council.

CHAPTER VI.

A REVIEW OF THE ACTIVITIES OF LOCAL
GOVERNMENT AUTHORITIES.

THE range of activities which local authorities must, or may, undertake is extremely wide. Few persons, if any, who have not studied the matter have even the most vague idea of the multitude and magnitude of the matters which find a place in their daily administration. The largest business concern in the world could not fully approach a provincial county borough council in this respect. In annual income "yes," but in diversity of departments a certain "no."

Let the activities of these bodies be examined in outline just to glean a slight idea of this complexity, and there will be found all or most of the following :—

Abattoirs ; Allotments ; Aerodromes ; Art Galleries ; Asylums for Lunatics ; Banking ; Building Construction on a large scale and embracing all trades ; Brush-making ; Buses ; Boating on lakes—row-boats, motor launches, etc. for pleasure ; Bowls (game in parks) ; Baths, all kinds, including turkish, medicinal and sunray ; Cafes ; Cleansing of streets ; Canals ; Clock-making ; Concerts—bands, pierrots, pictures, organ recitals, "high-brow" orchestral music, etc. ; Conveniences ; Cemeteries and Burial Grounds ; Child welfare centres ; Crematoria ; Cold stores ; Charities—administration of, in the form of gifts of money, goods, etc. ; Colleges ; Cloak-rooms ; Courts—police courts, sessions, coroners' and juvenile, etc. ; Destructors ; Drainage works ; Dairies ; Education—schools of all kinds, including technical colleges ; Elections ; Electricity generation and distribution, and fittings, etc. ; Estate ownership and management ; Fishing ; Ferry ; Fertiliser manufacture ; Fire brigade ; Gas meter testing ; Golf courses ; Gasworks ; Hospitals ; House building ; Inebriates homes ; Industrial schools ; Insurers ; Joiners and joinery manufacturing ; Lunatic asylums ; Lighting of streets ; Lodging houses ; Lakes ; Libraries ; Lavatories (public) ; Licensing ; Milk supplies ;

Mines ; Markets ; Motor buses ; Museums ; Maternity homes ; Piers ; Paving work ; Paint manufacturers ; Parks ; Police force ; Printing ; Quarries ; Rate collection ; Rooms hire ; Rivers ; Recreation grounds ; Railways ; Restaurants ; Roads and streets provision and maintenance ; Scavenging of streets ; Sewerage and sewage collection and disposal ; Small holdings ; Sanatoria ; Slaughter houses ; Street lighting ; Tennis ; Tramways ; Weights and Measures controlling departments ; Workshops ; Wash-houses ; Water supply.

In respect of each of these undertakings or services complete administrative arrangements have to be instituted. The legal and accountancy sides, the technical matters, and everything else, have to be arranged. Accounts have to be kept and submitted to auditors. Costing schemes must be in operation.

If one were to take a census of the different trades, occupations and professions found in the activities of large local authorities the number would be amazing.

Generally speaking, administration of the foregoing follows on commercial lines and calls for no special comment here. It is thought, however, that certain of the services which involve heavy expenditure and which, in certain cases, are subsidised by Government grants, should be reviewed in some detail. These are—education, house provision, police.

EDUCATION FINANCE.

A complete study of the administration of the statutes relating to Education so far as local government authorities are concerned would embrace at least the following three phases of the subject:—

- (1) Statutory enactments and administration generally.
- (2) The financial aspect (including grants received from the Imperial Exchequer).
- (3) Accountancy.

Phase (1) is not strictly within the scope of this book, nor is the third phase. Those who wish to study these aspects may do so from the literature named in the Bibliography at the end of this volume. But with education finance this chapter may deal.

County Councils.—Education expenditure is, in counties, payable out of the county fund. If there are no autonomous areas in the administrative county, education expenditure is a *general county purpose*, but if there be one or more autonomous areas, then it is a *special county purpose*.

A County Council (except the London County Council) may, **if** it thinks fit, charge the whole or part of the expenditure on *higher* education on any parish or parishes (after giving reasonable notice to the rating authority) served by the institutions in respect of which the expenditure is incurred.

As regards *elementary* education, the County Council must consult the Council of any autonomous area before it charges similar special expenditure on that area. The purposes and proportions of elementary education expenses which a County Council may charge on the parishes served, benefited or liable, are as follows :—

Purpose	Proportion	Statutory Authority
Capital expenditure or rent on account of provision or improvement of any public elementary school or in providing means of conveyance for teachers and children attending such schools. (The term capital expenditure may now be interpreted with its commercial meaning and include expenditure of a capital nature whether paid out of loans or not.)	Not more than three-fourths.	Education Act, 1921, Sec. 122 (1) (c).
Expenditure to meet liability on account of loans or rent of any school board transferred to it under the 1902 Act exclusively within the area which formed the school district.	Ditto.	Education Act, 1921, Sec. 122(1)(d).
Expenditure of a school authority under Elementary Education (Blind and Deaf Children) Act, 1893, or Elementary Education (Defective and Epileptic Children) Act, 1899, transferred under 1902 Act.	The whole.	Education Act, 1921, Sec. 122(1) (e).

Borough Councils.—Elementary education expenditure is payable out of the general rate fund.

Education accounts must be kept separate from other accounts, and must be sub-divided between **higher and** elementary education and capital and revenue expenditure.

Urban District Councils.—Education expenditure is payable out of the general rate fund as in the case of Boroughs.

Education Committees.—Though a County Council, a Borough Council or an Urban District Council cannot delegate to a committee the power to make orders for payment of money on its Treasurer, the Council **may, instead of making all payments**

itself, place at the disposal of the Education Committee funds determined by the Council on the recommendation of the Finance Committee, after consideration of the report of the Education Committee on the matter. A separate Treasurer for Education *may* be appointed (though such a course is seldom followed), and where this is done it is apparently in order for cheques to be drawn by him for payment out of moneys placed at the disposal of the Education Committee.

Borrowing Powers for Education Purposes.—Education authorities may borrow for the acquisition of land, the erection of school buildings, including those for blind, deaf, defective and epileptic children, and industrial schools, and for furniture, fittings and apparatus, and for payment of compensation for loss of office. The proposal to borrow is first submitted to the Board of Education, and after having obtained its approval, application for sanction to borrow is made to the Ministry of Health.

The maximum period which may be sanctioned is 60 years in all cases, and the statutory authority is the Education Act, 1921, and the Local Government Act, 1933.

Capital expenditure, whether to be met from loan or revenue, requires the approval of the Board. Expenditure in excess of the amount approved cannot be recognised for the purpose of grant, but where the excess has been unavoidable the Board will entertain an application for retrospective approval.

Grants.

The Education Act, 1921 (Section 118 (1)), provides that the Board of Education shall make regulations as to grants.

Section 118 (2) prescribed that the total sum paid out of moneys granted by Parliament and the Local Taxation Account in aid of education, higher and elementary, should not be less than one-half of the approved net expenditure of the authority. But as from 1st October, 1931, this minimum was abolished.

Section 118 (3) prescribes that if the Treasury so direct, the regulations made by the Board of Education relating to the deficiency grant shall provide for the exclusion of all or any sums paid by any Government Department, and of all or any expenditure on a service in respect of which grants are made by another Government Department, when calculating the deficiency grant, *e.g.* expenditure on industrial schools, expenditure on agricultural education, grants by the Ministry of Agriculture and Fisheries, and contributions by local education

authorities to universities and colleges in receipt of grants from the Treasury.

The grant is, generally speaking, a consolidated one, and all lawful expenditure (except as already indicated) of an education authority may rank for grant.

The regulations relating to grants are as follows :—

Grants towards Cost of Elementary Education.

A *substantive grant* is made, calculated according to the following formula—

Forty-five shillings per unit of average attendance in public elementary schools (but not including schools for blind, deaf, defective, or epileptic children) maintained by the authority for the year 1st April to 31st March, plus

- (a) One-half of the gross expenditure on teachers' salaries in those schools (*i.e.* without deduction of contributions to a superannuation scheme) ;
- (6) One-half of the net expenditure on special services ; and
- (c) One-fifth of the remaining net expenditure on elementary education ; minus

The product of a sevenpenny rate, calculated in the manner prescribed by the Education (Product of Rate) Order, 1930. The result is the substantive grant.

Maximum Limit.—The grant shall not, however (except as provided below in highly rated areas), exceed the greater of—

- (a) Two-thirds of the net expenditure ;
- (b) The excess of the net expenditure over a sum comprising the produce of a twelvepenny rate. (This is not affected by the provisions of the Agricultural Rates Act, 1923.)

If the grants, calculated according to the above rules, exceed the maximum, such maximum figures shall be substituted.

Special Chant in respect of Highly Rated Areas.—Where the grants calculated as above would be of such a figure that the rate for elementary education purposes would be more than a prescribed amount (in the region of thirty-nine pence) in the pound, an extra grant of a prescribed proportion (about one-half) of the amount which would have to be raised in excess of such rate will be paid, subject to the approval of the Board of Education. An increased grant under this heading will not be

made in respect of any expenditure in excess of the estimates passed at the beginning of the year (and not on supplementary ones) of the authority and adopted by it as the basis on which the education portion of the rate was levied.

Payment of Grant.—Grants are payable by the Board of Education to education authorities by monthly instalments to the extent of 90 per cent. during the year, and the amount due is finally adjusted after the audited accounts for the year and any other returns required by the Board of Education for the purpose have been received and examined. Further instalments, being part of the final 10 per cent., may, however, be paid after the end of the year and before the audit, pending final adjustment, if justified by the expenditure as indicated by returns of average attendance, expenditure and produce of a rate for the year.

In *calculating expenditure* for the purposes of the grants, the Board of Education ascertains the amount of expenditure of the authority from the portion of the statutory financial statement relating to elementary education (revenue account), but excluding :—

- (a) Expenditure attributable to any service in respect of which payments are made by a Government department other than the Board of Education (this includes the grant towards administrative costs in connection with juvenile employment departments now paid through the Ministry of Labour).
- (6) Any sum applied towards the redemption of a loan raised under the Education (Provision of Working Balances) Act, 1903.
- (c) Any expenditure not recognised by the Board as expenditure in aid of which Parliamentary grants should be made.
- (d) Payments to another authority, including special services in respect of children for which the paying authority is responsible.

Conditions of Grant.—The making of the grant is conditional upon the Board being satisfied that the authority—

- (1) Has performed its duties under the Education Acts.
- (2) Has complied with the conditions of the Board's regulations.
- (3) Has furnished such returns and information as the Board has required.

If not satisfied on all these matters, the Board may withhold or reduce the grant. If a deduction is made exceeding £500, or the produce of $\frac{1}{4}$ d. rate, whichever is the less, a report stating the amount of and the reasons for the deduction will be laid before Parliament (Education Act, 1921, Section 118 (4).) Estimates for capital expenditure have to be submitted to the Board of Education for approval, and any expenditure in excess of the amount approved cannot rank for grant.

The amount deducted from a rate as *loss on collection* is based on a percentage of the average loss in the last three rates (with a maximum of 10 per cent.).

The *special services* referred to under "substantive grant" (b) are (1) school medical service, (2) provision of meals, (3) schools for blind, deaf, defective and epileptic children, (4) physical training, (5) evening play centres, (6) nursery schools.

A grant in relief of administrative costs of juvenile employment departments is paid by the Ministry of Labour to education authorities.

Grants towards Cost of Higher Education.

Substantive Grants.—The grant for higher education is a comprehensive one of a sum which, with the proportion of the local taxation grant, will amount to one-half the net approved expenditure of the authority for this purpose. The conditions are similar to those for the substantive grant for elementary education.

The rules for calculating the grant are as follows :—

(1) In ascertaining the amount there shall be excluded—

- (a) The Treasury grant under the Welsh Intermediate Education Act, 1889.
- (b) All sums paid by any Government department other than the Board of Education, except the residue grant under the Local Taxation (Customs and Excise) Act, 1890, and any expenditure which, in the opinion of the Board, is attributable to a service in respect of which those sums are paid. (Thus the sums paid as grants by the Ministry of Agriculture and the expenditure on agricultural education will be excluded.)
- (c) The contributions paid by a local education authority to non-provided schools which are in receipt of grants from the Board of Education direct, or the substantive grants paid by the Board to such schools, whichever is the lesser.

- (d) Contributions paid by a local education authority in aid of schools conducted for private profit.
- (e) Expenditure of a local education authority on maintenance allowances to pupils or students in aid of whose maintenance grants are made by the Board of Education or other Government Department.
- (f) The amount by which salaries paid exceed the Burnham scale.
- (g) Work wholly rechargeable to other Government Departments.

(2) The Board ascertains the expenditure of the local education authority from the portion of the statutory financial statement relating to higher education (revenue account), but will exclude (1) (a) and (6) (p. 65), and any expenditure not recognised by the Board as expenditure in aid of which Parliamentary grants should be made.

(3) Net expenditure means expenditure as calculated above (No. 2), less all receipts relating thereto, except receipts from rates raised by the authority or from grants.

(4) The grant is payable by instalments during the year, and finally adjusted after the audited accounts for the year, and any other returns required by the Board for the purpose, have been received and examined.

The Treasury grant under the Welsh Intermediate Act, 1889 (not exceeding a $\frac{1}{2}$ d. rate on the rateable value), is excluded in calculating the deficiency grant, thus enabling authorities in Wales to receive more than half of their expenditure on higher education.

Where the Council of a Non-county Borough or Urban District exercises its right to spend a sum up to the produce of a 1d. rate and to raise the amount by rate and pay it over to the County Council, the figure must rank as a receipt to the latter body for the purpose of calculating the grant. It is obviously better for the County Council to levy the rate in order that the full grant may be obtained.

Additional Grants.—Grants are also made in respect of—

- (1) Training Colleges,
- (2) Special Schools (or courses of higher education) for blind, deaf, defective or epileptic students,
- (3) Secondary schools,
- (4) Courses for adult education.

These vary according to circumstances.

Agricultural Education.

Revenue.—A grant is made of 80 per cent. of the salary and expenses of the agricultural organiser and of the horticultural superintendent, subject to certain conditions, and 66f per cent. of all other expenditure on agricultural education and the administration thereof. With regard to capital expenditure, except as stated below, 75 per cent. of the total approved cost of providing, improving, or extending and equipping a farm school or farm institute is granted. No grant is payable in respect of the capital cost of acquiring, stocking or working a farm or demonstration holding, but the annual net cost of maintenance of such farm or holding, including interest and sinking fund charges, will (if approved) be recognised for grant at the rate of 66½ per cent.

Conditions under which Payable.—There must be a separate committee directing the work of agricultural education. A scheme of work and estimate of the expenditure must be submitted to the Ministry of Agriculture and Fisheries, also a copy of the minutes of the proceedings of the local authority relating to agricultural education. A payment on account of the grant is made by the Ministry during the second half of the financial year, and the balance after the claim is finally audited and certified by the district auditor. A reasonable proportion of administration expenses of the central offices may rank for grant if full particulars are supplied.

Miscellaneous Financial Matters relating to Education.

Teachers' Salaries.—Salaries are based on what is known as the Burnham Award, in which there are four standard scales. The amount payable to a teacher is determined by the figure shown on the scale allotted to the local authority corresponding to the period of recognised service. A teachers' service book has been introduced by the Board of Education, in which is recorded all particulars as to teachers' qualifications, service and salary. Teachers' salaries suffered a temporary reduction of 10 per cent. in October, 1931.

Income Tax.—There is no liability for income tax by a local education authority beyond the accounting for tax deducted from interest paid on loans. Colleges and halls in universities, public school teachers' schoolhouses, and rents of land or interest applied to charitable purposes (including "the advancement of education") are exempt (*Rex v. Special Commissioners, ex parte University College of North Wales*, 1909).

Rates.—Provided schools are rateable, but non-provided schools are exempt under the provisions of Section 167 of the Education Act, 1921, except to the extent of any profit derived by the managers of the school from the letting of it. The exemption applies to land and buildings used exclusively or mainly for schoolrooms, offices or playgrounds, but excluding teacher's residence.

School Fees.—The Education Act, 1921, Section 37 (1), provides that no fees shall be charged or other charges of any kind made *except for meals or medical treatment* in any public elementary school. The provisions relating to payment by parents of blind, deaf, defective or epileptic children are not affected by this section.

Provision of Meals.—A local education authority for elementary education may aid school canteen committees to provide food for children attending public elementary schools by providing land, buildings, furniture, apparatus and staff. The authority can only provide food where it resolves that the children would otherwise be unable by lack of food to take full advantage of instruction provided and after having ascertained that funds other than public funds are not sufficient to defray the cost of such food. The cost of meals is chargeable on the parent by the authority, and if not paid must be recovered summarily as a civil debt unless satisfied of the parent's inability (other than by their own default) to pay.

Blind, Deaf, Defective and Epileptic Children.—A local authority may provide schools or may contribute to other schools to which it may send children from its area. Expenditure in respect of children up to 16 years of age falls on the elementary education account, while that of older ones is a charge on higher education account. Parents are liable to contribute towards expenditure on the maintenance but not education of their children.

Medical Services.—These include provision of—

(1) Spectacles and ophthalmic treatment, (2) dental treatment, (3) surgical appliances, (4) operative treatment of tonsils and adenoids, and the cost is chargeable on the children's parents or guardians, who may pay in a lump sum or by instalments over an agreed period.

Conveyance and Lodging of Children from Remote Parts.—This expenditure may, with the approval of the Board, be defrayed to enable children living in remote parts of the authority's area to receive education in a public elementary school.

Expenses of Members of Education Authority.—Expenses in connection with educational meetings and conferences may by Section 126 of the Education Act, 1921, be paid, but special notice must be given to the members of the education authority of any proposal to incur such expenditure, and if for more than three persons previous sanction of the Board must be obtained.

Endowments.—Money received under endowments in respect of a public elementary school is treated for the purpose of calculating the substantive grant as though it were money received from rates, and so the net expenditure is not thereby reduced.

Transfer of Powers under the Public Libraries Act, 1919.—A County Council may adopt the Public Libraries Acts for the whole or part of its area, exclusive of any part which is an existing library area, and existing library authorities may delegate their powers and duties to the County Council. All matters relating to the exercise of these powers may be referred to the Education Committee, except the power to make a rate or raise loans. The expenditure is not expenditure under the Education Acts, and thus cannot rank for grants. But expenditure on school libraries is charged to education account and ranks for grant.

Mining Industry Act, 1920.—This Act provides that a fund equal to one penny per ton of output of the coal industry is to be devoted to the promotion of the social well-being, recreation and conditions of the workers in or about mines, and to mining education and research. Local education authorities may submit schemes to a committee established under the Act, and on receipt of a grant proceed to carry out the programme.

Grants by Education Authorities to Non-maintained Secondary Schools, Universities, Etc.—Grants may be made to governors of endowed schools towards maintenance on conditions giving the education authority a right of inspection, representation on the governing body, submission of estimates and accounts and their audit by the authority, its approval of fees charged to students, and of the payment of salaries on the Burnham Scale. In Wales and Monmouthshire all County Councils and County Boroughs contribute the product of a penny rate to the Welsh University and its colleges on certain conditions.

Industrial Schools are under the local control of the education authority and centrally under the Home Office (not the Board of Education). By the term "industrial school" is meant a school for juniors, in which industrial training is provided and children are lodged, clothed and fed and taught up to the **age**

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of fourteen, who may not have committed an offence, but whose circumstances are such that if left in their surroundings they are likely to join the delinquent population. Day industrial schools are those where children do not reside, but where they receive one or more meals per day, their elementary education and a certain amount of industrial training.

Reformatory Schools.—The local authority for reformatory schools is the Council of a County Borough or a County Council. Centrally, they come under the Home Office. Both reformatory and industrial schools rank as voluntary schools.

Grants are made out of Parliamentary funds by the Treasury at the rate equal to one-half the cost of maintaining reformatory and industrial schools, a scheme having been evolved based on the general principle that the cost of maintaining reformatory and industrial schools should be equally divided between State and local authority.

Other income consists of payments by parents or guardians, profits from industrial work, and charitable subscriptions and donations.

Places of Detention were created under provisions of the Children Acts, 1908 to 1921, and are a quasi-public service. They come under the management of the education authority, but the expenses are payable out of the police fund, and are not a charge on the education rate. The Home Office makes a grant towards the maintenance of the children.

Remand Homes may (as provided by the Children and Young Persons Act, 1933) be provided by County Councils and County Borough Councils, and with the approval of the Secretary of State, and local authorities may contribute to the management of approved schools for the care of young persons. Grants may be made by the Government towards the expenditure.

HOUSING FINANCE.

The provision of houses for the working classes is a purpose which a local authority may undertake and for which money may be borrowed. It is a "Public Health" matter, and the expenditure is chargeable on the general rate fund, though it is statutorily necessary to keep separate accounts.

Assisted Schemes under 1919 Act.

Under the early post-war Housing Act of 1919 the local authority had to find the capital outlay, towards which it got

no subsidy. The contributions in aid amounted to a payment by the Treasury of the annual net approved expenditure on maintenance in excess of the proceeds of a penny rate.

The term " net expenditure " here means the annual deficiency on the Housing (Assisted Scheme) Revenue Account after debiting all expenditure and crediting all income.

Certain restrictions are operative, e.g. :—

- (1) *Loan Charges*.—The interest paid should be approved by the Ministry. No maximum rate has been fixed. It should be about the rate in force for other loans.
- (2) *Repairs and Maintenance*.—These charges are limited to 15 per cent, of the gross estimated rent.
- (3) *Supervision and Management*.—These are limited to 5 per cent. of the gross estimated rent.
- (4) *Unoccupied Houses and Uncollected Rents*.—The loss must not exceed (for purposes of the grant) 5 per cent. of the gross estimated rent.
- (5) *Rent Charged to Tenants*.—This should be the best obtainable, and as near as possible to an economic rent. The net rent is the gross rent less 5 per cent. loss arising in respect of uncollected rents and empties.
- (6) *Produce of a Penny Rate*.—This is the amount actually realised during the financial year as certified by the district auditor.

Application of Housing Acts to London.

The Housing Acts apply to London and the provinces, the London County Council and the Metropolitan Borough Councils being the authorities for the purpose in the Metropolis. In practice there are some slight differences in financial procedure between London and the remainder of the country.

Metropolitan Borough Councils instead of crediting the proceeds of a penny rate to their own individual Housing (Assisted Scheme) Revenue Accounts, pay that amount to the London County Council; and instead of receiving from the Government direct the amount of deficiency on the Assisted Schemes Revenue Account they get it through the London County Council.

As in the case of provincial local authorities the liability under assisted housing schemes is statutorily restricted to the amount represented by the proceeds of a penny rate.

Housing Act 1923 (Schemes).

The primary object of this Statute was to recognise *private enterprise*. Where local authorities desired to provide houses themselves it was necessary to satisfy the Ministry of Health that the areas needs could be better supplied that way than by private enterprise.

The subsidy under this Act was based at approximately one-half the annual deficiency on an average house, calculated on factors of capital cost, rent, interest, etc., and it was intended that the local authority should bear a similar proportion. The figures agreed upon in negotiations between the Ministry of Health and representative authorities was £6 per house per annum for 20 years as being one-half the probable loss.

In respect of houses erected by local authorities the Government grant is a fixed sum for the time being, *i.e.* the current rate of subsidy irrespective of whether it is more or less than one-half of the deficiency.

With regard to assistance granted to *private enterprise*, though the subsidy is handed over to the builder by the local authority, the Government's portion is not fixed at the current rate of grant but is based on the equivalent of the actual subsidy paid by the local authority to the builder. Thus if the lump sum so paid is only equal to, say, a £3 or £4 annuity for 20 years, then £3 or £4 is the grant paid in respect of such private enterprise building by the Ministry of Health to the authority, or, as an alternative, the full applicable current rate per annum may be given but for a correspondingly shorter period.

Charge Falling on the Rates.—A local authority may either

- (a) Charge each year's deficiency on the rate, or
- (6) Calculate the sum required per house to liquidate the balance of loss in the period during which the Government grant is receivable, *i.e.* during the 20 years.

Under course (a) the annual amount to be provided by **rates** will increase after the 20th year when the Government's **grant** has ceased. Under method (b) the annual provision **remains** constant but, terminating in 20 years instead of **being spread over the loan period of 60 years, is greater and is of such amount** that **at** the end of 20 years the account **should be** self-supporting. **This** method necessitates the keeping

of separate accounts, the amount appearing in the rate fund account being limited to the ascertained annual contribution. During the subsidy period the annual contribution will be more than enough to cover the balance of loss, and the surplus should be used in redemption of debt or invested.

Some local authorities promoted housing schemes under Acts prior to 1919. These do not rank for subsidy or assistance.

Housing Act 1924 (Schemes).

This Statute had as its main object the provision of houses which might be let at rents similar to those normally charged for working-class dwellings. To achieve this object certain conditions have to be complied with, and to cover the greater loss that is bound to accrue larger grants are made. The figures, like those under the 1923 Act, are subject to biennial revision and at first were at £9 per house per annum for 40 years by the Government. The local authority may limit its loss to £4 10s. 0d. per annum and to avoid exceeding this figure rent may be increased accordingly. Much can be done to keep down the loss by arrangement of the proportions of the various types of houses erected. The smaller houses usually involve less annual loss than do the larger ones.

Private enterprise is also provided for by this Act, but assistance can be given only by way of annual payments for a period not exceeding 40 years to the person, for the time being, entitled to receive the rents. The actual grant is paid by the local authority and is determined by the authority subject to the Ministry's approval. The Government grant is limited to a maximum of £9 per annum per house, reducible to the actual assistance given. The condition as to rent applies to houses erected by private enterprise and the rent may not exceed that which the local authority would charge if it had provided the houses itself.

It is thus necessary, before paying the subsidy, for the local authority to ascertain that the special conditions have been complied with.

Specimen Calculations of Rents Chargeable under the 1924 Act Scheme.

Overpage is a specimen calculation of the rent which may be charged in respect of a house erected by a local authority in

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accordance with the terms of Circular 520 (issued in conjunction with the Housing (Financial Provisions) Act, 1924).

Inclusive cost of house (say)	£450	0	0
<i>Deduct</i> present value of £13 10s. per annum for 40 years (5 per cent.),	232	11	0
Balance to be met by rents over 80 years,	£217	9	a
Annual charge for 80 years to redeem £217 9s. (5 per cent. half-yearly annuity),	11	1	8
Weekly rent to cover £11 1s. 8d.,	£0	4	4
<i>Add</i> for repairs, management, etc. (30 per cent. of 6s. 3d.),	0	1	11
Weekly rent to be charged,	£0	6	3

Housing Act 1925 (Schemes).

Improvements, Etc.—Under the 1925 Housing Act local authorities must make schemes for improvement of areas containing houses unfit for habitation. Owners of land affected may oppose such schemes and the Ministry of Health may allow such owners part or the whole of their expenses and may recover them from the local authority. Obstructive buildings must be taken down or altered and the local authority has to buy the land or compensate the owner.

Provision of Houses.—Local authorities may provide housing accommodation for the working classes by erecting, acquiring, converting or altering houses within or outside their own areas (except in the case of Rural District Councils, who must keep within their own areas). Land may be acquired and it may be sold or leased for building purposes. Also the houses erected may be sold or leased. The proceeds of sales (*i.e.* capital moneys) must be used for purchase of other land for the purposes of the Act or otherwise as the Minister may approve. The best price or rent reasonably obtainable should be secured.

Schemes for the provision of houses have to be prepared by local authorities and submitted to the Minister of Health together with estimates of cost and of rents expected to be obtained.

Two or more authorities may combine in joint schemes.

Assistance to Others Providing Houses.—Local authorities must promote and assist the activities of public utility societies—

and other persons. Where the local authority for a district fails in this respect the County Council must act. The Ministry of Health may also act in place of defaulting authorities.

Power is given to local authorities to make loans or grants, to subscribe towards share or loan capital, or to guarantee payment of interest on borrowed money or issued capital in the case of public utility companies. The limit under the Industrial and Provident Societies Act, 1893 (Section 4) of £200 interest in shares does not apply. In the case of Counties, expenses are regarded as for general county purposes.

Advances.—A local authority may advance the whole or part of any sum necessary to defray the cost of approved works under Part 3 (*i.e.* the provision of houses), but the amount may not exceed one-half of the estimated value of the property mortgaged unless collateral security is given. The approval of the Minister of Health is necessary, but subject that a local authority may (a) advance money for constructing or altering or acquiring houses commenced after 25th April, 1923, (6) guarantee repayment of advances (and interest thereon) made by building societies for their members in respect of houses commenced after 25th April, 1923, (c) refund a proportion of rates in the case of houses converted into flats subject to conditions as to fitness and size.

A loan may not exceed 90 per cent. of the value of the mortgagor's interest in the property, and if advanced by instalments it may not exceed 50 per cent. of the value of work done. Where there is a lease, there must be at least ten years in excess of the redemption period of the loan still to run. These provisions apply only to houses of a value less than £1,500.

Assistance may be given under this Act in addition to assistance under another Act in respect of the same house.

County Councils may lend to local authorities in their areas.

Proceeds of sales of land must be applied for any capital purpose as approved by the Ministry of Health, including redemption of loans.

Local authorities may give subscriptions to local savings committees.

Power to provide shops, other buildings or recreation grounds considered by the Ministry of Health to be beneficial is conferred by this Act. Power is also given to acquire water rights, the expenses being regarded as part of the expenses of the housing scheme.

Owners and Repair, etc. to Properties*—Owners must keep in proper repair houses let at £40 or under per annum in London

and those at £26 per annum elsewhere. Local authorities may require owners to keep their houses fit for human habitation. If an owner defaults, the local authority may execute the necessary work and charge the cost plus interest on the premises, and such cost may be recovered in a Court of Summary Jurisdiction either in a lump sum or by instalments. Local authorities may acquire houses compulsorily where reconstruction is necessary.

On the Ministry of Health devolves the duty of inspecting houses. Any Justice of the Peace, or four electors, or the Council of a Parish, may make complaint as to the state of a dwelling-house. Houses notified as unfit by the Medical Officer must be closed until rendered fit. At least fourteen days' notice must be served on both owner and occupier, who may appeal to the Minister of Health.

Reasonable compensation may be awarded by a local authority to a tenant compelled to remove, and it may recover such amount from the owner of the property as a civil debt. A local authority may order the demolition of any house which has been closed as unfit for three months. Opportunity must be given to the owner to carry out the necessary repairs first, and if he fails to do so he must be ordered to demolish the building, and if he fails in this the local authority must do it. It must sell the materials and hand over to the owner any excess over the cost of demolition, or recover from the owner any balance of expense.

A local authority may give an owner who has done work of this description under the Act an order charging the expenses on the house as an annuity to repay the amount at the interest rate of 6 per cent, over a period of 30 years.

Expenses of local authorities (Parts 1, 2 and 3 of the 1925 Act) are defrayed as under :—

London County Council—as *special* county expenses except as below.

Other County Councils—as *general* or *special* expenses as the case may require, except that expenses in connection with promoting and assisting public utility societies and loans to such societies and to others are always *general* expenses. This latter also applies to the London County Council.

City of London Corporation and Metropolitan Borough Councils—as *general* expenses.

Borough and Urban District Councils—as expenses for public health purposes.

Rural District Councils—as *special* expenses in respect of

Parts 1 and 2 of the Act (*i.e.* repair and sanitary provisions and improvements and reconstructions) and as *general* expenses under Part 3 (*i.e.* provision of houses for the working classes) except when allowed by the Ministry of Health to be charged on specified contributory places.

Borrowing powers are given to all local authorities for all the purposes of Parts 1, 2 and 3 of the Act, a maximum period of 80 years being allowable.

Housing (Rural Workers) Act, 1926.

This Act applies to County and to County Borough Councils only, unless the Ministry of Health extends its provisions to other authorities.

Local authorities may give financial assistance towards the construction and improvement of houses and other buildings and may do so with the Ministry's approval in the form of grants or loans. Expenses are general county expenses in the case of Counties, except where a county district is the authority for the purposes of the Act, in which case they are special county expenses.

The making of grants or loans is an object for which the authority may borrow subject to sanction by the Ministry of Health.

The Government makes a contribution to the local authority of one-half the estimated average annual payments falling to be made in respect of loan charges on account of loans raised for grants or of the amount which would have fallen to be made if the sums expended in the form of grant had been raised by loans.

Housing (Revision of Contributions) Act, 1929.

The Housing (Revision of Contributions) Act, 1929, provides that the Government contribution in respect of any house sold before the expiration of 20 years from the date when that contribution first became payable shall not be reduced by more than £3 10s. 0d. (instead of £3), or in an agricultural parish £7 (instead of £6 10s. 0d.), and the duration thereof is not to be curtailed by more than 20 years. The supplementary contribution by the London County Council to the Common Council of the City of London and the Metropolitan Borough Councils in respect of houses provided by them has been reduced from £2 5s. 0d. to £1 17s. 6d.

Housing Act, 1930.

The principal objects of this measure were to simplify the procedure and facilitate the task of abolishing existing slums (termed "clearance areas") and to prevent the creation of new slums by stopping the deterioration of other areas called, for the purposes of the Act, "improvement areas."

In the case of "improvement areas" the Act provides wholly new machinery.

To meet the economic difficulty of rehousing the poorest inhabitants of the slums at rents which they can afford, increased financial assistance on a new basis has been provided. This is available in aid of the expenses of the local authority in rehousing persons displaced not only from clearance and improvement areas, but also from individual houses which are to be demolished.

The 1930 Act is declared intended to be worked along with the Housing Act of 1924. Under Section 25 of the Act of 1930 it is the duty of every local authority to consider the housing needs of its area (including the need arising from slum conditions and unsatisfactory dwellings) and as often as occasion arises, or within three months after notice has been given to the authority by the Minister, to submit proposals to the Minister for the provision of new houses. In addition, with a view to securing continuity of action and an adequate volume of new construction, the local authority of every area having a population of more than 20,000 was required during the year 1930 to submit to the Minister a programme of the steps it proposed to take during the ensuing five years for dealing with housing conditions in its areas and for providing new accommodation. A similar programme is to be furnished every fifth year.

Clearance Areas.—Section 1 of the Act defines a "clearance area," and the definition is substantially the same as that of an "unhealthy area" under the old law. The area is to be cleared by requiring the owners to demolish the buildings, or by the local authority purchasing the area and then arranging for the demolition.

The first method of requiring the owners to demolish is new, and is designed to enable the local authority to secure the removal of a bad slum without being obliged to incur the heavy capital expense of purchase and clearance. It is a method which may be convenient where the site is not required for rehousing. Where a local authority proceeds by this method it makes a Clearance Order which must be confirmed by the Minister.

The cleared site remains with the owners. It may not, however, be used for building purposes or otherwise developed except subject to such restrictions and conditions, if any, as the local authority may impose. Under Section 6 of the Act the right is reserved to the local authority to purchase any land to which a Clearance Order related if after 18 months from the date on which the Order became operative the owners have not proceeded with development in accordance with plans approved by the authority.

The second method of dealing with a clearance area (indicated in Sections 3 and 5) is not new, but the procedure is made simpler and quicker. The Act does away with the necessity for a formal scheme. It enables the local authority to buy the area, either by agreement or by compulsion. Where it is unable to buy by agreement, the authority may make a Compulsory Purchase Order which must be submitted to the Minister for confirmation. When a local authority has bought the land it must proceed to demolish or arrange for the demolition of the buildings. It is empowered to dispose of the site as cleared, or subject to a requirement that it shall be cleared forthwith, or it may, subject to the approval of the Minister, appropriate the cleared area for some purpose for which it has statutory powers.

A clearance area is one in which *all* the buildings require to be demolished either (a) because they are unfit for human habitation on account of disrepair or sanitary defects, or (6) because they are dangerous or injurious to the health of the inhabitants of the area by reason of their bad arrangement or the narrowness or bad arrangement of the streets. Properties which do not fall in either of these categories cannot be included in the area, but a clearance area may surround properties which, in effect, form "islands" within the area. A clearance area is not necessarily a solid block of territory bounded by continuous lines; it will frequently be an area of irregular shape surrounding, but not in law containing, such islands.

Improvement Areas.—Sections 7 and 8 of the Act gave a new and important addition to the methods available to local authorities for combating unsatisfactory housing conditions. In nearly every town (and in some rural areas) there are aggregations of houses in varying degrees of bad condition, more or less badly arranged, and generally seriously overcrowded. These aggregations may form patches of considerable size. The houses are not all so far gone and the general conditions are not so bad as to justify wholesale clearance, and a great improvement in any such area can often be secured if the worst

houses are removed, if steps are taken to remove obstructive buildings and otherwise to let in light and air, if necessary repairs are carried out, and if surplus population is taken from the area and provided for elsewhere. The Act enables local authorities to define such areas, and it lays down the action which they must take when an area has been defined. An improvement area, unlike a clearance area, may contain fit as well as unfit houses, and may, therefore, be the whole area comprised within a ring fence. Local authorities are to use their powers of compelling the demolition of houses which are beyond repair and of requiring owners to put other houses into satisfactory condition ; they may purchase property either by agreement or compulsorily for the purpose of letting in light and air, and they must make byelaws applicable to the area for preventing and abating overcrowding and for securing the improvement of housing conditions and the subsequent maintenance of a proper standard of housing conditions in the area.

A number of Sections of the Housing Act, 1925, which dealt with the repair, closing and demolition of unfit houses, are replaced by the 1930 Act, which provides for the giving of assistance by the Government to the local authority based on the number of inmates of the demolished houses.

An essential part of any action taken by local authorities in regard to either clearance areas or improvement areas or individual unfit houses must be the provision of new houses, available for the accommodation of persons displaced, and the Act requires that, before taking any steps which will necessitate the displacement of population from a clearance or improvement area, the local authority must undertake to provide or secure the provision of new dwellings to the satisfaction of the Minister. The actual persons displaced will not necessarily move into the new houses.

Compensation.—With regard to the question of compensation for property in a clearance area, as in the case of the 1919 Act, the property compulsorily acquired is purchasable by the local authority at site value with a reduction where the proposals necessitate the use of the cleared area for rehousing.

Local authorities are empowered to pay to displaced persons reasonable sums for removal expenses, and allowances towards losses which in the opinion of the local authority such persons may sustain by reason of disturbance of their trade or business.

Government and Local Authority Grants.—The amount of the financial assistance which the Imperial Exchequer and the local

authority provide is dealt with in detail later. The intention of the Act is that local authorities will be enabled to let a sufficient proportion of the new houses at rents which the displaced persons will be able to pay. It is not necessarily intended that all displaced persons will be equally unable to afford ordinary rents of municipal houses. The Act expressly empowers the charging of different rents to different tenants and it is clearly the intention that the benefit of the new grant shall not enure to persons for whom it is not needed. The grant, together with the prescribed rate charge, is to be regarded as a pool out of which abatements in rent are to be financed. Though the grant is based on the number of persons displaced and rehoused, it is not tied to either persons or houses. Relief should only be given to those who need it, and only for so long as they need it.

Grants to Public Utility Societies, Housing Trusts, Etc.—

Where there exist public societies which are willing to assist in the work of rehousing, a local authority may make annual grants to them. Though the local authority may be disposed to allow them more than the amount of the Exchequer subsidy, it need not pay the normal rate contribution of £3 15s. 0d. per year per house for 40 years.

Finance.—The Exchequer grant made is a fixed annual sum on a unit basis, subject to certain special conditions. It consists of an amount, payable to the local authority for 40 years, ascertained by multiplying the appropriate sum (named below) by the number of persons displaced and rehoused.

The amount of Government grant is as follows :—

- (1) Normal houses—45s. 0d. x number of persons displaced and rehoused.
- (2) Tenement buildings on expensive sites—70s. 0d. X number of persons displaced and rehoused.
- (3) Agricultural parishes—houses—50s. 0d. x number of persons displaced and rehoused.

Special Conditions of Grant.—Payment of the new grant is subject to local authorities giving an undertaking to comply with the following conditions in regard to the new houses provided by them :—

(a) That the houses shall be let by the local authority to tenants who intend to reside in them.

(b) That it shall be a term of every such letting that the tenants shall not assign, sub-let or part with the possession of

the house or any part of it except with the written consent of the local authority, and that such consent shall not be given unless it is shown to the authority's satisfaction that no payment, other than a rent in its opinion reasonable, has been or is to be received by the tenant in consideration of the assignment, sub-letting or other transaction.

(c) That whilst the local authority may charge in respect of any house such rent as it may think fit, and may grant to the tenant of any house rebates from rent, subject to such terms and conditions as it thinks fit, the total amount of rents charged in respect of the houses in any year, after deducting the amount of any such rebates, shall be an amount ascertained by deducting from the estimated average annual expenses incurred by the local authority the annual equivalents of the Exchequer grant calculated on a sixty-year basis and a contribution from the rates.

(d) That no fine, premium or other like sum shall be taken in addition to the rent.

(e) That a fair wages clause which complies with the requirements of any resolution of the House of Commons applicable to Government Departments and for the time being in force shall be inserted in all contracts for the construction of the houses.

The special conditions to be observed in respect of small houses for aged persons are similar to those applicable to houses provided under the Housing (Financial Provisions) Act, 1924, and it is a condition of the making of the contribution by the Government in respect of these houses that they be let, and continue to be let, to aged persons. Where a local authority is charging the appropriate normal rents for houses built under the 1924 Act, the rent of these small houses for aged persons must be two-thirds of the appropriate normal rent of a non-parlour house. In other cases the rents should be calculated in the same manner as those of houses eligible for subsidy under the 1924 Act but substituting £5 Exchequer contribution and £2 10s. 0d. rate contribution (*i.e.* a total of £7 10s. 0d.) for the amount of the Exchequer and rate contributions for a house of the ordinary type.

The rate charge equivalent to £3 15s. 0d. a house a year for 40 years may for any year be increased at the discretion of the local authority and may also be reduced with the approval of the Minister. An application for this approval should be made before the beginning of the year and should be accompanied by details of the estimated average annual expenses under the

Act, and a calculation of the rent which the local authority proposes to charge, together with particulars in regard to the capacity to pay of the persons to be rehoused. The Minister has stated that he will not be able to give such approval unless the objects of the Act in this respect are clearly secured. Such an application may be made for any year and a local authority who has found it necessary to charge to rates a greater sum than the equivalent of £3 15s. 0d. a house a year for 40 years at the beginning of the period may be able to substantiate a lower rate charge in later years.

Rents.—The Act provides that the total amount of rents to be charged by a local authority in any year is ascertained by deducting from the estimated annual expenses the equivalent of the Exchequer grant and of a rate charge which is ordinarily to be £3 15s. 0d. a house a year for 40 years (or in the case of small houses for aged persons, which houses, though less in size than the minimum laid down by the 1924 Act as being eligible for grant, are now made eligible, a grant of £5 per house per annum and a rate contribution of £2 10s. 0d. per house per annum).

Calculations of Rents Chargeable.—The total rent to be charged by a local authority for houses provided under the 1930 Act is ascertained as follows :—

(a) Determine the total estimated cost of the houses (contract price of houses, plus cost of land, roads and sewers). Add, if necessary, other expenses allowed by the Act.

(b) Ascertain the annual loan charges for 60 years on the total at (a).

(c) Add to (b) the estimated allowance to be made for each house for repairs, management, etc., multiplied by the number of houses included at (a).

(d) Ascertain the Exchequer grant payable in respect of the persons to be rehoused in the houses included under (a) (£2 5s. 0d., £2 10s. 0d., or £3 10s. 0d. X number of persons).

(e) Ascertain the normal charge to the rates in respect of the houses included under (a) (£3 15s. 0d. x the number of houses).

(f) Add (d) and (e) together and calculate the equivalent for sixty years.

(g) Deduct the amount at (f) from the total of (b) and (c), thus obtaining the estimated total amount of the rents to be charged in a year in respect of the houses included at (a). Divide by 52, and the average weekly rental income (excluding rates) is obtained,

Example:—

(a) Cost of 100 houses and other expenses (after allowing for value of any surplus land), say, ...		£40,000
(6) Loan charges on (a) (60 years basis), .		£2,168
(c) Allowance for repairs, maintenance, etc., say, ...		550
Estimated average annual expenses,		£2,718
	40 yrs. 60 yrs.	
(d) Exchequer grant, { 45s. X 500 }	=	£1,125
(e) Rate contributions, { £3 15s. 0d. x 100, }	=	375
	£1,500	
(f) Which is equivalent to	£1,343	
		1,343
Aggregate rents in year, which must not be exceeded, ...		£1,375

i.e. An average of about £26 9s. 0d. per week for the 100 houses.

If half the new houses under the new Act were let to tenants paying an average rent of say, 7s. a week, so producing a weekly rental income of £17 10s. 0d., the local authority would require only a rental income of £8 19s. 0d. from the remaining 50 houses, *i.e.* it would be enabled to make varying rebates amounting to about £8 11s. 0d. from a rental income of £17 10s. 0d. (based on 7s. a week) from the rents of the remaining 50 houses.

Adjustment of Bents.—Where a local authority has provided accommodation for displaced persons in new houses but would prefer to accommodate some of such persons in other "alternative" houses belonging to the authority which, but for the fact that they are higher rented, are in some other way more suitable, it may represent the facts to the Minister, who, if satisfied that the proposal is well founded, may authorise the authority to charge in respect of the "alternative" houses a

lower rent than would otherwise be payable. In such a case, where approved—

(a) For the purpose of the financial provisions of any enactment applicable to the "alternative" houses the local authority shall be deemed to be charging the rent it would have charged but for the special approval obtained from the Minister.

(6) The estimated annual average expenses to be taken into account in fixing the rents of the new houses built under the 1930 Act will be deemed to be increased by the excess of the original rents of the "alternative" houses over the rents now charged for them.

(c) The local authority should furnish the Government Department with full particulars of the rents, etc. of the houses in question and of the adjustments in housing accounts which it would propose to make if its proposals as to the use of "alternative" houses were approved.

*Example:—*A local authority owns a house built under the 1924 Act and let at 7s. 6d. a week. Under arrangements approved by the Minister it lets this house to a person displaced from a clearance area who cannot pay more than 5s. 0d. per week, which is the rent at which he could be rehoused in a new house provided under the 1930 Act. For all purposes of the Exchequer grant and the rate charged under the 1924 Act the rent of 7s. 6d. will still be deemed to be charged for the 1924 Act ("alternative" house). The loss of rent of 2s. 6d. per week incurred by the local authority will be treated as an expense in connection with the 1930 Act houses and will correspondingly (*i.e.* by 2s. 6d. per week) increase the maximum rental income to be charged for those houses. The sum equivalent to the loss of rent incurred during the year will be transferred from the 1930 Act Account to the 1924 Act Account.

This special provision enables local authorities to exercise a certain amount of latitude in special cases in rehousing displaced persons at appropriate rents in any houses in their possession, irrespective of the particular Act under which they were built or acquired. It does not in any way diminish the obligation of the local authority to provide new accommodation nor does it affect in any way the financial provisions of the several Acts under which the houses are provided.

The Exchequer grants payable by the Government to **local** authorities under the **1930** Act are made on application (**on special** forms) each half-year and will ordinarily be granted as **to**

about 90 per cent, of the amount estimated to be due, the balance being paid after the accounts have been examined by the district auditor and his report has been received.

Exchequer grants may be discontinued if the special conditions have not been complied with, and will be stopped on the sale of the house.

In the case of public utility companies which receive grants as already set out, the latter are conditional upon the charging of the same rents in total not in excess of the total amount which might have been charged by the local authority if it had provided the houses itself and had contributed the normal rate charge.

Housing (Rural Authorities) Act, 1931.

The object of this Act is to enable further assistance to be given by the Government to rural housing authorities in the provision of houses for agricultural workers and for persons whose economic condition is substantially the same as that of such persons.

The assistance is given only where the authorities satisfy the Committee appointed by the Treasury that their financial resources are insufficient to enable them, without special assistance, to make adequate housing provision of the kind in question.

The assistance is such an annual sum (payable for 40 years in respect of each house) as the Minister, on the recommendation of the Committee, may deem appropriate to the circumstances, and is in addition to any other contributions under the Housing (Financial Provisions) Act, 1924, or under the Housing Act, 1930.

Miscellaneous Points Relating to Housing Finance.

(1) Inclusive Rents.—Except where direct rating is in force it is customary for rates and water charges to be included in the "rent" charged. Thus these items as well as the pure rent are credited to Housing (Assisted Schemes) Revenue account. Theoretically the rates and water charges are also debited. While practice agrees with theory in this respect, it generally happens that the debit is less than the credit by reason of discounts for prompt payment, elimination of small fractions and allowances where the rates are compounded.

As the Ministry of Health will not recognise for grant losses arising by non-recovery of rates from tenants it is suggested that "profits" (*i.e.* differences between debits and credits) ought not to be credited to Assisted Schemes Revenue Account

(a policy which would give the full benefit to the Government) but should be carried to a special revenue surplus (or reserve) account against which may be charged any losses in later years, arising by reason of empties, irrecoverables, etc.

(2) **Tenants' Deposits.**—Where deposits are held (without interest liability) as security against non-payments, etc., the local authority (not the Government) appears to be entitled to any interest earned thereon, though the latter would derive the benefit if it were credited to Assisted Schemes Revenue Account.

(3) **Insurance of Houses.**—Houses under the 1919 Act are not as a rule insured, as the Government has undertaken to meet any loss by fire. Thus premiums (if any) paid by the local authority do not rank for grant. This does not apply to houses under the later schemes, and consequently it is customary to insure property generally.

Advances to House Purchasers.

Local authorities may lend money to enable persons to acquire houses for their own occupation. Power is given in both the Small Dwellings Acts and the Housing Acts. These will be reviewed separately :—

(a) *Under the Provisions of the Small Dwellings Acquisition Acts, 1899 to 1923.*

Under the Small Dwellings Acts a local authority for the purposes of the Acts is empowered to lend money to enable a small owner to have built or to purchase a house for his own occupation. There are no limitations as to *size* of the house but the market *value* including the site must not exceed £1,200.

Amount of Loan.—The local authority may, in its discretion, lend a sum up to, but not exceeding, 90 per cent. of the value of the house, and it may advance the money by instalments during the construction, but may not grant more than 50 per cent. of the total cost of the work done up to the time of the advance until the house is complete, when the balance, making up a maximum of 90 per cent., may be paid.

Conditions of Loan.—It is a condition that the purchaser must reside in the house for a period of not less than three years from the date when the advance is made or the house completed, but the local authority may at any time dispense with this condition as to residence.

Redemption of Loan by Purchaser (Period and Interest).—Every advance must be repaid with interest within such period,

not exceeding 30 years, as may be agreed upon between the parties. The rate of interest on the advance is also a matter for agreement, but must not exceed 10s. per cent. above the rate at which a local authority can borrow from the Public Works Loan Board except with the consent of the Ministry of Health.

The borrower may on any quarter day, after one month's notice, redeem all sums outstanding or any portion thereof, in multiples of £10.

Method of Redemption.—The advance may be paid off either by—(a) equal instalments of principal, or (6) equal instalments of principal and interest combined, and all payments must be made weekly or at periods not exceeding a half-year, as may be agreed.

Local Authority's Safeguards and Conditions on Making an Advance.—The authority must be satisfied that:—

- (a) The value of the house is sufficient.
- (6) The title is one which would satisfy an ordinary mortgagee.
- (c) The house (if already built) is in good condition.
- (d) Redemption of the loan is secured by a proper mortgage deed.
- (e) The house is, or will be, adequately insured against fire.
- (f) The house is not used for the sale of intoxicating liquors or in such manner as to be a nuisance to adjoining houses.

Transfer of Interest.—An owner may, with the permission of the local authority, and subject to the statutory conditions, transfer his interest in his house to another person.

Default or Bankruptcy of Owner.—In the event of non-compliance with the statutory conditions the local authority may take possession. In case of bankruptcy of an owner the local authority may either take possession of the house or order sale without taking possession.

Where a local authority takes possession it may either retain the house and let it on rent, or it may sell or dispose of it in any other way it thinks proper. It must, however, pay to the owner either—(a) such sum as may be agreed upon; or (6) a sum equal to the value of the owner's interest in the house, at the disposal of the local authority, after deducting arrears due from the owner and all costs incidental to taking possession or sale.

Sale by the Local Authority.—Where the authority decides to sell, the sale must be by public auction.

Local Authorities for the Purposes of the Acts.—Local authorities having powers under the Small Dwellings Acts are

County Councils, County Borough Councils and the Council of any Urban or Rural District on the passing of a resolution undertaking to act under the Acts (subject in the case of the Council of a district containing a population according to the last census for the time being of fewer than 10,000, to the consent of the County Council). In these latter cases the Councils of such districts are exempt from liability to contribute to County rates for the purposes of the Acts.

Limits to Advances by Local Authorities.—If in any financial year the expenses under the Acts incurred by a local authority are not reimbursed by the receipts, and the deficiency exceeds, in the case of a County Council, the equivalent of a half-penny rate, and in the case of other Councils the equivalent of a rate of one penny in the pound, on the rateable value of the district, no further advances may be made until the expiration of five years after the end of that financial year. If after such period the net annual deficiency still exceeds the equivalent of a rate of a half-penny or one penny in the pound on the rateable value, as the case may be, the granting of advances shall still be withheld until the deficiency falls below such sum.

Borrowing Powers of a Local Authority.—For the purpose of making advances to owners under the Acts a local authority may borrow money with the consent of the Ministry of Health.

Borrowings may be made in the manner specified in the Local Government Act, 1933 (see Chapter III).

Conveyance of Property.—A receipt under seal is sufficient to convey property under the Small Dwellings Acts free of stamp duty and free of cost to the purchaser. The latter may, however, demand reconveyance, but at his own expense.

Illustration of Application of an Advance.—The following is an illustration of operations under the Small Dwellings Acts. A person desiring to build a house at a cost of £700 for the building and £150 for the land and street works has £200 of his own money available. The local authority agrees to advance £650. The total expenditure is met as follows :—

Owner's contribution, ...	£200
Local authority's advance (by instalments), ...	£650

The owner would redeem the £650 advanced by the local authority by equal half-yearly instalments of principal and interest combined. Assuming the rate of interest charged to be 5 per cent. per annum and the loan period 30 years, the half-yearly payment would be £21 0s. 7d.

Legal Expenses, Stamp Duty, Valuation, Etc.—The Act makes no provision as to how the cost of preparing mortgages, scrutinising title deeds, valuation of the property, etc. shall be met. Presumably they can be charged up to the proprietor of the house.

Local Authorities' Expenses.—The expenses of a local authority in the execution of the Small Dwellings Acquisition Acts are payable, in the case of County and Non-county Boroughs, out of the general rate fund, and in Counties out of the county rate. Urban and Rural District Councils meet their costs out of any fund or rate applicable to the general expenses of the Public Health Acts.

(b) *Advances Under Provisions of the Housing Act, 1925.*

Advances to house purchasers are also authorised by the Housing Act, 1925, under which advances may be made by a local authority to persons or to bodies of persons who are—

- (1) Constructing, altering, or undertaking to do either of these.
- (2) Acquiring, or undertaking to acquire, houses the construction of which was begun after 25th April, 1923—

whether such property is within the authority's area or not, but provided it does not exceed a value in fee simple of £1,200 per house. (Prior to 1st October, 1926, the figure was £1,500.) Advances are in addition to any available assistance in the form of subsidy.

A local authority may guarantee the repayment to a building society (or similar institution) of any advances made by such body to any of its members to enable them to build or acquire houses.

The advances are payable to the persons undertaking the scheme.

Advances must be secured by mortgage and may not exceed 90 per cent. of the value of the interest of the mortgagor in the property. Redemption may be either on the annuity or instalment of principal method, and if the conditions as to the advance are not complied with, the whole of the balance outstanding becomes repayable on demand.

Advances during course of construction may not exceed 50 per cent. of the value of work done, including the site value.

Advances in respect of a leasehold interest may be made only where the term is at least ten years longer than the period fixed for redemption of the advance.

ACTIVITIES OF LOCAL GOVERNMENT AUTHORITIES. 91

The following statement shows the chief difference between the provisions of the Small Dwellings Acts, 1899-1923, and the Housing Act, 1925, in relation to advances to house purchasers.

Feature	Small Dwellings Acquisition Acts, 1899-1923	Housing Act, 1925
Persons to whom advances may be made.	Resident or intending resident in the house which is the subject of the advance.	Persons or bodies of persons intending to acquire, construct or alter houses for sale or letting.
Maximum market value of house.	£1,200.	£1,200 (or £1,500).
Rate of interest chargeable.	As prescribed by Minister of Health. May be varied on application of local authority if special circumstances exist.	Determined by local authority subject to approval by Minister of Health.
Size of house.	No restrictions.	(a) Two-storied house, minimum 620 superficial feet. (6) Flats (structurally separate and self-contained) or one-story house, minimum 550 superficial feet.
Prescribed period of residence.	3 Years, but this condition may be waived by local authority.	Not applicable.
Area in which advances may be made.	Area of local authority.	Within or outside the local authority's area.
Expenses of local authority.	Limited by the Acts to a rate of $\frac{1}{2}$ d. in £ in case of County Councils; other authorities 1d.	No prescribed limit.
Date of erection of house.	No restriction as to date.	Only applies to houses the construction of which commenced after 25th April, 1923.

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Date of erection of house.	No restriction as to date.	Only applies to houses the i construction of which commenced after 25th April, 1923.

house the sale shall not be effected except upon and subject to such stipulation (if any) as the Minister thinks proper for the reduction of the amount or curtailment of the duration of any contribution payable by the Minister in respect of the house, or for both reduction and curtailment. The Ministry of Health has stated that if a house is sold subject to all the prescribed conditions the subsidy of £9 will continue to be paid. If, however, the house sold will not thereafter be subject to the special conditions, the subsidy will be reduced, but not below £6 per year, for the unexpired part of twenty years.

In the case of every proposed sale the consent of the Minister will be necessary, and full particulars are to be submitted to the Minister.

In accordance with the provisions of Section 15 (3) of the Housing, Etc. Act, 1919, the best price possible must be obtained, having regard to any conditions imposed.

The following is an illustration showing the selling price necessary in respect of houses erected by a local authority under the Housing Scheme in order that the sales will not increase the annual loss :—

CAPITAL EXPENDITURE (say) £1,000.

PRESENT COST (TO RATES).		COST TO RATES AFTER SALE.	
Interest (5 per cent.), . . .	£60 0 0	Interest (5 per cent.),	£50 0 0
Sinking fund . . .	4 15 6	Sinking fund,	2 13 11
	£54 15 6		£52 13 11
	£54 15 6	Interest earned by purchase money (£450) paid into sinking fund and invested at 5 per cent., . . .	£22 10 6 1
Management, repairs, etc., 25 per cent. of rent,	6 10 0	Less tax at 4/6,	17 8 9
Rent at 10s. per week,	£61 5 6		
	26 0 0		
	£35 5 6		£35 5 2

If, as a consequence of a sale, the annual deficit under the Assisted Scheme is reduced, the saving is to be apportioned in reduction of both the subsidy and the rate contribution.

Payment of Interest without Deduction of Tax by Persons to whom Advances have been made under Provisions of the Housing Acts to Private Builders.—It would appear that the Ministry of Health foresaw the convenience of the above-named when they

issued the General Housing Memorandum No. 44 (1921), which states :—

" Normally it would rest with the purchaser to pay the income tax payable under Schedule (A) in respect of the house, but he would be entitled to deduct income tax from the interest and ground rent payable by him to the local authority. This course, however, might tend to complicate the smooth working of a system of purchase of houses by monthly or weekly instalments by the working-classes."

An arrangement has therefore been made, at the request of the Minister, whereby the purchaser will be exempted from income tax in respect of that portion of the assessment of the house which will be covered by interest paid to the local authority. This concession is only applicable to local authorities who adopt the following procedure :—(1) The local authority must furnish the inspector of taxes with a list showing, in respect of each borrower, the amounts payable in respect of interest, etc. (2) The local authority will be assessed on the total amount of interest received without deduction of tax. (Normally, however, such assessment would be recoverable by way of set-off against retentions of tax from interest on loans, or would be discharged on account of interest paid " gross " to the Public Works Loans Commissioners.)

POLICE ACCOUNTS AND FINANCE.

The local authorities for Police purposes in England and Wales are as follows :—

(1) *In the Provinces* :—

- (a) County Councils for such portions of the County as do not maintain a separate police force.
- (b) County Borough Councils.
- (c) A few Non-county Borough Councils which had a separate Court of Quarter Sessions, a population of not less than 10,000 according to the census of 1881, and a police force of its own, on the passing of the Local Government Act, 1888. (New borough police forces may not be established if the population is less than 20,000.)

(2) *In London* :—

- (a) In the Metropolitan Police Area—The Secretary of State.
- (b) In the City of London—the Common Council.

County Councils act through a standing joint committee consisting of equal numbers of members of the Council and Justices appointed by the quarter sessions. The committee is thus independent of the control of the County Council.

Borough Councils control their police force through the Watch Committee, which is a committee of the Council.

Government Grants are made towards the cost of police to the extent of one-half of the cost of police pay and clothing calculated according to the figures for the year ended 31st March, 1915.

A claim is made by the police authority (according to the statutory rules) and if approved the Government makes a grant for each financial year of such a sum as is required to make up the subsidies received in that year in respect of pay and clothing, and from the Local Taxation Account in respect of pensions, to one-half of the net total expenditure in that year on police purposes, including pensions.

The grant is based on an estimate furnished by the local authority to the Home Office on the prescribed form, and is paid by half-yearly instalments in the fourth or fifth month of each half-year, amounting at first to 90 per cent. of such estimate. The remaining 10 per cent. is paid after audit of the accounts in the following year.

A detailed statement of receipts and expenditure at the end of each financial year must be submitted by the authority to the Home Office. The return must be on the prescribed form and certified by the district auditor in all cases, even though the other accounts of the Borough are not subject to his examination. This is not, however, a statutory audit; consequently no stamp duty is chargeable thereon.

Receipts from persons or bodies other than the police authority, in respect of services of members of the force, must be included in arriving at the net expenditure for grant purposes. The claim for police grant must not include the cost of police employed on the work of licensing under the Roads Act, 1920 (Section 3 (4)), nor for police carrying out the duties of inspection of weights and measures, fire brigade, or other services not strictly in the nature of police duty. Expenditure of a capital nature on land and buildings not defrayed out of loans may rank for subsidy (Order of 24th October, 1919, Para. 12 (1)), but where defrayed out of loans the annual interest and redemption charges should be included. The full loan charges on capital expenditure incurred on the provision of houses for police officers must be entered, while the proportion received

from the Ministry of Health is entered as a deduction. Loan and maintenance charges of buildings used only partly for police purposes must be allocated properly on the basis of cubic contents, floor space, etc. when not capable of separation.

Expenditure on the administration of justice, *e.g.* police courts, may not be included, but that relating to Special Constabulary forces may be treated on lines similar to those relating to regular police. The cost of providing places of detention under the Children Acts, 1908 and 1921, and maintaining children therein, is allowed, but the Secretary of State requires to be satisfied as to the adequacy and suitability of such places and the arrangement for the care and maintenance of the young persons, and the expenditure is subject to his approval.

The rules relating to expenditure on buildings for grant purposes are as follows :—

- (1) Where buildings are used only partly for police purposes debt charges should be apportioned on the basis of cubical contents of the part so used in proportion to the total cubical contents of the building.
- (2) External repairs, painting, etc. must be apportioned on the same basis.
- (3) Internal repairs, etc. of the part used by police must be kept separate from similar expenditure on the other parts of the building.
- (4) Expenditure not capable of being separately charged, such as cleaning, lighting, heating, etc. has to be apportioned in proportion to superficial area of floor space.
- (5) Additions and structural alterations, internal and external, must be kept separate. No charge may be made to Police Account unless the work is expressly for police purposes.
- (6) Cost of new buildings, including site, part of which is allocated to police purposes, is apportionable by the architect on a basis of cubical contents. The approval of the Secretary of State is required before admission of the expenditure for grant.
- (7) Salaries and establishment charges of County and Borough officials may not rank as expenditure for which grant may be made, except the services rendered by a surveyor or architect in connection with police buildings, where the cost is charged to Police Account, and provided the basis of apportionment is submitted along with the claim.

The Home Office has intimated that expenditure in connection with any of the following purposes *cannot* rank for grant:—

Food and Drugs Act; Diseases of Animals Act; probation of officers; local taxation licences; police court missionaries; collection of moneys under affiliation and maintenance orders; maintenance of reformatory school buildings; maintenance of institutions for inebriates; provision of cab shelters; danger signs on highways; lighting of dangerous places; subscriptions to philanthropic agencies; athletic and recreation clubs; presentations to special constables; dinners, concerts, entertainments, etc.; police band expenses; expenses of attending meetings of Municipal Corporation's Association, Chief Constable's Association, etc.; rent of Corporation buildings which are free from debt; contributions to a Corporation's own insurance fund to cover liability under Workmen's Compensation Acts, etc.; payments under the Riot (Damages) Act.

But the following expenses *are* allowable :—

Expenses of representatives attending meetings of police federation; expenses of chief constables attending official conferences convened with the approval or at the instigation of the Home Office. Special consideration will be given to cases where a recreation room is used partly for police purposes.

The Secretary of State may withhold the whole or part of a grant if not satisfied that the police service is efficiently administered, or if his approval was not obtained for the rates of pay and allowances.

CHAPTER VII.

SOME MATTERS OF POLICY.

(1) Trading for Profit versus Supplying at Cost.

(The Transfer of Profits on Trading Undertakings in
Relief of Rates.)

THE question as to whether a local authority should, in respect of its trading undertakings, deliberately make profits and transfer them (in whole or in part) in aid of rates is one which gives rise to much controversy. It is a matter of policy for settlement by the Council, having due regard to the Council's Chief Financial Officer's report on the subject in its financial bearing.

Committees directly controlling the trading departments regard the matter from a view-point different from that of the Finance Committee. There is a tendency for a reproductive concern having the resemblance of a commercial business to consider that, to be regarded as a success, it must make profits. And having done so to an extent in excess of requirements for renewals, reserves, etc. it then feels that it can act philanthropically and distribute its surplus as a sort of dividend to the non-trading departments, through the medium of the general rate.

The Finance Committee and the Chief Financial Officer are more apt to take a broader view of the matter. They consider the whole of the local authority's activities—be they reproductive or non-reproductive—as those of one body. From this standpoint a different picture is seen. Firstly, it should be realised that the profits of the trading concerns have been made out of such of the ratepayers (and others, in some cases, *e.g.* tramways, ferries, etc.) as have shared in and paid for the services provided, while any profits transferred in aid of rates go to the benefit of all ratepayers, but no other parties.

The next point is, that in the majority of instances, *i.e.* except where the whole of the profits of a trading concern are available as a set-off against rating fund interest, for every £1 of profit

provided by the users, the ratepayers receive back only £1 less the current standard rate of income tax. This means a loss to the ratepayers and a gain to the Government of 25 per cent. (or such other figure as may be current at the time).

There may be justification for making a profit out of non-ratepayer users, *e.g.* persons using trams, ferries, etc., and those consuming gas, water, electricity, etc. beyond the authority's boundaries, where adjoining towns are supplied in bulk, because these individuals are not generally liable to contribute towards any losses on working which may arise and did not pledge their credit when the supplying authority borrowed its capital requirements, though there is, perhaps, less justification for charging ratepayer consumers in excess of actual total net cost.

In some towns an arrangement has been made whereby the trading undertakings are expected to transfer annually a certain proportion of their profits. The argument for such a procedure is that the Council can almost invariably borrow for its capital requirements at an appreciably lower rate of interest than would have to be paid by a commercial company undertaking a similar service, by reason of the fact that in so raising money it pledges the whole of its properties, revenues and rates, and not merely the particular undertaking as obtains in the other case. It is contended that this advantage of cheap loans belongs to the whole of the ratepayers, as it is their credit that is mortgaged, and that the difference so saved should be transferred to them through the rate funds in general.

It is quite conceivable that a reasonable computation of the difference in rates of interest may amount to 1 to 2 per cent. of the capital involved.

Though a waterworks is often regarded as a trading undertaking it might equally well be considered as purely a health and sanitary service. It certainly is a prime necessity of life and may even be worked as a rate fund service, water being supplied without any direct charge being made therefor. In these cases the cost is included in the General Rate. Where, however, the undertaking is maintained as a reproductive concern, there is good ground to urge that water should be provided at the least possible cost compatible with financial stability of the undertaking.

A method adopted by some local authorities, especially in regard to gas and electricity supplies, where each consumer can be traced as a ratepayer or otherwise, is to reduce the price of the commodity to ratepayers in the second or latter part of the financial period so as to avoid making a profit. By this means

the actual ratepayer consumers get the benefit of the supply at cost.

Bases of Transfer,—Where it is decided that transfers of profits in aid of rates shall be made there are several bases on which this may be effected. The principal of these are the giving of—

- (1) A fixed sum annually.
- (2) A fixed percentage of capital expenditure.
- (3) A fixed percentage of loans raised to date.
- (4) A fixed percentage of outstanding debt.
- (5) The produce of a fixed rate of so much in the pound.

Each of the foregoing methods has its distinctive features and each appeals to different persons. Local considerations and circumstances must necessarily be important factors in determining the method to be adopted.

The Local Legislation Committee of the House of Commons in 1924 took the view that municipal trading concerns should be self-supporting, involving neither profit nor loss to the local rates.

Parliament has made a definite statutory move in this respect in the Electricity Supply Act, 1926, by which measure the amount of profit which may be applied in relief of local rates in any year is limited. The figure may not exceed $1\frac{1}{2}$ per cent. of the outstanding debt of the undertaking, and absolutely nothing may be so paid unless the reserve fund of the undertaking amounts to more than $\frac{1}{20}$ th of the aggregate capital expenditure of the undertaking.

Arguments in Favour of Transferring Profits in Aid of Rates.

—The reasons adduced in support of transferring profits in aid of rates are stronger, as has already been indicated, where the area of supply of the trading undertaking is not coincident with the area of the local authority owning the concern, than where supplies are made to the authority's own ratepayers only.

It is regarded as equitable that profits be transferred for the following reasons :—

(1) The general body of ratepayers is guarantor of the trading undertakings, and the payment (*i.e.* of profits to rate fund) is for services rendered.

(2) Services rendered by, or benefit received from, the ratepayers in that they **are the means of** obtaining loans **for the** trading undertakings at a **lower** rate of interest **than such** concerns would have **had** to pay **had** there not been the rates as **security**.

(3) As compensation for benefits arising under a system of pooled interest.

(4) Transfer of profits is more equitable than obtains where benefit is given to ratepayers by a reduction in price in some cases only, as in these circumstances only the pockets of a few users are benefited, *e.g.* where a reduction is offered in the price of current used as power.

(5) As compensation for heavy capital expenditure on street improvements and other works made necessary by the operation of the trading undertakings.

(6) As compensation for the risks and liabilities for loss, etc. taken by ratepayers, but not by others.

(7) Trading undertakings not making a transfer of profits in payment for benefits received are being subsidised by the rates.

(8) Lower rates are a more impressive inducement to new industries and intending residents than are high rates and low charges for trading undertakings' supplies.

(9) Visitors to towns and seaside resorts should contribute towards cost of roads, promenades, etc., and this can be done by charging for services such as trams, buses, etc. at higher than cost.

(10) The administration of a business is at its best when its resources are taxed to the utmost; thus if an undertaking has to estimate for a contribution to rates it is safe to assume that expenditure will be rigidly controlled and expenditure on "conventional necessities" excluded.

So long as prices charged are reasonable, and no greater than would be asked by a commercial firm, consumers are less likely to complain about the profit they are providing than they would about an increase in rates.

On the other hand exploitation of trading undertakings should be avoided, and renewals, etc. should not be hampered.

Arguments Against Transfer of Profits in Aid of Rates.—

(1) The prime object of municipal trading is to provide the public with a service at the lowest possible economic price.

(2) If transfer is made profits made out of one section of the ratepayers, *e.g.* electricity users, are not paid back to the identical persons from whom the profits were made, but go to the whole body of ratepayers.

(3) Prices charged not being the lowest possible, the utmost attraction is not provided to induce non-consumers and expansion is less rapid than might be under cheaper conditions and greater demands.

(4) The rates do not show the ratepayers the full cost of local services. The full burden is not borne out of rates. This is contended not to be in the interest of sound finance and good local government.

(5) Pull tax at the standard rate is borne out of the profits without full powers to recoup by set-off in all cases. This is looked upon as a needless waste of ratepayers' money.

(6) The interests of ratepayers and consumers are not necessarily coincident; *e.g.* a large factory may have its own lighting and power equipment.

(7) Where trading undertakings are looked upon as a regular source of contribution towards the rates this becomes an unfair charge on the undertakings.

General Considerations.—Other considerations of more or less local application or importance only cannot be overlooked when considering this problem. Some such matters are as follows. The area of supply may extend beyond the authority's boundary, in which case persons outside would be getting all the advantages of a cheap supply if no profit were made without bearing any of the liabilities to make good losses, or pledging their rates, revenues, credit and properties. The effect of this might be to induce lower rates outside the area and induce manufacturers and others to settle there, adding rateable value to the outside districts. This can be overcome by charging outside supplies at a higher rate than that applicable to the authority's own ratepayers. A good costing system is helpful to ensure that accurate figures are used.

Transfers cannot be made of profits not in existence, and so where there has been an undertaking to transfer a definite sum or a figure calculated on a fixed basis, failure to earn enough profit in the year makes this an impossibility. Profits should only be considered as available for transfer to the extent which seems quite reasonable after all charges have been met, including transfers to reserve funds and provision for working capital.

The financial position of an undertaking should not be embarrassed or weakened in order to effect relief to the rates.

Only profits actually made and realised in cash are available for transfer. Paper profits, while right in theory, are useless until received in money.

Where separate funds in respect of trading concerns are not in existence and such undertakings are treated as forming part of a rate fund, surpluses (and deficiencies) are immediately and automatically appropriated by the rate fund, and so cannot be

returned specifically to consumers in the form of either reduction of future charges or a dividend on consumption.

(2) Fixing Scales of Charges for Services.

Local authorities owning both trading and other types of undertakings are faced with the problem of fixing scales of charges for the various services supplied. In arriving at a decision it is necessary to give full consideration to several important factors, all of which have a direct bearing on the prices which will ultimately be demanded. The points to be borne in mind are :—

- (1) The class of service. Thus it is necessary to treat *(a)* trading services (practical necessities) quite differently from *(b)* health or sanitary services. And in a still different category come *(c)* luxury or purely pleasure services.
- (2) The intensity of need for the services.
- (3) The policy of the local authority. That is, whether it favours supplying at cost (or less) or whether it favours making profits where possible.
- (4) The effect of the proposals on the rates and the desirability and the practicability of placing the burden or the benefit on the whole or a section only of the ratepayers.

With regard to *No. 1 (Class of Service)* one would place tramways, gas, electricity, markets, ferries and services of a similar nature under sub-heading *(a)*, and in these cases profit-making can be regarded as *justifiable* if a local authority desires, and with the exception of electricity profits, the amount which may be transferred in aid of rates is not subject to any direct statutory limitation. Under section *(6)* one gets public wash and swimming baths, wash-houses, games in parks, sales of milk and foods in necessitous cases. Here there is probably less justification for profit making, and one can reasonably expect in fixing the charge to approach an actual cost basis. In section *(c)* are included services such as Turkish baths, golf courses, boating on lakes, etc., services not in the form of necessities, and in these cases the services ought at least to be self-supporting and quite equitably profit making, especially if the charges can be kept appreciably below outside commercial competitive schemes.

No. 2. Intensity of Need.—This is a factor which cannot be

treated too lightly. It is obvious that a thickly populated poor working class neighbourhood needs the provision of services by the community much more than does a wealthy residential area.

No. 3. *The Policy of the Council*, i.e. (a) trading for profit, (b) working just at cost, and even (c) working at a loss, is an important matter and one upon which a Chief Financial Officer can only advise as to the effect of proposals. Debates and articles on this phase are fairly plentiful. The income tax aspect should never be overlooked.

No. 4. *Effect of Proposals*.—In this matter the advice and report of the Financial Officer is of paramount importance. He should show the effect of working at a loss, in the form of appropriate increase in rates, probable increase in volume of service demanded in consequence of the advantage taken of cheapness and whether this will cause a greater loss or whether it will minimise the loss. He should also show how, where the rates are used to aid the services, the cost is borne not in ratio to benefit received but rather in an adverse way.

Some General Factors of Importance.—These include :—

- (a) Economy of working and the provision of an abundant but not excessive supply.
- (b) Whether the consumers or those benefited are all within the rating area,
- (c) The cost of a service in relation to its value to the consumer or participator. Money should not be wasted. It should not be spent unless it will give appreciated value.
- (d) The question of real demand or necessity.
- (e) Ability to pay,
- (f) Differential tariffs.
- (g) Accurate cost accounts showing reasonable but not excessive detail should be instituted where practicable.

(3) Granting Discount for Prompt Payment of Rates and Other Charges or Charging Interest on Overdue Accounts.

There is much diversity of opinion as to the merits both of granting discount and charging interest on rates and other charges. What is most appropriate in one town may be quite unsuitable in another.

(a) **Discount for Prompt Payment of Rates.**—The following are regarded as the advantages and disadvantages, respectively, of this system :—

Advantages :—

- (1) Prompt payment of rates is encouraged.
- (2) Early receipt of rate moneys results in a reduction or elimination of charges for bank interest on overdrafts[^] or the earning of more interest on credit balances. Working balances may be reduced. Economy in staff, stationery, postages, etc., by elimination or reduction of outdoor collectors, avoidance of repeated demands, etc. A centralised collection is more easily possible.
- (3) The system is more popular, and less harsh, costly and objectionable to the ratepayer than are court proceedings.

Disadvantages:—

- (1) Rates are legally due on demand and can be recovered by process after a period of seven days has elapsed following the demand ; therefore a discount legally is unnecessary.
- (2) Discount being a loss, the net produce of a penny rate is lower and a higher poundage has in consequence to be levied.
- (3) A discount scheme is a tacit recognition of a habit which may be looked upon as a right of ratepayers to defer payment of rates until the latest possible date.
- (4) If all ratepayers availed themselves of the discount the amount of rates payable by each would be approximately the same as if no discount scheme existed. It would amount to a reduction of the produce of the rates.
- (5) As the discount is usually at the rate of so much per cent. (not *per annum*) the actual yearly rate works out rather high and incidentally hits very hard those unable to take advantage of it.
- (6) As a local authority can borrow on terms more favourable than can a private ratepayer, if the latter has to incur an overdraft instead of the former **the** greater hardship is caused to the ratepayer; **the** overdraft charges of the ratepayer will be heavier

than the return on the credit balances created in the local authority's bank account.

Prior to the coming into force of the Rating and Valuation Act, 1925, the allowance of discount was not permissible by general statute and power had, if desired, to be sought by means of local Acts.

(b) Discount for Prompt Payment of Charges for Electricity, Gas and Water.—The foregoing principle applies in the main to debts due by ratepayers and others to a local authority in respect of services of trading departments. While, however, the matter is not so vital when the area of supply is co-extensive with the rating area of an authority and where all, or nearly all, the ratepayers partake of the trading service, *e.g.* water supply and to a less degree gas and electricity, one cannot lose sight of **the** fact that the equivalent of an increased rate poundage is an increase in the charge for the service or a reduced contribution in aid of the rate and consequently a sharing of the burden by persons not partaking of the trading services.

(c) Charging Interest on Overdue Accounts.—The charging of interest on overdue accounts in lieu of allowing discount for early payment is an alternative suggestion claimed by some **to** be less harsh on those who do not take advantage of discharging their liabilities by payment of the lowest possible amount. Such a system does not appear to have been adopted in connection with rates, though it has been tried for trading services. The principle is to charge interest at a certain rate per cent, on the amount of accounts not paid by a stated date. Income from this source is of course additional income over that which would be received if the accounts were paid before the expiry of the days of grace, but much of the benefit is offset by loss of bank interest on credit balances, or by payment of bank charges on overdrafts.

Most of the advantages and disadvantages of the discount system apply to the interest method. There are however a few points of difference as follows :—

- (1) There is no reduction in yield as under a discount scheme.
- (2) The net benefit or loss to the local authority is borne by a slightly different set of people.
- (3) The loss of discount which might have been obtained is not appreciated by everybody as being in the same category as the infliction **of** a penalty in **the form of** interest for tardy discharge.

(4) Building by Direct Labour versus Work done by Contractors.

The main principle underlying the policy of building by direct labour, especially now that labour is plentiful and materials and labour are comparatively cheap when considered in the light of prices ruling a few years ago, is to retain for the local authority the profits that would otherwise go into the pockets of private contractors. Other considerations, some financial, some otherwise, which operated to a fairly acute degree in the years immediately following the War, and which to some extent still apply, were :—

- (1) The difficulty of getting contractors to tender firm prices except in such circumstances as had allowed them to cover all possible contingencies.
- (2) The trouble and cost of entering into contracts on a fluctuating price basis.
- (3) The shortage of labour, and thus by spreading the work a greater proportion of labour could be obtained.

Other considerations were (and still are):—

- (4) Policy in making local authorities large employers of labour of the tradesmen class and incidentally, model employers with the tendency to improve the conditions for such grades generally (outside as well as inside the authorities' services).
- (5) Keeping contractors' prices down by competition, and helping to break " rings," " combines," etc.

Some or all of the foregoing points constitute advantages or disadvantages according to circumstances and opinions.

Advantages.—The direct advantages which apparently ought to accrue under direct building schemes are :—

- (1) With equal capacity for buying, and ability to organise the administration of " direct labour," together with the necessary competent staff, contractors' profits should be eliminated.
- (2) Contract work needs supervision, conditions, specifications, bills of quantities, etc., much of which can be dispensed with under direct-labour schemes.
- (3) A contractor's (resident) representative is often judged (by his firm) as to his ability by financial results, and thus it is quite possible that success in his employer's eyes means the very reverse of quality of work for the local authority.

- (4) Direct labour enables jobs to be started without the delay attendant on the preparation of contracts, tenders, etc.
- (5) Direct labour is particularly suitable to small jobs and repair work not really large enough to get several competitive outside tenders, without which, however, excessive prices may be charged.
- (6) When a works department is established for small jobs and repair work its development and enlargement to cope with big things ought to be an economical project.
- (7) Direct labour is particularly suitable for works connected with—streets, highways, reservoirs, lighting, cleansing, housing, sewerage, tramways, haulage, manufactures, etc., and anything not requiring the purchase of expensive, seldom-used plant and special technical skill.
- (8) Good workmanship is ensured.
- (9) Deviations from the original plan (if desired) may be effected with a minimum of trouble and cost.
- (10) The employment of local residents may be effected if desired.
- (11) In some cases it may be possible to obtain a grant from the Government towards the works executed.
- (12) " Extras " (the contractor's " gold mine ") may be obviated or reduced to a minimum cost.

Disadvantages.—The special disadvantages are considered to be:—

- (1) The setting up of a works organisation and the necessary clerical work involved.
- (2) The doubtful point in the minds of a section of the community as to whether or not the cost necessarily involved and the formalities of public service organisations do not make contract work more suitable and economical.
- (3) Direct labour is not suitable where technical skill of a special kind is required, and where the acquisition of expensive plant and machinery that would seldom be used is necessary. Such includes waterworks, pumping stations, bridge construction, etc.
- (4) It is contended by contractors that as a local authority does not usually place a clerk of works on a direct labour scheme, inferior materials and workmanship

may be put in with impunity, as there is no one to require its replacement, etc. except those on whom the improvement would reflect adversely.

- (5) Expensive machinery and plant may have to be bought for the job, and this may be useless to the local authority at the end of the work and have to be sold at a low price.
- (6) As the employment may be only temporary the best workmen are not attracted.
- (7) A local authority's organisation is said to be less efficient than that of a private contractor.
- (8) The political element may enter into the question.

General Observations.—In making a comparison of costs by direct labour with those of contractors, extreme care should be taken to ensure that all points are strictly equivalent. Direct labour figures must be adjusted to cover proper administrative expenses, including payment of wages, payment of accounts, book-keeping, proportion of technical officers' salaries, etc., and should include contributions to superannuation schemes, holiday pay, etc. Even though a contractor may not have to bear these, the local authority may have to if it embarks upon direct works operations.

Contractors' tenders cannot be taken for comparative purposes without adjustment, as the actual payments to contractors include in addition to the tender charges all extras, and of course exclude deductions, etc. All these items will be included in an actual cost by direct labour.

Such items as the foregoing might easily be overlooked if care be not taken when making comparisons of direct works costs with contractors' figures.

CHAPTER VIII.

SUPERANNUATION SCHEMES.

THOUGH the impression of many, and probably most, people is that all local government officers and servants are entitled to a good big pension on retirement at a comparatively early age from an easy and well-paid job, such is not true. No *general* authority exists for the compulsory payment of pensions or superannuation by a local authority to *all* its servants. The Local Government and Other Officers Superannuation Act, 1922 (which applies also to Scotland) *may*, subject to certain conditions and the approval of the Ministry of Health, be adopted by the Councils of Counties, Boroughs, Metropolitan Boroughs, Urban and Rural Districts and any other authority within the meaning of the Local Loans Act, 1875, employing 50 or more eligible persons. The Act applies to workmen as well as to officers. Local authorities may combine for the purposes of the Act. Superannuation schemes under this Act are reviewed later in the present chapter.

Obligatory Schemes.

The payment of superannuation allowances or pensions has been made obligatory under general Acts in the following cases to which the 1922 Act does not apply :—

- (1) Asylum officers.
- (2) Educational teachers.
- (3) Fire brigade members.
- (4) Police force members.
- (5) Ex-poor law officers (now transferred to local authorities).
- (6) Clerks to County Councils (which have not adopted the 1922 Act or other superannuation Act).

Except in cases of persons coming definitely within the ambit of the above-named compulsory provisions, local government employees are not entitled to claim pensions unless the authorities they serve have adopted a permissive scheme or have promoted

a local Act of Parliament providing superannuation rights. The adoptive schemes are as follows :—

Adoptive Schemes.

(1) London.—The Superannuation (Metropolis) Act, 1866, gives the London County Council and the Metropolitan Borough Councils a discretionary power to grant superannuation allowances out of the current rates and without any contribution from the employees to persons who have served in an established capacity for not fewer than ten years and who have ceased to be able to discharge their duties with efficiency by reason of permanent infirmity of mind or body or of old age. The scale of allowance is, for each year of service, $\frac{1}{60}$ th of the remuneration at the date of retirement, but subject to a maximum of $\frac{1}{2}$ th. As no contributions are payable by the employees no fund is set up, and allowances are charged on the rates or revenues direct.

In some cases superannuation schemes have been set up by the Boroughs under the provisions of local Acts, and in these circumstances the provisions of the 1866 Statute are superseded. Where the Local Government and Other Officers Superannuation Act, 1922, is adopted, the 1866 Act still applies to existing officers except those who have signified in writing their desire to come under the new scheme.

(2) General (including London and Provinces).—The Local Government and Other Officers Superannuation Act, 1922, is a measure which may be adopted by local authorities and applied to all its servants (including workpeople) who are not provided for by any other statutory scheme under general or local Act. The provisions of the 1922 Act are reviewed in detail in this chapter.

(3) Coroners.—Superannuation may be paid to County and Borough coroners in the discretion of the Council and charged on the County Fund as special County expenses or on the General Rate Fund. The Coroners (Amendment) Act, 1926, enables County and Borough Councils in their discretion to grant superannuation to a coroner who retires after not less than five years' service, provided he has attained the age of 65 years or becomes incapacitated in mind or body. The pension payable is the sum agreed between the authority and the coroner, but may not exceed ten-sixtieths of the last annual salary for the first five years of service, together with an addition of one-fortieth of the last annual salary for each year in excess of five, with a maximum of two-thirds the last annual salary. Where a local authority

has by resolution undertaken to pay pension under this Act it may call upon a coroner to retire at any time after he has attained 65 years of age and completed 15 years' service.

General Observations on Pensions Schemes.

Ex-Poor Law Officers.—The statute under which were granted superannuation allowances to poor law officers (now transferred to local authorities) was the Poor Law Officers Superannuation Act, 1896. The scheme was a contributory one, the contributions being returnable in certain cases where no pension is paid. No superannuation fund was created, the allowance being paid out of current rates, to which are credited the officers' contributions. The persons to whom this Act applied have since been transferred to local authorities and they may continue to be subject to the superannuation terms applicable prior to their transfer or come under the scheme in force for the officers of the local authorities to which they have been transferred.

Asylum Officers.—The authorising statute in this case is the Asylum Officers Superannuation Act, 1909, and the scheme is similar to that which was prescribed for poor law officers. There is no superannuation fund. Pensions are paid out of revenue account direct.

Schemes under Local Acts.—Many provincial local authorities have obtained power under local Acts of Parliament to grant superannuation allowances to their officers, and, except where they have since adopted the Local Government and Other Officers Superannuation Act, 1922, the provisions of the local Acts apply.

Pension (Increase) Acts, 1920-1924.

These are compulsory measures applicable to all pensions in existence immediately before the passing of the Pensions (Increase) Act, 1920 (an optional measure), and granted by local authorities and public bodies under the statutes mentioned in the Treasury Regulations dated 9th October, 1924. The increases to be granted are:—

(1) On existing pensions not exceeding £25 a year,	.70 per cent.
(2) On existing pensions exceeding £25 but not exceeding £50 a year,	.65 „
(3) On existing pensions exceeding £50 but not exceeding £100 a year,	.50 „
- 8

- (4) On existing pensions exceeding £100
but not exceeding £130 (if married), . 40 per cent.
- (5) On existing pensions exceeding £100
but less than £150 (if unmarried), . 3 0 „
- (6) On existing pensions exceeding £130
but less than £200 (if married), . 3 0 „

The maximum increase is such as will bring the total means of the pensioner to £150 in the case of an unmarried person or £200 if married.

Where a person is in receipt of two pensions to which the Acts apply they shall be treated as one pension to the aggregate amount of the two.

Where a pension has been granted since 4th August, 1914, on a scale higher than the pre-War scale, the increase granted under these Acts shall not be greater than is sufficient to make the increased pension equal to that to which a pre-War pension might have been increased under the scale set out in these Acts.

Where the original pension is payable out of a superannuation fund the increase may be charged either to such fund or to the appropriate rate fund, in the discretion of the local authority. It is considered to be more equitable to the ratepayers that the increase be paid out of the rate fund direct, otherwise if charged to the superannuation fund (though all deficiencies thereon ultimately become a charge on the rates) the present ratepayers, who should bear the increase, are relieved at the expense of those concerned after the next actuarial valuation of the superannuation fund.

A Detailed Review of the Local Government (and Other Officers) Superannuation Act, 1922.

Where a local authority adopts the superannuation scheme embodied in the Local Government and Other Officers Superannuation Act, 1922 (which is a permissive measure), such statute becomes obligatory on the authority and its officers and servants over 18 years of age holding appointments designated as "established posts." There is no provision enabling existing officers to contract out of its provisions.

Creation of Superannuation Fund.—Every local authority adopting the Act must establish a superannuation fund, to which must be credited each year—

- (1) Contributions (deductions from salary, etc.) of the officers and servants of the local authority.

- (2) An amount equivalent to (1), being the contribution of the local authority.
- (3) A further contribution by the local authority, being an equalisation contribution (see later).
- (4) Dividends and interest on investments of the fund.
- (5) Transfer values or payments in lieu thereof in respect of officers transferred from other authorities.

The Council's contributions to the fund are payable out of the same funds, rates and revenues as those against which the salaries and wages of the contributing officials and servants are charged.

Costs of administration of the fund are not a charge on the superannuation fund, but are payable out of such fund, rate or revenue as the local authority determines.

The payments out of the superannuation fund are :—

- (1) Superannuation allowances to officers and servants.
- (2) Contributions returned to contributors leaving the service before going on pension.
- (3) Other benefits (specified later).

Surplus of Fund.—Surplus income may be invested in trustee securities or it may be used as new capital expenditure in the exercise of a statutory borrowing power. Where used for new capital purposes provision must be made for the redemption of the money so employed in the same manner as if it were an ordinary loan ; interest on such amount must be paid to the superannuation fund at the rate that would have been payable on a loan raised by mortgage ; and the statutory borrowing power is deemed to be exercised as fully as if an ordinary loan had been raised.

Return of Contributions.—(1) Where an employee who was in the service at the commencement of the scheme retires owing to incapacity or after having attained the age of 60 years, but before having completed 10 years' contributory service, his contributions plus compound interest at 3 per cent. must be returned to him, and the years during which he has contributed are to be counted as non-contributing service for the purpose of calculating any superannuation allowance which may be due to him. Thus he will receive in addition to a return of his own money with compound interest an annual allowance for the whole of his service based upon 120ths or such greater figure not exceeding 60ths as may be determined. Any excess payment over 120ths is

payable out of the fund to which his remuneration was chargeable and not out of the superannuation fund.

(2) Where an employee who has not become entitled to a superannuation allowance ceases employment by reason of the abolition of his office, a reduction in staff, the termination of a joint appointment, ill health or incapacity, being required to retire on marriage, or death whilst in the service, there must be paid to such employee or to his legal personal representative the total amount of his contributions to the fund together with compound interest at 3 per cent. per annum calculated by half-yearly rests.

(3) Where a contributor in receipt of a superannuation allowance dies before he has received by way of superannuation an amount equal to his contributions plus compound interest at 3 per cent. per annum calculated by half-yearly rests, the difference must be paid to his legal personal representative.

(4) Where a contributor resigns voluntarily or is dismissed for incapacity (where neither fraud nor misconduct is alleged) before becoming entitled to a superannuation allowance, the whole of his contributions (without interest) must be returned to him.

(5) Where a contributor is dismissed or resigns in consequence of fraud or misconduct, he has no claim to a superannuation allowance, but the authority may pay to him or to his wife or family an amount not exceeding his total contributions to the fund (without interest).

(6) Where a contributor leaves the service of one authority and enters the employ of another authority, and a transfer value is paid in respect of him by the first-named authority, such contributor is not entitled to any return of his contributions.

Computation of Superannuation Allowance.—The annual amount of superannuation payable is computed by taking as many sixtieths (not exceeding forty) of the average annual salary or wages received by the employee during the last five years of service as years the employee has contributed to the fund.

Retirement is compulsory at 65 years of age, unless service is extended from year to year by agreement between the authority and the officer (such excess time not ranking for pension), but superannuation may be claimed—

(a) After 10 years' service if the contributor has become incapable by physical or mental infirmity.

(b) After serving 40 years, provided the contributor is not less than 60 years of age.

In calculating superannuation allowances a distinction has

to be made between "contributing service" and "non-contributing service." The meaning of the former is clear, and non-contributing service is that in respect of which the employee has not made any contributions to the fund, and is that service rendered prior to the commencement of the scheme either to his present employing authority or to any other local authority. It also includes service after the commencement of the scheme by persons 55 years of age or over at the time the scheme becomes operative.

The annual amount of superannuation payable in respect of non-contributing service is based on 120ths instead of 60ths, but this scale may be augmented at the option of the local authority to a maximum based on 60ths, but any such additional grant is payable out of the fund to which the person's remuneration was charged. No augmentation may be made to give superannuation in excess of $\frac{40}{60}$ ths.

Illustration.—An officer has 10 years' contributing service and 30 years' non-contributing service, and his average salary during the last 5 years is, say, £300 per annum. The minimum superannuation allowance payable is :—

$$\frac{10}{60} + \frac{30}{120}, \quad = \quad \text{per annum.}$$

The maximum allowance payable is

$$\frac{40}{60} \text{ of } £300 = £200 \text{ per annum.}$$

The local authority may grant either figure or an intermediate amount.

Transferred Officers.—An officer or servant who transfers from one local authority which has adopted the Act to another such authority carries with him the superannuation rights which have already accrued to him by reason of his previous service; Where an officer or servant transfers from an established post in the service of one local authority, with the consent of that authority and within six months of leaving its service, to an established post in the service of another local authority, the local authority from whom he transfers must pay to the second local authority a "transfer value" ascertained in accordance with the rules made for the purpose by the Minister of Health. As soon as that payment is made the transferring officer or servant becomes entitled to all the rights, in respect of his service before the date of transfer, which he would have had if that service had been exclusively with the local authority to whom he

has transferred. In the case of refusal of consent to a transfer, provision is made for an appeal to the Minister against such a refusal on the part of a local authority. When a transfer value is paid by a local authority no return of contributions can be made by that authority to the officer or servant.

Where an officer or servant transfers from a local authority which has not adopted the Act to one that has, he has at the date of transfer no accrued rights. It is obvious that the local authority to whom he transfers will not be in a position to take into account any of his previous service, and his position will necessarily be less favourable than that of officers or servants who have occupied established posts in their service from the beginning. Provision is, however, made in the Act whereby such an officer or servant may, if he wishes so to do, pay to the local authority to whom he transfers a sum of money in lieu of a transfer value, and, where he makes such payment he will be entitled to reckon his service with the first local authority in whole or in part, in accordance with the amount of the sum which he pays and in accordance with the rules made by the Minister.

Utilisation of Superannuation Funds.—Local authorities may apply any moneys forming part of the superannuation fund (and not for the time being required for payments falling to be made under the Act) in the exercise of any statutory borrowing power possessed by them. There are, however, certain conditions attaching to the transfer of superannuation fund moneys to new capital purposes, viz.:—

(a) The moneys must be repaid to the superannuation fund within the period, by the methods and out of the fund, rate or revenue within, by and out of which a loan raised under the statutory borrowing power would be redeemable.

(6) Interest must be paid to the superannuation fund on any moneys so used and not for the time being repaid to the fund at such a rate as may be determined by the local authority. The rate should be equal, as far as possible, to the rate of interest which would be payable on a loan raised from outside sources. The interest is to be paid out of the fund, rate or revenue applicable to the statutory borrowing power.

(c) The statutory borrowing power for which the moneys are used shall be deemed to be exercised in all respects as if a loan of the same amount had been raised.

The surplus of the annual income of the superannuation fund over the expenditure must be invested in trustee securities, or used for new capital purposes, and the income arising from such securities or use has to be paid into the superannuation fund.

Joint Superannuation Schemes under the Local Government and Other Officers Superannuation Act, 1922.—Local authorities may combine for the purposes of the 1922 Act as follows :—

- (1) Any authority wholly or partly within the County may join with the County Council.
- (2) Any two or more authorities may combine with one another.

Where a joint scheme is prepared it must be approved by the Minister of Health and may provide for any necessary modifications of the Act as deemed expedient.

There has to be a joint board or joint committee consisting of representatives of the authorities concerned. This is not, however, a body corporate, and thus trustees must be appointed, which may be one of the authorities.

Any local authority to which the 1922 Act applies may, on such terms and conditions as it thinks fit and with the approval of the Minister of Health, admit any officers or servants of any local authority to which the Act is not applicable, but which is situate wholly or partly within the area of the first-named authority, or any officers or servants of any undertakers exercising their powers within the first-named authority's area, under Act of Parliament, or Order having the force of an Act, to participate in the benefits of the Superannuation Act as though they were officers of such authority.

Miscellaneous Points relating to the 1922 Act.—No employee of 55 years of age and upwards at the date of appointment may be admitted to the fund, unless he is a " transfer value " case, *i.e.* has been in the employ of a local authority prior to his appointment with the Council in question.

No contributions are payable by any employee after the attainment of 65 years of age, even if, with the consent of both the authority and the employee, he continues to hold office after that age. Incidentally, such service does not count in the calculation of superannuation allowance.

The equalisation contribution previously referred to (p. 115) is calculated so as to impose, as near as may be, an equal annual charge for a period not exceeding 40 years from the commencement of the scheme.

Service prior to the commencement of the scheme includes service whether continuous or not, but after its commencement only continuous service may be reckoned.

In the case of previous part-time officers, the part-time

service is reckoned as whole-time service for a period bearing the ratio of the part-time service to whole-time service, *e.g.* a half-time officer would count 20 actual years as 10 for superannuation purposes. But for part-time officers commencing as contributors, each actual calendar year will count as a full year for superannuation purposes, as both contributions and allowance will be based on actual remuneration for the part-time service.

Computations for superannuation are based on the average salary or wages, including emoluments but not including payment for overtime, office accommodation or clerical assistance.

Service for superannuation cannot include service in respect of which an officer or servant is entitled to any superannuation allowance or gratuity under any other enactment.

Where a local authority grants either a lump sum or a periodic payment to a contributor injured and permanently incapacitated without his own default in the discharge of his duties, an allowance which may not be in excess of that to which he would have been entitled had he attained the age of 65, such excess may not be paid out of the superannuation fund, but must be charged upon the fund out of which remuneration was payable.

A local authority has a discretionary power to grant a gratuity not exceeding a sum equal to two years' salary or wages, in addition to a return of any contributions to which an employee is entitled under the Act, to any employee who retires before becoming entitled to a superannuation allowance. But such gratuity must be charged direct to the fund out of which remuneration was payable.

An actuarial valuation of superannuation funds at least once in every five years is necessary, and where a disposable surplus or a deficiency is disclosed, the local authority must submit to the Minister of Health a scheme for making good the deficiency or for disposing of the surplus by reducing contributions.

Separate funds for officers and workmen respectively *may* be established if desired, but subject to the consent of the Minister of Health.

The 1922 Act may be adopted by a local authority already having a superannuation scheme. Such new scheme must be approved by the Minister of Health and must provide for the transfer of existing assets and liabilities to it. The existing rights and interests of the contributors under the old scheme must be adequately protected.

Before a scheme is adopted it is necessary to obtain an estimate of the cost involved, certified by an actuary.

Procedure on Adoption.—The procedure in adopting the Act is as follows :—

- (a) The local authority provisionally designates posts.
- (b) It obtains information relating to ages, salaries and service of officers occupying these posts and other details necessary for actuarial valuation, such as particulars of previous service. This is needed for calculating the "equalisation contribution/".
- (c) An actuary's report is obtained.
- (d) One month's notice is given of a special meeting of the authority to consider the adoption of the Act. The notice is accompanied by a copy of the estimation, from the financial point of view, of the proposed scheme certified by the actuary.
- (e) A resolution to adopt the Act is passed by not fewer than two-thirds of the members present and voting at the special meeting. The resolution also designates the posts and fixes the "appointed day" for the commencement of the operation of the scheme.
- (f) The resolution is confirmed by simple majority at a regular meeting of the authority held not less than one month subsequently.
- (g) The resolution, which constitutes the "scheme," is submitted to the Minister of Health for approval, the Minister requiring satisfactory evidence of the observance of all the foregoing requirements.

It should be noted that *salary* and *wages* are defined with regard to the 1922 Act as follows :—

" All salary, wages, fees, poundage and other payments (including war bonus) paid or made to any officer or servant as such for his own use, also the money value of any apartments, rations, or other allowances in kind appertaining to his office or employment, but not including payments for overtime or any allowance paid to cover the cost of office accommodation or clerk's assistance."

It will thus be seen that a specific money value must be placed on emoluments paid in kind and this added to the -employee's wages or salary for the purpose of calculating his contribution to the fund and—when the time comes—his superannuation allowance.

Where officers' and servants' salaries or wages are chargeable to state-aided services, if the salary or wages is allowed to **rank**

for grant, the Corporation's "equivalent" contributions may also rank, provided the total remuneration of the officer together with the Corporation's contribution to the fund is not regarded by the Ministry of Health as excessive.

National Health Insurance Exemption.—Exemption from liability to make National Health Insurance contributions should be applied for by local authorities which have superannuation funds, as by so doing the charge which the employer's contribution to the insurance would otherwise make on the rates is avoided and the contribution to the superannuation fund only falls to be met by the local authority.

Compulsory Pension Schemes.

School Teachers.

The first Act dealing with superannuation of teachers was passed in 1898. Prior to that pensions were being granted on the authority of minutes of the Committee of the Privy Council on Education and were known as "code pensions." The Teachers (Superannuation) Act, 1925, which came into force on the 1st April, 1926, was passed to make provision with respect to the granting of superannuation allowances and gratuities to teachers and persons employed in the control or supervision of teachers and to their legal personal representatives and to amend previous Acts.

The 1925 Act applies to all teachers employed in contributing service, but it does not affect the right of any person to a deferred annuity under the Elementary School Teachers (Superannuation) Act, 1898, as amended in 1918, nor do its "permanent provisions" apply to teachers who did not accept the 1918 Act, unless they have now accepted the permanent provisions. Teachers who contributed under the 1898 Act obtain a deferred annuity at 65 in addition to benefits they may get under the 1925 Act.

There are three kinds of service in respect of which superannuation allowances and gratuities may be granted, viz. :—

- (a) *Recognised Service*, i.e. service before the commencement of the 1925 Act "recognised" within the meaning of the 1918 to 1924 Acts or determined by the Board to be such full-time service as would have been so recognised if it had been wholly in the capacity of teacher. Other kinds of service are also recognised, but it is provided that certain non-contributory service after 31st May, 1922, shall not be recognised.

- (6) *Contributory Service*, i.e. service after the commencement of the 1925 Act which is determined by the Board to be full-time service as teacher in any grant-aided school or school not grant-aided but approved by the Treasury for the purpose of the 1918 Act unless the Board otherwise determine. Service in respect of which contributions are payable under the Poor Law Officers Superannuation Act, 1896, or under the Asylums Officers Superannuation Act, 1909, as amended by the amending Act of 1918, is not deemed to be contributory service. Poor law teachers are affected by the Government's reform proposals, and the method of providing for their superannuation rights on transfer is mentioned in the paragraph relating to ex-poor law officers on page 113.
- (c) *Qualifying Service*, i.e. service in any capacity declared by the Treasury on the recommendation of the Board to be qualifying for the purpose of calculating the period qualifying for superannuation allowance.

There cannot rank for pension any service before the age of 18 or after the age of 65 years.

The scheme is administered by the Board of Education and superannuation allowances are granted to teachers who have—

- (a) Attained the age of 60 years and have been employed in recognised, contributory or qualifying service for not fewer than thirty years of which at least ten were recognised or contributory, a prescribed portion being after 31st March, 1919.
- (b) Attained the age of 60 years with periods of recognised or contributory service bearing specified proportions to the total service.
- (c) Completed ten years of recognised or contributory service and permanently incapacitated through infirmity of body or mind and unable to continue duties before attaining the age of 65 years.

Short-Service Gratuity.—In addition to the ordinary pensions afore-named, short-service gratuities are payable where a teacher becomes incapacitated through infirmity and unable to continue his duties but is not entitled to a disablement allowance as under (c) above.

Death Gratuities.—Gratuities are also payable to legal personal representatives of deceased teachers who had performed service of at least five years. Such gratuities may not exceed the greater

of *either* the average salary for one year, less any additional allowance or short-service gratuity, *or* the amount of additional allowance which would have been granted if, at the date of death, the deceased had become permanently incapable of continuance.

Refund of Contributions.—Contributions may be refunded together with compound interest thereon at 3 per cent, calculated by yearly rests in cases where a teacher dies or discontinues service before becoming entitled to a superannuation allowance or a short-service gratuity.

Scale of Superannuation Allowances.—This is as follows :—

- (a) *An annual allowance* during life of one-eightieth of the average salary in respect of each completed year of recognised or contributory service, *or* one-half of the average salary, whichever is the less, together with *an additional allowance* consisting of a lump sum not exceeding one-thirtieth of the average salary in respect of each completed year of recognised or contributory service, *or* one-and-a-half times the average salary, whichever is the less. *Or—*
- (b) *A short-service gratuity* not exceeding one-twelfth of the average salary in respect of each completed year of recognised or contributory service payable to disabled teachers who, not having served the necessary ten years, are not entitled to a disablement allowance. *Or—*
- (c) *A gratuity* which may be granted in the case of short service, such gratuity not to exceed one-twelfth of the average salary for each completed year of service.

Where a teacher, to whom an additional allowance has been granted, re-enters contributory service, he may only receive a further additional allowance if his resumed employment continues for periods aggregating twelve months or longer, the lump sum being recalculated and only the balance due being payable.

Cessation of Allowance.—Superannuation allowances cease when a retired teacher re-enters teaching service or other employment in respect of which the remuneration is payable out of the Consolidated Fund or out of moneys provided by Parliament.

Contributions Payable.—The contributions payable are :—

- (a) Five per cent, of teacher's salary by deduction ; and
- (6) Equal contribution by the local education authority.

The amount paid by the education authority is treated by the Board of Education for the purposes of grants as if it were expenditure on salaries. All contributions are paid into **the** Exchequer by the Board, which recoups itself by deduction of

the sum so paid from its substantive grants to the local authority.

Local authorities must, at such times as the Board may direct, furnish the Board with particulars of all deductions made and of the service to which such deduction relates. For this purpose the employer must record for each teacher and each financial year: (a) the rate of salary; (6) the amount paid to him or her (distinguishing payments which are subject to contributions from other payments); (c) the value of emoluments in kind which are subject to contributions; (d) the superannuation contributions collected; (e) the period (or periods) of full-time service (service of teachers in the Isle of Man and Scotland is treated as approved external service); (f) the dates of absences on sick or special leave, with reasons for the latter leave and the proportion of pay during such absences.

Teaching Service Reckoned with Administrative and Other Public Service.—The Local Government and Other Officers Superannuation Act, 1922, provides that "an officer who has served successively as teacher and on an administrative staff shall have the years of service which would be recognised under any Act for the time being relating to the superannuation of school teachers recognised for the purposes of this (1922) Act as if such service had been wholly on an administrative staff."

Education Organisers.—The Teachers (Superannuation) Act, 1925, Section 41 (1), applies the provisions of that Act to any person (referred to in the section as "an organiser") who satisfies the Board of Education (a) that he has been employed by a local authority in full-time service which to a substantial extent involves the control or supervision of teachers, and (b) that before being so employed he was engaged for not less than three years, whether in England or Wales or elsewhere, as a teacher in a capacity approved by the Board. The Act is applicable to such a person as if in respect of his full-time service as organiser after the commencement of the Act (*i.e.* 1st April, 1926) he were a teacher employed in contributory service. Persons employed by local education authorities as educational organisers may therefore transfer from the local scheme under the Superannuation Act, 1922, to the teachers' scheme under the Act of 1925. At present no part of the cost of the local scheme is allowed by the Board of Education to rank for grant. The 5 per cent. equivalent contribution and the amount for "back service" prior to the appointed day under the Superannuation Act, 1922, fall entirely upon the local rates in the case of all education officers. Under Section 9 of the Teachers (Super-

annuation) Act, 1925, however, the local education authority must contribute, as from the 1st April, 1928, an equivalent of 5 per cent. of the organiser's salary and this amount will rank for grant. The transfer of the superannuation liability of organisers (within the meaning of the Act of 1925) is therefore to the financial advantage of the local education authority. Under Section 14 (3) of the Teachers (Superannuation) Act, 1925, the local education authority may agree to provide a sum which will enable the organiser to count "back service" in full and so secure equal benefits with teachers. This sum is not required to be paid until the organiser retires and may be spread over the full period of his pensioned life. Several local authorities have agreed to make this payment under Section 14 (3) of the Teachers (Superannuation) Act, 1925.

As superannuation allowances to teachers are administered by the Board of Education and not by local authorities, the internal workings of the scheme and even the conditions under which superannuation is granted, do not affect local authorities in the same way that similar matters relating to all other pensions do. Consequently from the point of view of local authority finance and accountancy comparatively little falls for review in a book such as the present volume.

Fire Brigade Members.

The Fire Brigade Pensions Act, 1925, applies to all professional firemen, *i.e.* all permanent whole-time members of fire brigades. Where, however, a pre-existing pensions scheme gives benefits, on the whole not less favourable than those accorded under the 1925 Act, such may be continued in lieu of the new provisions if the local authority so resolve. But subject to this, the Act superseded all existing pension schemes for professional firemen on the 1st April, 1926.

The Ministry of Health indicated that as the provisions of the Local Government and Other Officers Superannuation Act, 1922, are less favourable than those of the Fire Brigade Pensions Act, 1925, all professional firemen under a 1922 Act scheme must come under the Fire Brigade Pensions Act.

There is a provision (Section 24) of the 1925 Act that where an existing scheme is superseded written notice must be given to any professional fireman affected, and he may elect to retain the existing scheme.

Retirement is compulsory for all ranks at the age of 60, except in special cases where, in the interests of efficiency, a local authority extends the age. The provision as to retirement

at 60 does not take effect in the case of firemen in an authority's service on the 1st April, 1926, until they have completed 25 years' approved service. A local authority may require a fireman to retire after completion of 25 years' approved service and having attained the age of 55 years if it considers that his further retention in the brigade would not be in the interests of efficiency.

Where a fireman transfers from one authority to another with the written consent of the former authority, his previous service can count for pension purposes in the brigade of the authority to which he transfers, and in respect of any pension, gratuity or allowance granted to him, his wife or children, the local authority of the brigade in which he is serving is entitled to call upon the authorities in whose brigades he has previously served to contribute thereto.

Discontinuous service in the same or two or more brigades may be reckoned for pension purposes, in the former case at the desire of the fireman and in the latter circumstances in the discretion of the local authority which the fireman last joins, subject in all cases to his repaying on his retirement the amount of any gratuity or rateable deductions paid to him.

The fire brigade pensions scheme is on a contributory basis, the deductions from the pay of the fireman being at the rate of 5 per cent. of the pay (and allowances in the nature of additional pay) on which pensions will be calculated. The deductions are allowable from pay before assessment to income tax.

A fireman who retires without a pension or gratuity is entitled to the return of the rateable deductions made from his pay. If a fireman is dismissed or required to retire as an alternative to dismissal the local authority may in its discretion return or apply the rateable deductions.

A local authority may deduct from a grant, whether pension, allowance or gratuity, any sum due to it from the grantee. Pensions and allowances after the first instalment are payable in advance.

Pension Fund Necessary.—A Fire Brigade Pension Fund *must* be established by each authority having a brigade of ten or more professional firemen, and a local authority *may* set up such a fund if the number is fewer. The deductions from pay have to be carried to the fund, and all pensions, allowances and gratuities are payable thereout. Any deficiency is chargeable on the General Rate Fund. Surpluses should be invested.

All service prior to 1st April, 1926, is eligible to rank for pension purposes provided such was contributory to a pension fund and that the fireman refunds any amount which may be due under

Section 22 (4) of the Act. One-half of any such service as was not contributory (*i.e.* in respect of which the fireman has made no regular pension contributions) is eligible to rank for pension purposes.

A local authority may at its discretion increase any pension or gratuity to cover past pensionable service which was not wholly contributory up to the amount which would have been payable if the service had been wholly contributory, provided that the pensionable person pays to the local authority a sum not exceeding the amount which he would have contributed (5 per cent. of his pay) if the Fire Brigade Pensions Act, 1925, had been in force during his non-contributory service.

Additional pensions or gratuities under Section 22 (4) above referred to may not be charged to the Fire Brigade Pensions Fund but must be paid out of the General Rate Fund.

The provisions of the Fire Brigade Pensions Act, 1925, are such as to enable a local authority to obtain a certificate of exception under proviso (e) to Section 9 (1) of the Widows, Orphans and Old Age Contributory Pensions Act, 1925, and thus reduced contributions will be payable under that Act in respect of pensions to Widows and Children of professional firemen.

Pensions Payable.—The statutory pensions are based on years of approved service, *i.e.* service after the age of 20 years, including (in the case of firemen serving at the commencement of the Act) past service. Non-contributory service is only reckoned as one-half in calculating the amount of pension payable. But a local authority may increase the amount of pension to a figure equal to one based on contributory service subject to payment by the fireman of such sum as the local authority thinks fit but not exceeding 5 per cent. on the total pay received during the period of non-contributory service.

The scales for pensions, gratuities and allowances to firemen, their widows and children, are as follows:—

1. At 55 years of age after 25 years' service.	$\frac{1}{60}$ th of the annual pay for each year of approved service, subject to a specific maximum according to age and in no case to exceed $\frac{40}{60}$ ths.
2. After 10 years' service (on application).	$\frac{1}{60}$ th for each year of approved service, subject to a maximum of $\frac{40}{60}$ ths.
3. Any time after total disablement through injury received while in execution of duty.	From $\frac{30}{60}$ ths to full pay dependent on whether the injury was received accidentally or non-accidentally and the length of service. (Note: : Accident while at a fire or on fire drill is deemed non-accidental.)

4. Partial disablement (as No. 3).

To widow and children of fireman where latter dies from effects of injury or disease resulting from duty.

From $\frac{10}{60}$ ths to $\frac{40}{60}$ ths (dependent as under No. 3).

1. If *occidental- injury or disease* :—

(a) The widow gets the greater of—

- (i) £50 per annum (chief officer) down to £30 in case of fireman,
- (ii) Percentage of pay rising from 4 to 12½ per cent., according to length of service, subject to a deduction if the husband was on pension before decease.

(6) Each child under 16 gets—

From £15 per annum in case of a chief officer's child down to £10 for the child of a fireman, subject to a maximum aggregated allowance of £50 and £30 respectively, except where there is no widow or she dies before the children reach 16, in which circumstances the aggregated allowance may be increased by 50 per cent.

2. If *non-accidental injury received on duty* :—

(a) Widow's pension—

$\frac{1}{3}$ rd pay at date of death or retirement.

(b) Children's pension—

$\frac{1}{16}$ th of pay at date of death or retirement : but if there is no widow or she dies before the children reach 16, the allowance may be $\frac{2}{15}$ ths. But in any case the allowance is not to be less than that under (1) (6) above.

The aggregate pension to widow and children may not exceed in any year $\frac{2}{3}$ ds of the deceased's annual pay.

Gratuities :—

Where a local authority is satisfied that there are special reasons it may, with the consent of the widow or guardian of the children, grant in lieu of an annual pension gratuities as follows :
Widow's gratuity—

$\frac{1}{12}$ th of the annual pay for each year of service of the deceased.

Children's gratuities—

$\frac{1}{4}$ th of the annual pay or in total the annual pay.

Where incapacity arises otherwise than through injury and before completion of ten years' service.

7. Optional.

Where a fireman dies from injury or disease resulting from duty.

Chrtauity to the fireman of an amount equal to $\frac{1}{12}$ th of the annual pay for each year of service, unless he has not completed one year, in which case the gratuity is to be equal to his contributions.

Gratuity may be granted to any dependent relative of an amount not exceeding the total deductions which would have been made from the deceased's pay if he had been subject to the Act during the whole of his approved service.

Refund of Contributions.—Contributions (without interest thereon) are refunded when voluntary retirement takes place other than to serve in another fire brigade.

Forfeiture of Allowances.—Pensions and gratuities are liable to be forfeited at the option of the local authority if the grantee is imprisoned for a term exceeding one month, if he knowingly associates with thieves, if he carries on an illegal business or employment, or if he makes use of his former employment in a manner which the local authority deems to be discreditable.

A widow's pension is payable so long as she is of good character ; if she re-marries it is suspended, to be resumed again on her again becoming a widow, provided she proves that her circumstances render such pension necessary.

The Fire Brigade Pensions Act contains provisions enabling local authorities to exercise discretion in the manner of paying pensions and with regard to contributory neglect or default in cases of incapacitation.

Establishment of the Pensions Fund.—If there are ten or more contributors a separate pensions fund for firemen must be kept. The income of the fund consists of :—

- (1) Rateable deductions of 5 per cent, from the firemen's pay.
- (2) An amount from the rate fund equivalent to No. 1.
- (3) Sums transferred by the authority from any other superannuation or pension funds.
- (4) Income from investments of the fund.
- (5) Other receipts, including any sums which a local authority may resolve to carry to the fund.
- (6) Proceeds of sales of investments, not exceeding in one year $\frac{1}{10}$ th of the total capital assets of the fund, to cover insufficiency of income and to meet expenditure.
- (7) Transfers from rates of deficiency after sale of investments.

Payments out of the fund consist of :—

- (1) Pensions.
- (2) Gratuities.
- (3) Allowances.
- (4) Contributions refunded (without interest).
- (5) Investments of surplus income over expenditure.

Transfers between Authorities.—Where a fireman transfers from one authority to another, approved service is regarded as continuous. No transfer value falls to be paid, but the local

authority or authorities with whom the fireman has previously served may be called upon to contribute proportionately towards any pension, gratuity or allowance made.

The Act applies only to "professional firemen," which term is defined in the Act as "any member of a fire brigade maintained by a local authority who is wholly and permanently employed on fire brigade duties and to whom the Police Pensions Act, 1921, does not apply." Local authorities to whom the Act applies are—County Councils, Borough Councils, Urban and Rural District Councils and Parish Councils.

Service.—The service of a professional fireman for the purposes of the Act is subject to deductions in respect of sickness, misconduct or neglect of duty. "Approved service" means service after deductions for the afore-mentioned reasons, as certified by the chief officer of the fire brigade, but excluding any period served before attaining 20 years of age except where a fireman under 20 is incapacitated by injury received in the execution of his duty.

Small Fire Brigades.—Where an authority employs fewer than ten professional firemen, the creation of a separate fire brigade pension fund is optional, and if a fund is not established the items of income and expenditure which would otherwise pass through such pension fund are made to or out of the General Rate Fund (or other fund out of which the fire brigade expenses are in the circumstances payable).

Investments of the Fund.—The annual surplus of the pension fund must be invested in trustee securities. If in any year there is a deficiency on the fund such deficiency may be met by sale of investments, provided that not more than the equivalent of one-tenth of the value of the capital assets of the fund at the commencement of the year may be sold in one financial year. Any balance of deficiency still remaining has to be met out of the General Rate or the fund (if any) chargeable with fire brigade expenses.

Use of Fire Brigade Pension Fund in Exercise of Statutory Borrowing Powers.—A local authority may use any moneys in the pension fund in the exercise of borrowing powers subject to the following conditions :—

- (1) The money must be repaid to the fund within the period allowed by the borrowing power.
- (2) Interest must be paid to the pension fund at a rate to be determined by the local authority and being

equal (as nearly as possible) to the current rate of interest payable on loans.

- (3) The statutory borrowing power shall be deemed to be exercised as fully as if a loan had been raised.

Police Pensions.

Pensions for members of police forces were first provided for by the Police Act, 1890, followed by several amending statutes, but the Police Pensions Act, 1921, consolidated the law on the subject, and abolished the police pensions funds previously established.

Accounts.—Pensions, gratuities, etc., have now to be paid out of the police fund (*i.e.* the police section of the General Rate Fund), and to this fund were transferred all accumulations of the old police pension funds.

Income of the Police Fund.—This comprises :—

- (1) Fines imposed by the Courts on members of the police force.
- (2) Fines for assaults on constables.
- (3) Fines (or portions thereof) awarded by the Courts to informers being police officers.
- (4) Fines (or portions thereof) and fees payable to or received by members of the police force in the execution of their duty.
- (5) Any other sums which by any Act (local or general) are directed or authorised to be carried to the pension fund.
- (6) Income from capital investments (such income is now liable to income-tax, and deductions cannot be reclaimed, but the loss is made up by the additional grant of one-half the tax so deducted, which together with the recoupment of the other half in the ordinary 50 per cent. grant of net expenditure provides full compensation).
- (7) Rateable deductions at the rate of 5 per cent, from the pay of all ranks.
- (8) The authority's proportion of the Treasury's contribution of £300,000 in respect of Local Taxation (Customs and Excise) Duties. This is the amount that was so payable in respect of the year ended 31st March, 1915.

- (9) Contributions from other police authorities in respect of constables transferred. (This sum is settled by agreement or by arbitrator appointed by the Secretary of State.)
- (10) Contributions from the Government as determined by the Treasury in respect of service of civil servant.
- (11) Where the police carry out the duties of fire brigade, contributions from the fire brigade fund, and deductions from pay of constables engaged in fire brigade work.
- (12) Fines imposed by a Court of Summary Jurisdiction for offences under the Licensing Acts, 1872 and 1874, or for smaller offences committed within the local area.

Pensions, Gratuities and Allowances Payable.—Subject to the exceptions stated below, retirement is compulsory, as follows :— Chief constables and assistant chief constables at 65 years of age; superintendents and inspectors at 60 years of age; sergeants and constables at 55 years of age.

In special cases these ages may be extended for a further period not exceeding five years. But a man serving at the commencement of the Act (28th August, 1921) is not required to retire at the prescribed age, but may remain until he has completed the period necessary to qualify for a pension at the rate of two-thirds of his pay without a medical certificate. A member of the force who was above the rank of inspector before 23rd June, 1906, is excepted from the above compulsory retiring age regulations.

A chief or assistant chief constable appointed after 28th August, 1921, cannot retire on ordinary pension without medical certificate (except with the consent of the police authority) until he is 60 years of age.

The six scales of pensions set out in Schedule I of the Act are as follows :—

Ordinary Pensions :—

- (1) On the basis of completed years approved service on ordinary retirement with 25 or more years' approved service.
- (2) On retirement through incapacity (other than through injury received in execution of duty) on medical certificate with 10 or more years' approved service.

Special Pensions :—

- (3) On total disablement from non-accidental injury received in execution of duty.
- (4) On total disablement from accidental injury received in execution of duty.
- (5) On partial disablement from non-accidental injury.
- (6) On partial disablement from accidental injury.

The pension granted on retirement is calculated by sixtieths on the rate of pay the pensioner was receiving at the date of his retirement (plus certain increases granted under provisions of the Pensions Increase Acts), except where he has received promotion within three years of his retirement, in which circumstances it is based on the average of the three years, with the proviso that the pension shall not be less than if he had remained in his previous rank.

Pensions are classified as "ordinary" and "special," and they apply to all who retire after the commencement of the Act. The "ordinary" scale applies to police-women, and applies to members serving at the commencement of the Act who joined after 1st July, 1919, and to those who joined before 1st July, 1919, and who gave notice to the police authority before 28th November, 1921, of their wish that these scales should apply to them. The "special" pensions are applicable in cases of premature retirement through disablement caused in the execution of duty and *without* personal default.

Members of the force who joined before 1st July, 1919, unless they gave such notice of acceptance of the new scale of pensions before 28th November, 1921, are pensionable on the scale applicable immediately before the commencement of the Police Pensions Act, 1921.

Where it is not possible to discriminate as to whether an injury was accidental or non-accidental, an intermediate rate between the two scales may be given in the discretion of the authority.

Gratuities to Members of the Force.—A gratuity may be granted to a member at any time if incapacitated owing to infirmity *not* arising through injury received in execution of his duty, equal to one-twelfth of his annual pay for each completed year of approved service, or if less than one year's service, a sum equal to the rateable deductions made from his pay.

Repayment of Deductions where No Gratuity Granted.—Where a member leaves without being granted a pension or gratuity, and in circumstances which do not enable him to

reckon his service as service for purposes of pension, the police authority may, if it thinks fit:—

- (a) If he retired voluntarily or as an alternative to dismissal, refund the whole or part of the rateable deductions or apply them as it thinks fit for the benefit of his wife or widow or children, or
- (6) If he was dismissed, apply the whole or part as it thinks fit for the benefit of his wife and children.

Pensions and Gratuities to Widows of Members.—Where a member of the force (who had joined after 1st September, 1918, and had completed five years' service) died while serving or while in receipt of a pension or in consequence of any incapacity which caused him to retire, his widow is entitled to a widow's ordinary pension on the scale given below. A widow is entitled to an ordinary pension if her husband dies while serving or after retirement in consequence of accidental injury received in the execution of his duty without his own default, and a widow's special pension where the injury was non-accidental. Where she is not entitled as above but her husband dies while serving, she becomes entitled to a widow's gratuity.

Scales of Widow's Ordinary Pension.—The amount of widow's ordinary pension is the greater of the following alternative scales:—

Scale 1.—If at the date of death or retirement the husband was a constable, sergeant or sub-inspector, at the rate of £30 ; if an inspector, £40 ; if of higher rank, £50 per annum.

Scale 2.—A pension based on the service and pay of the husband at the date of death or retirement where he had—

between 10 and 16 years' approved service,				4 per cent.	per cent.	of the amount
" 15 "	" 20 "	" "	" "	" 6 "	so	calculated for every
" 25 "	" 30 "	" "	" "	" 10 "	I	complete year for which
" 30 or over "	" "	" "	" "	" 12½ "	the	husband's pension
30 or over	" "	" "	" "	" 12½ "	U	a d been drawn.

Widow's Special Pension.—A widow's special pension is at the rate of one-third of her late husband's annual pay at the date of death or retirement.

Widow's Gratuity.—The gratuity to a widow consists of a sum not exceeding one-twelfth of her late husband's pay for each completed year of service, or if less than a year, the amount of rateable deduction made from his pay.

Gratuity in lieu of Pension.—Where a widow is entitled to a pension, a police authority may in special circumstances grant her a gratuity in lieu of a pension.

Allowances and Gratuities to Children and Dependents.—Allowances are to be made in respect of each child under 16 {commutable to a gratuity for special reasons), and a gratuity may be given to each wholly or mainly dependent relative of a member of the force who dies while serving or within 12 months of retirement owing to injury received in the execution of his duty without his own default.

Miscellaneous Points Concerning Police Pensions.—Officers entitled to a maximum pension who are allowed to remain in the force may be granted an allowance not exceeding 12½ per cent. of their pay. But this is not subject to rateable deductions nor may it be reckoned in calculations for pension purposes.

Pensions are based on *approved* service, which excludes deductions for sickness, misconduct and neglect of duty and service before attaining 20 years of age. Service in other police forces is taken into account, and the authorities concerned are liable to contribute their quota towards the pension. Discontinuous service ranks for pension if the officer repays any pension or gratuity or rateable deduction previously awarded. Service with the army, navy or air force reserve may count as approved service.

If a member of the force is required to retire as an alternative to dismissal, the authority may, if it thinks fit, refund his rateable deductions, or may apply them for the benefit of his wife or children, which latter it may do also if he is dismissed.

Service of a pensioner after rejoining does not rank for "ordinary" but does rank for "special" pension, where applicable.

The provisions of the Police Pensions Act apply to police-women, but not to the husband or widower or children of a police-woman in the way that they apply to the wife, widow and children of a policeman.

Under the Pensions (Increase) Act, 1920, a pensioner resident in the British Isles may apply for an increase (on the form prescribed by the Treasury) but must satisfy the pension authority that his means, including pension, are less than £150 a year if unmarried, or £200 if married. An increase may be granted according to circumstances, varying from 30 per cent, to 50 per cent, on the pension, but in no case may the maximum grant be a figure that will raise the existing income, including pension, to more than £150 and £200 for unmarried and married persons respectively.

Forfeiture of Pensions and Allowances.—The whole or part

of a pension or allowance may be forfeited in the following circumstances :—

- (1) On conviction and sentence to penal servitude or imprisonment for three months or more.
- (2) In consequence of intentional association with thieves.
- (3) In consequence of refusal to assist the police to detect crime or suppress disturbances.
- (4) For carrying on an illegal business.
- (5) For making use of service or supplying information obtained while in the force in an improper manner or for discreditable purposes.
- (6) For soliciting or accepting pecuniary gifts without sanction of the police authority in connection with service in the force.
- (7) For acting as private detective after prohibition on reasonable grounds.

Ex-Poor Law Officers.

The Poor Law Officers Superannuation Act, 1896, was the principal statute applicable to poor law officers. These persons (and their duties) having now been transferred to Local Authorities the Superannuation provisions are as follows :—

Superannuation of Transferred Poor Law Officers.—The Local Government Act, 1929, provides that as regards transferred poor law officers

- (a) Where the new authority has adopted the Local Government and Other Officers Superannuation Act, 1922, that Act shall apply with modifications to transferred poor law officers instead of the Poor Law Officers Superannuation Act, 1896.
- (b) Where the new authority has some other superannuation scheme in force it shall submit for the Minister's approval a scheme for substituting such scheme for the provisions of the 1896 Act in the case of the transferred officers, and when the Minister's approval is given the 1896 Act shall cease to apply to such officers.
- (c) Where the new authority has at present no superannuation scheme the Act of 1896 shall continue to apply to transferred poor law officers.

It also provides that poor law teachers who would, if they were serving in an elementary school, be covered by the Teachers

Superannuation Act, 1925, shall, on transfer, come under that Act instead of the Act of 1896.

Provisions of the Poor Law Officers Superannuation Act, 1896.—The 1896 Act gives a title to superannuation allowances on a contributory basis to all officers or servants in the employ of poor law authorities if they are—

- (a) Incapable of discharging their duties with efficiency by reason of permanent infirmity or advanced age, where not less than 60.
- (b) 60 years of age and have completed 40 years' service.
- (c) 65 years of age if the authority is of the opinion that it is expedient for them to retire.

The scale of allowances is as follows :—

- (a) For ten years and less than eleven years' service, ten-sixtieths of average remuneration for the preceding five years.
- (6) One additional sixtieth for each additional year up to a maximum of forty.

" Added years " may be allowed with the consent of the Minister of Health. Service need not be continuous. If an employee who has not become entitled to superannuation loses his office through no fault of his own, his contributions may be refunded. Superannuation rights are forfeited on ceasing to hold office in consequence of fraud or misconduct, but the authority may refund contributions wholly or in part. One month's notice must be given to the members of the authority of a proposal to refund contributions, to add years, or to grant a gratuity.

Contributions by officers and servants are as follows:—

- (a) With less than five years' service—2 per cent.
- (6) Between five and fifteen years' service—2½ per cent.
- (c) Over fifteen years' service—3 per cent.

No superannuation fund is set up (the allowances are paid out of revenue account) nor is any provision made beforehand for meeting the burden of superannuation allowances. No actuarial valuation or investigation is required. If an officer transfers from the service of one poor law authority to another the authority with whom he is serving at the date of his retirement has to bear the burden of his pension without contribution from his previous employers.

Where the 1922 Act is in Operation the scheme will be subject

to the following modifications as regards transferred poor law officers and servants :—

- (a) Service which would have been regarded as service for the 1896 Act shall be treated as contributory service for the purpose of the 1922 Act.
- (b) Contributions paid under the 1896 Act are to be treated as having been paid under the 1922 Act as regards the provisions for their return.
- (c) Contributions payable by officers shall be as follows :—
 - (i) If on entering the 1922 Act scheme the officer has completed fewer than ten years' service—2½ per cent.
 - (ii) If between ten and twenty years' service—3 per cent.
 - (iii) Over twenty years' service—3½ per cent.
- (d) The equal annual charge payable by the Council to the superannuation fund is to be increased by any amount certified to be necessary by an actuary to bear the additional burden on the fund.

The Widows, Orphans and Old Age Pensions Act, 1925.

Though the provisions of this Act do not to any appreciable extent affect local authorities as administrators of pension schemes, it is thought that a brief review of the subject will not be out of place here.

The objects of the Contributory Pensions Act, 1925, are the provision of:—

- (a) Widows' pensions of 10s. weekly to the widow of an insured man; and additional allowances to the widow of 5s. weekly for a first or only child and 3s. weekly for each other child.
- (b) Orphans' pensions of 7s. 6d. weekly for each orphan child of an insured man or insured widow.
- (c) Old age pensions of 10s. weekly at the age of 65 for an insured man or woman and the wife of an insured man.

After the age of 70 is reached the pensions continue but then become payable under the Old Age Pensions Acts, 1908 to 1924, though the statutory conditions as to means, residence and nationality do not apply.

Children allowances and orphans' pensions continue until the

age of 14 is attained, or until 16 where the child remains under full-time instruction at a day school.

Though the scheme was established to include all persons insured under the National Health Insurance Act, 1924, its compulsory contribution provisions apply to certain persons who are exempted from National Health Insurance ; and certain other classes of persons may also enjoy the benefits of the scheme as voluntary contributors.

The classes of employees named below, who come within the provisions of the National Health Insurance Act, 1924, come compulsorily within the scope of the Contributory Pensions Act, viz. :—

- (a) AH persons employed under a contract of service or apprenticeship.
- (b) Outworkers, i.e. persons working at home for an employer.
- (c) Those plying for hire with a cab, etc., the use of which is obtained from the proprietor.
- (d) Officers or servants of public authorities, with exceptions.
- (e) Persons serving with H.M. Forces and on British ships.

And by virtue of the National Health Insurance Act, 1928 :—

Those employed by way of manual labour under a contract for the performance of such labour for the purposes of any trade or business, except in so far as such employment is excluded by a special order.

In the last-named case the person for the purposes of whose trade or business the work is performed is deemed to be the employer and liable for payment of the contributions. The general effect is to bring into compulsory insurance persons engaged to perform manual labour although they may be engaged as independent contractors or sub-contractors and not under a contract of service. Contributions are payable in respect of such persons whatever their rate of remuneration may be, and whether or not they themselves employ assistants, provided they take an active part in the manual work and the work is performed for the purposes of the employer's trade or business. Employment in carrying out a casual or isolated contract is excluded. A person liable to insurance under the new provision may claim exemption from payment of the employee's share of the con-

tributions if he is in receipt of a pension or income of at least £26 a year, or if he is ordinarily and mainly dependent for his livelihood on his earnings from some non-insurable occupation.

Excepted Persons.—Persons excepted from the provisions of both *Health and Pensions Acts* are as follows :—

- (i) Agricultural workers, persons employed by their parents and persons fully maintained by their employer, without money payments.
- (ii) Wives employed by their husbands and husbands employed by their wives.
- (iii) Certain persons casually employed.
- (iv) Agents paid only by commission, by fees or by share of profits and either
 - (a) Mainly dependent on earnings from some other occupation.
 - (b) Employed as agents by more than one principal, not being mainly dependent on any one agency.
- (v) Persons remunerated (otherwise than for manual labour) at a rate exceeding £250 per annum.
- (vi) Those whose employment is of a class which has been specified in a special order as being ordinarily adopted as a subsidiary employment, and not as the principal means of livelihood.
- (vii) Teachers in England and Wales in recognised service and within the scope of the School Teachers Superannuation Act and pupil- or student-teachers employed in public elementary schools.

Persons Excepted from Health Insurance Provisions but Not Necessarily Excepted from the Pensions Scheme.—These are as follows:—

- (i) The following persons in respect of whom the Minister of Health has issued a certificate that the terms of their employment secure to them benefits in sickness and disablement of at least equal value to those given by the Health Insurance Act, i.e.
 - (a) Persons employed by the Crown.
 - (6) Persons employed by local or other public authorities.

- (c) Salaried officials in service of statutory companies who are within the scope of superannuation schemes established by statute,
- (ii) Employees of certain statutory public utility undertakings if the Minister of Health certifies that they have rights in an approved superannuation fund and benefits equal to those obtainable under the National Health Insurance Act.

If the Minister of Health certifies that the employment of persons within this second group, whose rate of remuneration does not exceed £250 per annum, is such as to secure for them benefits equal to all those provided under the Contributory Pensions Act, no contributions will be payable, such persons being entirely excepted from the scheme. If the Minister certifies that the employment of such persons is such as to secure for them old age pension benefits equal to those conferred by the Act, such persons will be compulsorily insurable for the purpose of widows' and orphans' pensions, and reduced rates of contribution will be payable. (In the case of women employees the contribution will be for orphans' pensions only.) In all other cases employees whose rate of remuneration does not exceed £250 per annum are compulsorily insurable for all the benefits of the Act and normal contribution rates are payable.

Exempt persons are those engaged in an insurable employment but who hold a certificate from the Minister of Health exempting them from payment of contributions under the Health Act. The employers' contributions under the Health Act and the Pensions Act remain payable in these cases, but a male employee pays only a reduced contribution for widows' and orphans' pensions benefits, whilst a woman pays no contribution as she is not entitled to any of the benefits of the Contributory Pensions Act.

Contributions are normally paid by purchase of health and pensions stamps to be affixed to cards provided for the purpose. In the case of excepted persons, *i.e.* excepted under the Health Act but not under the Pensions Act, however, the employer is required to keep a register of the insured persons in his employ and to pay weekly to the Minister of Health the amount of contributions due. The employer may, alternatively, deposit with the Minister a sum equalling, approximately, the contributions for a period of 13 weeks and then instead of making weekly payments remit to the Minister the total amount of the contributions half-yearly.

NATIONAL HEALTH INSURANCE ACTS AND WIDOWS, ORPHANS AND OLD AGE CONTRIBUTORY PENSIONS ACT, 1925.

TABLE OF RATES OF CONTRIBUTIONS

(operating as from 4th January, 1926, but subject to revision from time to time as ordered by Parliament).

CLASSIFICATION	Health		Pensions		Total		TOTAL
	Em- ployer	Em- ployee	Em- ployer	Em- ployee	Em- ployer	Em- ployee	
	£.	s. d.	£.	s. d.	£.	s. d.	£.
<i>Ordinary Rates,</i>							
(a) Man,	4½	0 4½	0 4½	0 4½	0 9	0 9	1 6
(6) Woman, .	4½	0 4	0 2½	0 2	0 7	0 6	1 1
<i>Persons over 65 (after Jan. 2nd, 1928).</i>							
(a) Man,	...	...	0 9	...	0 9	...	0 9
(6) Woman, .	...	...	0 7	...	0 7	...	0 7
<i>Exempt Persons.</i>							
(a) Man,	4½	...	0 4½	0 2½	0 9	0 2½	0 11½
(b) Woman, .	4½	...	0 2½	...	0 7	...	0 7
<i>Persons Excepted under Health Act :—</i>							
<i>If Excepted from Old Age Pensions.</i>							
(a) Man (Widows' and Orphans' Pensions only), .	...	...	0 3½	0 3½	0 3½	0 3½	0 7
(b) Woman (for Orphans' Pensions only), .	...	...	0 2	0 1½	0 2	0 1½	0 3½
<i>If Not Excepted from Old Age Pensions.</i>							
(c) Man (complete contribution), .	...	...	0 4½	0 4½	0 4½	0 4½	0 9
(d) Woman (for Orphans' and Old Age Pensions only),	...	...	0 2½	0 2	0 2½	0 2	0 4½
<i>Low Wage Earners Over 18 ;—</i>							
<i>Wages of 3/- per day or less.</i>							
(a) Man, .	0 9	...	0 4½	0 4½	1 1½	0 4½	1 6
(6) Woman,	8½	...	0 2½	0 2	0 11	0 2	1 1
<i>Wages over 3/- but not exceeding 4/- per day,</i>							
(c) Man, .	5½	0 3½	0 4½	0 4½	0 10	0 8	1 6
(d) Woman,	5½	0 3	0 2½	0 2	0 8	0 5	1 1

SUMMARY OF BENEFITS.

(a) Old Age Pensions:—

Insured person at the age of 65,	10s. per week.
Wife of insured man who is 66 (the wife also being 65),	10s. per week.

(b) Widows' Pensions :—

Widow's pension,	10s. per week.
Children under 14 (and where kept at school to 16 years of age):—	
First or only child,	5 s. per week.
Others,,	3s. per week.

(c) Orphans' Pensions :—

Each orphan child under the age of 14, or under 16 if kept at school,	7s. 6d. per week.

Elderly Persons.—Prior to 2nd January, 1928, no contributions were payable after an employed person attained 70 years of age, either by employer or employee,, but after that date an employed person ceased to contribute on attaining the age of 66 but the employer continues his ordinary rate of contribution.

Local Authorities' Part in Administration of the Widows, Orphans and Old Age Contributory Pensions Acts.—Certain local authorities are required to assist in the administration of the Contributory Pensions Act. The Minister of Health's Circular (660) of the 1st January, 1926, related to the matter.

Local authorities for the purpose of this Act are County Borough Councils and County Councils. The Council of a Non-county Borough may be recognised (to the exclusion of the County Council) if it is both a local education authority and an authority under the Maternity and Child Welfare Act, 1918.

Any such authority may delegate its powers to its education committee and/or to its maternity and child welfare committee.

Any expenses incurred through powers and duties so delegated shall be defrayed as expenses incurred in aid of elementary education or under the Maternity and Child Welfare Act, 1918. Other expenses shall be defrayed in the case of a County Council as general county expenses except when the Minister charges them by order on a special part of the county, in the City of London and the Metropolitan Boroughs out of the general rate, and in the case of Boroughs and District Councils as part of general expenses under the Public Health Acts and thus out of the general rate.

The Minister may refer to the local authority for investigation and report on any case of widows' or orphans' pensions, and a local authority may make representations to the Minister where:—

(a) A widow or other person to whom an additional allowance

is payable in respect of a child has deserted or abandoned or ceased to support the child or has become disqualified from receiving a widow's pension.

(6) An orphan's pension is payable in respect of a child and it would be in the best interests of the child that the pension should be administered by the local authority or some other person for the benefit of the child. Local authorities may, and it is recommended that they should, delegate their powers under the Act to their education committee and maternity and child welfare committee.

Basis of the Pensions Fund.—It is interesting to note the basis of the fund or funds out of which widows', orphans' and old age pensions are paid.

The scheme provides that a "pensions account" be opened to which all contributions are to be carried and out of which all pensions and additional allowances are to be paid. Surplus amounts are paid over from time to time to the Treasury to be credited to a "Treasury Pensions Account," to which is also carried, in each of the ten years ending the 31st March, 1937, £4,000,000 to be provided by Parliament, and thereafter such sums as Parliament may determine. The Government Actuary in 1935, and thereafter in every succeeding tenth year, has to make a report to the Treasury on the general financial operations of the Act, the contribution required from the Exchequer to preserve the solvency of the Treasury Pensions Account, and the value of the benefits conferred by the Act. Provision is also made for increasing the rates of contribution in 1936, 1946 and 1956, unless otherwise determined by Parliament.

Income Tax.

Superannuation Funds and Income Tax.—Income from investments of superannuation funds is not liable to income tax and where such is received net, the tax deducted may be reclaimed. This does not, however, apply to income from investments applicable to the payment of pensions to members of the police force.

Superannuation funds (but not police pension funds) are not liable to assessment in respect of income from investments of the fund, and where such income is received net the amount of tax may be reclaimed or claimed as set-off.

The *Finance Act, 1921*, relates to superannuation funds established under local Acts, and such funds must be approved

by the Commissioners of Inland Revenue before any benefits under the Act can be obtained.

Superannuation allowances should be paid "gross" to contributors who retire on pension, no tax being deducted before payment, and the local inspector of taxes should be furnished with a return as to the amounts paid.

With regard to amounts refunded to contributors leaving the service of a Council other than on pension, such amounts should be repaid in full without deduction of tax. The fund is, however, liable for income tax on the amounts so repaid at the rate of one-fourth the standard rate in force for the year in which the repayments are made.

Amounts repayable to relatives of deceased contributors are to be paid in full and no liability for tax attaches either to the fund or to the recipients.

The *Finance Act, 1922*, relates to superannuation funds under any Public General Act of Parliament, in which case the provisions set out above concerning superannuation allowances to retired persons apply, but a local authority refunding contributions and interest thereon is required to deduct an amount equal to the total amount of the income tax which would have been paid in respect of the sums contributed to the superannuation fund if those sums had not from time to time been deducted from the amount of the contributor's emoluments.

Where the scheme is approved by the local inspector of taxes, the Corporation's contributions may be charged as an expense for income tax purposes.

Financial Effect of Adopting a Superannuation Scheme.

When presenting a report incorporating an actuary's figures to a Committee or Council that it may consider the advisability or otherwise of adopting a superannuation scheme for its employees, it is usually desirable that the effect of the scheme on the rates, both immediate and prospective, be indicated in its true light, otherwise there is more danger of the scheme being rejected.

It can reasonably be assumed that the actuary's figures are on the safe side, that is, he has not under-estimated the burden falling on the ratepayers. Further, in his report he is not likely to have distinguished or divided the net additional cost between funds, though it is probably apportioned over departments. An appreciably large proportion of the burden falling to be paid

by the Corporation is doubtless attributable to trading departments, and one cannot deny that no matter on which account (with only a very few exceptions such as education, police, housing assisted schemes, in respect of which a portion is borne by the Government by increased grants) a charge falls, it is a burden on the ratepayers. Even in the case of a prosperous trading concern the profit available for transfer to rates or for extending and equipping the undertaking is reduced. It is, however, reasonable to assume that the proportion attributable to profit-making or self-supporting departments will not increase the rates to be levied in the future.

From the inception of the scheme a portion of the actuary's estimated figure will be borne by trading departments and another portion will be borne by increased Imperial grants, and still another, perhaps small, section by persons on whom works are rechargeable. The remainder of the immediate charge falls on the rates, but there are good prospects that much, if not all of it, will be recouped in the future. The reasons which lead one to make this suggestion are as follows :—

- (1) A superannuation scheme enhances the security of tenure of an office which, coupled with pension prospects, helps strongly to cause men to remain with the local authority rather than to seek fresh fields, and it serves to attract the best men when appointments are publicly advertised. All this tends to efficiency.
- (2) Employees who are not ordinarily likely to seek better appointments elsewhere and of temporary staffs are usually alive to the possibility of being granted a permanency ; the knowledge that there is something worth working for at the end and the desire to avoid dismissal also conduce to efficiency.
- (3) As persons must retire at a certain age the older members make way for younger persons in the higher posts and thus the benefits of the more modern brain are secured without losing any good points introduced by those who retire. This, too, leads to efficiency.
- (4) An appreciable saving in salary generally results when a senior official retires, as his successor (whether appointed from outside or from within the department) usually commences at a lower figure than the present holder draws, and thus for some years there is direct economy.
- (5) The presence of a superannuation scheme obviates all

need for local authorities to grant compassionate allowances, consultants' fees, etc., where employees have to leave when they are not financially able to support themselves from their own savings. This is a direct saving to revenue account.

- (6) As years pass the fund should get stronger, the contingent risks are better able to be borne by it and the Corporation's contributions may even be reduced.
- (7) Another source of strength to a superannuation fund arises by reason of resignations of persons who leave to take up appointments elsewhere and who merely withdraw their actual contributions and interest thereon (probably at a rate actually less than that earned). There is thus a profit (or surplus) remaining in the fund to the extent of the local authority's contributions to the fund in respect of such persons during the whole period of their contributory service, and interest earned thereon together with any margin of profit in the interest on the employees' contributions. The benefits under this heading are usually more numerous in cases where workmen are also members of a superannuation fund, as such people are much more likely to leave the service and to enter commercial employment (and thus no transfer fees).
- (8) As efficiency leads to economy, savings under the foregoing heads (1) to (3) ought to be appreciably large.

Lastly, though not a reason why a local authority's contributions to the fund will be reduced in the future, it may be pointed out that persons in the employ of public bodies have fewer opportunities of reaching great heights in money earning. In the commercial world the vicissitudes are not without periods of prosperity and fortune. The public official does not participate in these. True, he has a greater security of tenure and perhaps a higher rate of pay than his commercial friends *while in the lower grades of his work*, but as compensation for the lack of participating in the big things and as a reward for long, faithful and devoted service, it is not unreasonable that his employers, the local authority, should shoulder a possible burden, in any case only slight, in the form of contributions to a superannuation fund.

Unusual Features of Superannuation Funds.—Certain outstanding features relating to superannuation are to be **found in** some of the schemes operating under local Acts, amongst **which are** the apportionment of the pension benefit between the contributor and his wife, so that on the decease of the former **the** latter is during the remainder of her life entitled to a pension. Another special feature is the granting of the superannuation allowance on the basis of 80ths (instead of 60ths) and the **giving,** in addition, of a lump sum of money on retirement.

CHAPTER IX.

INCOME TAX AND LOCAL AUTHORITIES.

NEARLY everybody is surprised to learn that local authorities pay income tax, but the Income Tax Act, 1918, First Schedule, and the first of the general rules applicable to Schedules A, B, C, D and E reads :—

" Every body of persons shall be chargeable to tax in like manner as any person is chargeable under the provisions of this Act."

Section 237 of the same Statute enacts that:—

" *Body of persons* means any body, politic, *corporate*, or collegiate and any company, fraternity, fellowship and society of persons whether corporate or not corporate."

Local authorities do pay tax, and they are harder hit than commercial firms by reason of the non-allowance of certain concessions which individuals and firms obtain.

It is contended by some that local authorities should be immune from income tax liability (and should merely pay over to the Revenue Authorities such sums as they collect on the latter's behalf, *i.e.* by deductions from interest on loans, chief rents, etc.), in the same way as exemption from local rates extends to Government properties. But the important fact must not be overlooked that though Government properties are not *legally* rateable, a contribution is made by the Crown (without admitting liability), of an amount generally equivalent to the amount of rates that would have been payable had liability existed.

Local authorities are exempt from " corporation duty," but this has nothing to do with income tax.

Arguments for the non-assessment of local authorities to income tax are treated later in this Chapter.

An interesting point, involving a contention of local authorities, particularly in the northern sections of the country where chief rents (in respect of freehold lands) and ground rents (on leasehold lands) are more prevalent and perhaps better understood than in London and the south, concerns the non-recognition by the

Inland Revenue Commissioners of the similarity and compatibility of these annual charges with interest on mortgage loans. Local authorities hold that chief rents and ground rents are equivalent to interest on loans and as such should be similarly treated, and that if this is not conceded the Revenue Authorities benefit by a dual assessment arising out of the same land. The Revenue Authorities are in receipt of tax on Schedule A assessments **made** on the property built on the land under chief or ground **rent**, and chief or ground rent payable should be allowed as a set-off.

In illustration of the suggested justice of the local authorities' contention, and simultaneously providing a solution and remedy against the imposition (where the Revenue Authorities are obstinate) a local authority may buy the chief (or ground) rents either by agreement or under powers of compulsory purchase **and** borrow money for the purpose of paying the capital sum. This has the effect of converting the rents on the lands into interest on loans.

Exemption from Liability to Income Tax.—The following are the main bodies, incomes and properties which are exempt:—

- (1) The Crown.
- (2) Certain buildings (annual value) under Schedule A, viz. Public Schools, Universities (including Colleges and Halls except to the extent to which occupied by member of college or by person paying rent for same), Hospitals (hospitals are exempt though fees are taken from patients, but not exempt if wholly self-supporting), Almshouses, Workhouses, Union Offices, Literary and Scientific Institutions (including Public Libraries and Art Galleries, if the building is used exclusively for the purpose of a gallery and no charge is made for admission), Police Stations, Police Courts, Assize Courts, Sewers, Teachers' Residences connected **with** schools (provided no rent is received therefor), Asylums (except to extent occupied by officer whose income exceeds £150 per annum).
- (3) The Income of Charities, Pension Fund Investments (except Police), Registered Friendly Societies, Trade Unions, and Trustee Savings Banks.
- (4) Charitable Institutions in so far as the income from rents, interest **and dividends** is applied to **charitable purposes (but any trading income is taxable)**.

- (5) National Insurance Committees and their Approved Societies.
- (6) Bankers for *direct* tax (by deduction) on income from war loan subscriptions, but they must include such income under Schedule D.
- (7) Persons (but not firms or local authorities) with small incomes.
- (8) Places of Worship except as to ground rent and interest on mortgage paid.
- (9) Public Parks and Recreation Grounds, including buildings if used exclusively for park purposes and no rent receivable (exempt Schedule A).
- (10) Proceeds of rates levied (including a water rate levied over a whole area upon *all hereditaments whether water id supplied or not*, but not water rents).
- (11) Profits or gains of an agricultural society arising from an exhibition or show if applied solely to the purposes of the society.
- (12) Superannuation Funds (but not police pension investments) of local authorities in respect of income from investments.

Police Pensions.—As police pensions are now payable out of the General Rate Fund, and as such fund is not recognised by the Inland Revenue Authorities as a Superannuation Fund within the meaning of the Finance Act, 1921, the tax deducted (before receipt) from interest on investments of what previously was the old Police Pension Fund but which is now the General Rate Fund cannot be re-claimed.

As to whether or not this change in procedure would itself place a local authority in a worse position so far as its tax payments are concerned depends on the amount of its loan interest. If this is large enough to permit of the additional set-off of the taxed income from the police pension investments after advantage has been taken of all other available set-offs, no loss would be suffered. If not, then a loss may be caused proportionate to the amount by which set-off of the taxed income from investments is not available.

A question was asked in Parliament on 23rd April, 1923, suggesting that the hardship be relieved by a continuance of repayment of tax on police pension investments; it elicited the following reply: "The repayment was made under an *extra-statutory arrangement* dating from a *remote past*." (The

Police Pension Fund was created subsequent to 1909.) " It was always *open to criticism* as being *extra-legal* and was *necessarily* (?) *withdrawn* in the *altered* (?) circumstances resulting from the Police Pensions Act, 1921." (The italics and words and signs in brackets are the present writer's.)

In view of the fact that in the same year as the passing of the Police Pensions Act (1921) (apparently with full pre-meditated intention, to judge by the official statement) the Finance Act (1921) specifically exempted from income tax the income from investments or deposits of approved superannuation funds, it seems difficult to see either the logic or the equity of the Government's attitude or the Member's explanation.

However, to compensate local authorities for any loss which would otherwise be suffered, the Government *now* pays an additional grant of one-half the amount of tax deducted at the source. It is thus obvious that as the ordinary grant is one-half the total net expenditure this extra grant provides adequate recoupment.

Attention may now be turned to the application of income tax provisions to local authorities exclusively.

Schedule A.—Except in the case of such properties as come within the exceptions already named, local authorities are assessed on the net annual value of properties owned in the same manner as are individuals. The exemptions relate to property of a semi-national character—"semi-national" because they are services which probably would be administered by the Government if it were not more convenient that they should be controlled by local authorities. For the purpose of clearer illustration Schedule (A) assessments may conveniently be divided into classes as follows:—

- (1) Land and buildings *occupied but not owned*—no liability on the authority for tax.
- (2) Land and buildings *owned but not occupied*, e.g. houses under housing schemes—Schedule (A) tax is borne by the local authority. If rent is used to pay interest, it may be set-off against tax deducted from such interest.
- (3) Land and buildings *owned and occupied* for non-trading purposes—liability to Schedule (A) tax, but not Schedule (D) tax. There is no set-off against interest paid. Exceptions are as follows:—

Public baths and wash-houses are not to be con-

sidered as trading concerns, but one-half of the net Schedule (A) assessment (after deducting ground, etc. rent) is admissible as a set-off. But this does not apply to buildings provided mainly for medicinal or similar purposes. In the case of town halls and municipal buildings from which income is derived from casual lettings as for concerts, meetings, etc., a proportion of the Schedule (A) assessment is allowed as a set-off, calculated by adding to the net Schedule (A) assessment the working expenses, and taking as the allowance such proportion of the income as the Schedule (A) assessment bears to the total.

- (4) Land and buildings owned and occupied for trading purposes are taxable on profits and under Schedule (D) (or under Schedule (A) according to rules of Schedule (D)).
- (5) Properties owned and occupied for special statutory services.

Schedule B relates to agricultural land, woodlands, etc., and in many cases sewage works, refuse tips, etc., even though in the two last-named cases no income or produce is derived therefrom.

Schedule D.—Each productive undertaking is assessed separately upon its profits.

It will be observed that a loss on a productive undertaking may be set-off against a profit on another undertaking connected with the rating fund, except in so far as the profits of such other undertaking *may not* be (not necessarily *are not*) applied in aid of such rating fund.

Returns are made in respect of the rating fund, showing the amount of interest paid in respect of each of the non-productive departments. From these amounts are allowed as set-off :—

(1) Surplus profits of productive undertakings which may legally be applied in aid of the rate fund.

(2) Income from bank interest, billposting stations, surplus income over working expenses of public lavatories, etc. on the rate fund.

(3) Interest on investments received net, other than that which must be credited to statutorily accumulating sinking funds and reserve funds.

(4) Schedule (A) assessments on properties owned but **not** occupied by non-productive undertakings.

(5) Schedule (B) assessments on non-productive undertakings.

Where the amount of interest payable is in excess of all such deductible items, an assessment is made on the difference, but if the reverse position obtains, *i.e.* the allowable deductions are the greater, no further liability exists in respect of this fund.

The amount of surplus profits available as set-off (No. 1, p. 154) is determined by taking the actual profits (as adjusted for income tax purposes, but without deduction for wear and tear allowances) of the year in which the interest is paid (and *not* the profits ascertained for Schedule (D) assessments) and deducting therefrom :—

- (a) The amount of interest on loans (gross).
- (6) The sinking fund contribution or wear and tear allowance if greater.
- (c) Any other *statutory* charges against profits of the undertaking.

Where statutory charges are not required to be made *out of profits* of the undertaking, such need not be deducted from the surplus profits in fixing the set-off.

Unfortunately, this leads to an aggravating anomaly and hardship, *viz.* that taxed interest in respect of investments of non-statutory sinking funds or reserve funds and on statutory sinking funds accumulating to redeem debt raised for certain purposes (those governed by the Local Government Act, 1933) is allowed as a set-off, but not that received in respect of other statutorily accumulating sinking funds. And so the sinking fund which has been calculated to reach a certain level by a specified date may be short of that mark by the amount of tax deducted from interest received on the fund's investments, and credited to the fund, unless provision be made by charging a corresponding amount to revenue account and crediting it to sinking fund annually.

But if the sinking fund provision be made on the mere simple non-accumulating basis, *i.e.* by dividing the total amount of the loan by the period, and annually charging this figure to revenue, and at the same time crediting the sinking fund, this fund will attain the required standard, and the interest on any investments of the fund may be credited to revenue account, and be used in payment of interest on the loans, and the taxed interest *can* be used as set-off.

Another method of obtaining this benefit is to refrain from

investing the accumulations of the sinking fund, *whichever* method of sinking fund is adopted, and to use the money in the fund in repayment of short-term mortgages falling due, or in purchasing stock in the open market. Or it may even be advantageous to leave it in the bank there to earn interest.

Here is another instance of hardship meted out to a local authority that would not be imposed upon an individual.

As previously stated, where a productive undertaking has no assessable profits, and the interest on loans is less than the Schedule (A) assessment, the difference is allowed as a set-off against rating fund interest. Where the Schedule (A) assessment is the lesser, the balance of interest is included in the general pool of the rate fund concerned.

The amount of Schedule (A) assessment on property owned and in the occupation of a non-productive department is *not* allowed as a set-off against rating fund interest except in two cases, viz., town halls and baths. In the former case, where there is an income from lettings, a proportionate part of such income, less maintenance and establishment charges, is allowed, and, in the latter case, where the premises are not used mainly for medicinal or similar baths, one-half the Schedule (A) assessment is allowed.

Income Tax Set-off: Housing Schemes.—The excess only of the Schedule (A) assessment over interest and sinking fund contribution in connection with houses erected under Part I of the Housing of the Working Classes Act, 1890, is allowed as set-off against rating fund interest, as the Inland Revenue Authorities contend that only balances of such profit are applicable to the rate.

It is the general contention of local authorities that housing does not legally constitute a separate fund, but that it is a part of the General Rate Fund. In support of this view it may be stated that Section 40 of the Housing Act, 1919, provides that Part I of that Act (which deals with housing of the working classes) shall be considered as one with the Housing of the Working Classes Act, 1890. Section 65 of the 1890 Act provides that "all expenses . . . in the execution of this Act shall be defrayed in the case of an Urban Sanitary Authority as part of the general expenses of their execution of the Public Health Acts." And Section 207 of the Public Health Act, 1875, provides that "all expenses incurred or payable by an Urban Sanitary Authority shall be charged on and defrayed out of the district fund and general district rate" (now termed General Rate Fund). There is no provision in the Housing Orders and

Regulations which requires the establishment of a separate " fund " for Housing (Assisted Schemes); the only stipulation is that separate " accounts " shall be kept. Paragraphs 45 and 46 of " Housing Accounts " issued by the Ministry of Health in 1921 infer that " pooling " will take place.

In illustration of this contention of local authorities the following hypothetical figures are given :—

	General Rate Fund (excluding Housing)	Housing (Assisted Scheme) Account	Total
Interest paid (on loans), .	(1) £ 21,918	(2) £ 5,974	(3) £ 27,892
" Set-off " in respect of profits of trading departments and Schedule (A) Assessments connected with the District (General Rate) Fund,	30,119	317	30,436
" Set-off " in excess of interest,	8,201	<i>Liability</i> 5,657	2,644

If the Housing Scheme Accounts cannot be " pooled " with the fund of which they, by statute, form part (and pooling within funds is permissible), the General Rate Fund is called upon to bear tax in excess of the amount it can recover by the retention of the tax deducted from its other interest payments. That is, tax becomes payable on £30,119, and tax can only be recovered on £21,918.

If pooling could be effected the figures in Column (3) in place of those in Column (1) would indicate the amount concerned in regard to income tax. Instead of losing the benefit of " set-off " on £8,201 and having a liability on £5,657, the position would provide a net " set-off " in excess of interest of £2,544 and therefore there would be no liability to pay over the tax deducted from the interest.

The Hampstead Borough Council and the Birmingham City Council tested the Courts with the local authorities' contention, **the** Hampstead case in the King's Bench Division of the High Court and the Birmingham Case even as far as the House of Lords, but did not receive judgment in their favour. These two cases are reviewed later in the present chapter and may at this juncture be referred to with advantage.

Deductions and Allowances in Computing Profits for Income Tax Purposes.

The ordinary allowances as working expenses applicable to commercial undertakings are doubtless well-known, but from the local authority point of view several important items need careful consideration. In addition to the "ordinary" allowances and non-allowances, the following are "allowed" and "not allowed" respectively.

Deductions Allowed :—

(1) Cost of management and registration of stock where such is carried out by a banker by arrangement with the local authority (but not commission for obtaining loans nor stamp duty on mortgages, etc.).

(2) Proceeds of rates levied, including income from water *rates* levied over whole areas on all hereditaments whether water is supplied or not (but income from water *rents* for water supplied is not allowed).

(3) Profits on inter-departmental transactions, *i.e.* in arriving at the assessment of an undertaking profits on commodities sold {*e.g.* gas, electricity, etc.) to non-productive departments connected with the same rate fund as the productive department may be deducted.

(4) Revenue expenses, even though they may not have been included in the accounts of a productive undertaking, including—

(a) A proportion of the rent of the municipal offices.

(6) A proportion of establishment charges of administrative departments, such as the town clerk's and the borough treasurer's departments,

(c) A proportion of the expenses of the town hall or municipal buildings.

(5) Losses by fire, accidents to workmen, etc. (but not premiums transferred to a local authority's own insurance fund).

(6) Interest compulsorily paid in full (*i.e.* without deduction of tax), *e.g.* to Public Works Loans Commissioners, bank interest and interest on loans paid gross to American lenders not domiciled in the United Kingdom.

(7) In the cases of *electricity* and *tramways* undertakings only, allowances for wear and tear of plant and machinery upon bases agreed with the Inland Revenue Authorities.

(8) In respect of gas, water and undertakings other than the above, actual renewals as and when incurred, with power to

carry forward any portion of repairs and renewals which cannot be charged against a year's profits by reason of insufficiency of profits. Local Commissioners have, however, power to allow percentage deductions in these cases if they wish.

(9) Allowances in respect of obsolescence as and when necessary to replace existing plant and machinery with more up-to-date equipment.

(10) In the case of cemeteries, certain expenditure on forming, levelling and draining new plots (on the ground that it is necessary for the production of income).

(11) Contributions (as employer) to superannuation or pension funds (the funds must, however, be approved by the Revenue Authorities and the returns, accounting and claims are subject to Regulations of the Commissioners (Finance Act, 1921, Section 32 ; Regulations issued 10th November, 1921)).

(12) Subscriptions to trade societies and similar organisations provided the particular society has made an arrangement with the Revenue Authorities to account for tax on the excess of subscriptions over the expenses of the society.

(13) Wear and tear and renewals generally, but not depreciation.

(14) Any disbursements or expenses wholly and exclusively laid out for the purpose of the trade, etc. (Under this heading come, in addition to the ordinary well-known items, such items as proportion of expenses in maintaining a park where boating or catering is provided, employers' contributions under National Insurance Acts, law costs arising in the course of business, compensation for breach of contract, etc.)

(15) Removal expenses, if removal is compulsory. Cost of removal of stock, if allowed, whether the removal is compulsory or voluntary.

(16) Obsolescence of plant or machinery is generally allowed, and is made against the profits of the year concerned. (Obsolescence, and wear and tear allowances, may not in the aggregate exceed the actual costs (*to the particular possessor*) of the assets in respect of which they are claimed.)

(17) As a local authority (or other owner-occupier of premises) may in the case of mills, factories, electricity, tramways, gas, water, etc. undertakings deduct the " gross " (as distinct from the " net ") annual value in computing the profit for assessment under Schedule (D), an allowance is obtained of a sum equal to the statutory allowance for repairs under the Finance Act, 1923, which is virtually a " depreciation allowance " in respect of these buildings.

(18) Costs of obtaining Orders under the Gas Regulation Act, 1920, for adoption of thermal units.

Deductions Not Allowed :—

- (1) Loans repaid (capital sums).
- (2) Stamp duty on mortgages, composition for stamp duty, etc.
- (3) Commission paid to agents for obtaining loans.
- (4) Premiums paid to local authority's own insurance, etc. funds. (Premiums to outside companies *are* allowed.)
- (5) Allowances for wear-and-tear in respect of gas, water and other undertakings (except electricity and tramways).
- (6) Profits on inter-departmental sales to departments not connected with the same rate fund (where two or more are in existence).
- (7). Proceeds of sales of land for grave spaces must be included as income in fixing the Schedule (D) assessments on cemeteries and crematoria, if such income is credited to revenue account. If carried wholly, or in part, to a fund for the redemption of the loans incurred in buying the land a different view is possible.
- (8) Interest on loans and sinking fund contributions.
- (9) Depreciation.
- (10) Capital expenditure (whether defrayed out of revenue account or capital account).
- (11) Reserves for bad debts (but actual bad debts are allowed).
- (12) Removal expenses where the change is voluntary (*e.g.* if for the purpose of extensions or improvements).
- (13) Costs of making or varying investments.
- (14) Losses recoverable under a policy of insurance or contract of indemnity.
- (15) Bank interest earned is assessed in respect of the rate fund separately on profits of the preceding year. (No set-off is allowed in respect of another fund in connection with which the net result of the year's transactions amounts to bank interest payable.)

Depreciation or Wear and Tear Allowances.—The bases agreed upon, referred to under No. 7 of "deductions allowed" *supra*, are as under:—

(a) *Electricity Undertakings* :—

Cables—3 per cent. depreciation annually on "written down" value.

Plant and Machinery—5 per cent. per annum depreciation on "written down" value.

Conduits—No depreciation allowed, but all maintenance charges allowed.

Meters, Loose Tools, Furniture, etc.—Ditto.

(b) *Tramways Undertakings* :—

Buildings.—The full value of buildings is allowed as a debit to revenue account instead of the net annual value. The difference is equivalent to a depreciation allowance. (Finance Act, Section 24 (4), 1918.)

Cables—3 per cent. per annum on "written down" value.

Trolley Wires and Connections.—No depreciation, but maintenance charges allowed.

Cars.—Ditto, but depreciation is allowed if circumstances justify it on the basis of 7 per cent. per annum on "written down" value.

Plant and Machinery, including *street standards, and brackets, workshop fittings, etc.*—5 per cent. per annum on "written down" value.

SUMMARIES OF THE PRINCIPAL INCOME TAX CASES
AFFECTING LOCAL AUTHORITIES.

(1) *London County Council Case.* (*House of Lords Decision, 1900.*)

The decision in this case established the Council's claim (a right which the individual always had without dispute) to retain out of the tax deducted from dividends paid to holders of the Council's stock, sums equal to the amount of the tax deducted by local authorities when paying interest to the Council on loans advanced, and the amount of tax allowed to tenants of the Council's property or tax paid direct in respect thereof. But this did not give the right to set-off tax paid on property owned *and occupied* by the Council, a right which the private individual enjoys in similar circumstances.

The main facts of the case were :—

The County Council paid interest and dividends on its loans and stock out of moneys provided by—

- (1) Interest received on the Council's advances to other local authorities (received less tax).
- (2) Rents received from the Council's property already taxed under Schedule (A).
- (3) Rates levied to make up the balance.

The London County Council contended that to the extent of items (1) and (2) the interest had been paid out of profits or gains "brought into charge," and that it was entitled to retain a corresponding amount of tax, and only account to the Crown for tax deducted from the balance of interest paid (item 3).

The Crown's contention was that it was entitled to the whole of the tax deducted from all the interest paid, but later it agreed to allow a proportion of item 1. This decision was upheld in the Queen's Bench Division, and in the Court of Appeal, but was reversed in the House of Lords on an appeal by the London County Council.

(2) *The London County Council (2nd) Case.* (House of Lords Decision, 1907.)

The outstanding features of this case were :—

(a) The Council paid interest and dividends and deducted tax therefrom (as in the 1900 case).

(6) This was paid out of interest received and rents (as before), and according to the final decision in the first case the Council was entitled to retain an amount of tax deducted from (a) equal to that deducted from (b) before receipt, and was required to pay over the balance to the Crown.

But as the Council was possessed of further *owned and occupied* properties, its contention was that as it was assessed under Schedule (A), it was entitled to deduct the amount of tax along with (6) above. The private individual or firm had (and has) the right which the London County Council was seeking to obtain. The King's Bench Division decided in the Council's favour, as also did the Court of Appeal, but the House of Lords reversed the decision.

The circumstances are interesting and important and for the better and easier understanding of the position a hypothetical instance is given.

If an individual possessing £1,000 invests it at 5 per cent., he gets a beneficial annual income of £50. If in lieu of placing it in stock, etc., he buys a house and resides in it he saves (say) £50 rent per annum. In either case the Inland Revenue Authorities contend that he has a beneficial interest, and allow him to treat the tax which would be deducted from the £50 interest received if he chose to invest his money in stock or the Schedule (A) assessment if he, instead, puts his money in "bricks and mortar" as part of the total income tax for which he is liable for that year, and assess him on the balance only, or if necessary they

repay to him any excess by which the amount paid by deduction or under Schedule (A) exceeds the total liability.

If a local authority did a similar thing the Schedule (A) tax would not be allowed as a set-off, and the Crown would get tax twice over on the £50.

The contention of the Crown, as upheld by the House of Lords, was that a local authority's property in the occupation of itself does not constitute a beneficial occupation, despite the fact that it is saving the rent which would have to be paid were the premises only hired and not owned, and also that the Council has had to borrow the purchase money of the premises and has to pay interest thereon. That this contention is purely an injustice directed against local authorities and no one else is apparent from the fact that the Crown admits that a beneficial occupation is constituted in all cases where the premises are *owned and occupied* by the same person, provided *such person is not a local authority*.

In his judgment in this case Lord Macnaghten stated that he agreed that the Crown could not ask for tax twice over, but here he contended it only received the tax once. The property itself, he stated, pays tax under Schedule (A), whoever may be the owner and occupier, but the Crown would lose tax on the dividends if when collected it went to recoup the Council for tax under Schedule (A).

But a private individual similarly placed also deprives the Crown of tax on dividends in similar circumstances. If a local authority acquires property it ordinarily has to borrow for the purpose and as a result the Crown receives in tax on interest paid a sum equivalent to the tax in respect of the Schedule (A) assessment. It would appear that the contention of Lord Macnaghten could only apply if the property were purchased out of rates, in which case there would be no tax on dividends.

This anomaly is intensified by reason of the fact that the First of the General Rules of the Income Tax Act, 1918 (which at the time the foregoing cases were tried was Section 40 of the Income Tax Act, 1842), states that "a corporate body shall be regarded as a person."

One should note that the above hardship or injustice applies to properties owned and occupied and which are attached to the rate fund. Schedule (A) assessments in the case of trading undertakings may be set-off against the Schedule (D) assessments on profits.

The Leeds Case. (House of Lords Decision, 1913.)

(This decision is not of much importance now, as although it

stands in its entirety the position unsuccessfully aimed at by the Leeds Corporation has been forced on all provincial local authorities by the Rating and Valuation Act, 1925. In the Metropolis the position, which remains unchanged, is in this respect uniform with that in the provinces).

The Leeds case dealt with the question of "pooling." Local authorities contend that they should be treated as *one body*, and not as a number of separate bodies limited only by the number of separate rating funds. Local authorities are not treated like individuals or private firms or public companies. A person, firm or company carrying on two or more distinct trades is allowed to set-off the loss of one department or branch or trade against the profit of another, or against other income (Rule 13, Cases I and II). It can pool its gains and losses and is only called upon to pay tax on net profits. Although the Income Tax Act, 1918, directs that "a body corporate *shall* be regarded as a person" this *statutory right* is denied to local authorities. The Leeds case was fought to test the Revenue Authorities' contention on this particular point and the Council lost.

The Leeds Corporation sought to be regarded as *one person*, not two corresponding to the two rating funds it then had, the City (or Borough) Fund and the Consolidated Fund (a fund established by local Act). And it claimed statutory right to set-off surplus profits of its trading undertakings (attached to the City Fund) against dividends and interest payable out of the Consolidated Fund. The King's Bench Division of the High Court decided in favour of the Crown. The case was taken to the Court of Appeal, where the decision was reversed. The Crown then proceeded to the House of Lords, who exercised its powers of reversal of the finding of the Court of Appeal. And so the local authority's statutory right was taken from it.

The detailed facts of the case were that the Leeds Corporation had two Rating Funds, one called the City Fund and the other the Consolidated Fund. Attached to the former were its Gas, Tramways and Water Undertakings, and to the latter fund its Electricity and Markets Undertakings. The profits of the undertakings connected with the City Fund were more than sufficient to pay the interest on loans raised for such undertakings and in addition to cover all interest and dividends payable out of the City Fund. On the other hand the profits of the Electricity and Markets Undertakings, together with the taxed income of the Consolidated Fund, were less than the interest paid out of this fund. The Corporation sought to apply the surplus profits

on the City Fund as a set-off against the interest and dividends payable out of the Consolidated Fund, or in other words to "pool its funds." As stated, however, the final decision was against the Leeds Corporation.

Nevertheless, though perhaps unwittingly, at least one favourable principle was established (not applicable in the particular case in question) but of considerable benefit to local authorities generally. This advantage has arisen out of the judgment given by Lord Atkinson, who said :—

" I concur, therefore, in thinking that the Corporation cannot retain for their own benefit the income tax they have deducted in respect of the excess of taxed income over dividends and interest paid on the City Fund account, and are assessable for it, *not for the reason, however, that the tax must be taken not to have been paid wholly or partly out of a 'taxed fund' belonging to them, viz. the income from the municipal undertakings, etc., but because it was not legally payable out of the particular fund out of which it has, in fact, been paid.*"

Before this judgment the available set-off allowed by the Inland Revenue Authorities was generally limited to the amount of surplus profits *actually* transferred to the fund. Now, that portion of profit which is at the unfettered disposal of a local authority may be taken into account as a set-off whether any transfer actually be made or not.

A further excerpt from the dicta of Lord Atkinson is interesting. He said that the right of a debtor who has paid " interest or annuities brought into charge to income-tax " to retain for his own benefit the amount of the tax which he has deducted from his creditors, depends upon whether he can answer in the affirmative each of the following two questions :—

(1) Have the interest and annuities been in fact, paid, or must they, in the circumstances of the case be taken to have been in fact, paid, out of profits " or gains " brought into charge, i.e. out of the so-called " taxed fund " ?

(2) Was it lawful to pay them out of that fund ?

" If either of these questions," Lord Atkinson proceeded, " be answered in the negative, he must account to the revenue for the tax he has deducted. This is, I think, the only workable rule which can, in practice, be applied. It inflicts no injustice upon the subject. To allow him to retain the tax where he has not, in fact, paid it in the first instance

himself, would be, in effect, to allow him to levy a tax upon his creditors for his own benefit, not for that of the Crown. And if he has applied the moneys of a 'taxed fund'⁹ to discharge debts liable to income tax in a way the law forbade him to do, he is the author of his own wrong, and deservedly suffers."

The Metropolitan Water Board Case (Court of Appeal, 1927).

The effect of the Metropolitan Water Board case (A.-Q. v. *Metropolitan Water Board* (1927)) is important in the case of undertakings where the accounts as adjusted for income tax occasionally reveal a loss.

This case was first decided in the King's Bench Division of the High Court in June, 1927, when Mr. Justice Rowlatt gave judgment for the Crown. The Metropolitan Water Board appealed, and in a considered judgment delivered on 29th November, 1927, the Court of Appeal confirmed the decision of the King's Bench Division and dismissed the appeal. As the case was not taken to the House of Lords, the decision is binding on all local authorities. The main facts were as follows :—

- (1) The accounts of the Board for 1921-22 as adjusted for income tax showed a loss of . £57,366
- (2) The assessment on the Board under No. 111 of Schedule (A) for 1922-23 was thus . Nil.
- (3) During 1922-23 the Board paid annual interest and other items on which tax at the rate in force during that year (5s. 0d.) amounted to , £417,087
- (4) Tax suffered by deduction or paid by the Board during 1922-23 was :—

Rents receivable (Schedule (A)),	£1,823
Property owned and occupied (Schedule (A)), ...	2,962
Interest on Investments, ...	3,242
	—————£8,027

- (5) Leaving a net balance of tax deductions of . £409,060
- (6) The accounts of the Board for 1922-23 after adjustment for income tax purposes showed a profit of . £2,481,085
(This was excess of interest and other annual payments.)

The Metropolitan Water Board was assessable under Rule 3 of No. I 11 of Schedule (A) (according to the Rules of Schedule (D)), i.e. the annual value was to be understood to be the profits of the preceding year. For the year ended 31st March, 1922, the Board sustained a loss of £57,366 and consequently no assessment was made for the year 1922-23. In the year to 31st March, 1923, the Board had the benefit of the Metropolitan Water Board (Charges) Act, 1921, and made *aprofit* of £2,481,085, out of which the interest payable by the Board on its stock (and on redeemable debentures in respect of which the Board had assumed liability), and certain other annual payments due from it, amounted to £1,730,751. Part of this sum was paid gross, but from the remainder (£1,668,351) tax was deducted and retained at the rate or rates in force during the period through which the interest and other annual payments were accruing due (i.e. under Rule 19 of the All Schedules Rules, Income Tax Act, 1918, which provides that:—

" Where any yearly interest . . . etc., is payable wholly out of profits or gains brought into charge to tax . . . the person liable to make such payment, whether out of the profits or gains charged with tax or out of any annual payment liable to deduction, or from which a deduction has been made, shall be entitled . . . to deduct *and retain* thereout a sum representing the amount of the tax thereon at the rate or rates of tax in force during the period through which the said payment was accruing due ").

Rule 21 of the All Schedules Rules provides that:—

- " (1) Upon payment of any interest of money, annuity or other annual payment charged with tax under Schedule (D) . . . *not payable or not wholly payable* out of profits or gains brought into charge, the person by or through whom any such payment is made shall deduct thereout a sum representing the amount of the tax thereon at the rate of tax in force at the time of the payment.
- " (2) Any such person shall forthwith render an account to the Commissioners of Inland Revenue of the amount so deducted . . . and every such amount shall be a debt from him to the Crown."

The Attorney-General, by an information, claimed £409,060 2s. 11d., made up as under:—

	£	s.	d.
Tax at the rate of 5s. in the £ in respect of interest and annual payments, . . .	417,087	15	2
Less Tax on taxed income, including Schedule (A) assessments and interest on investments £32,110 9s. 0d., . . .	8,027	12	3
	£409,060	2	11

The Crown contended that the Metropolitan Water Board was liable to account to the Commissioners of Inland Revenue under Rule 21 for this amount. For the Board it was contended—

(1) That the interest on the water stock, the redeemable debentures and the other annual payments paid during the year ended 31st March, 1923, were part of its profits for that period, though the liability to income tax for that tax year should correctly be measured by the amount of the profits of the preceding year, whether or not there were profits in the preceding year;

(2) That the profits or gains of the Board brought into charge to tax for the year 1922-23 were sufficient in amount to meet the interest and annual charges payable for that year, and the interest was, in fact, paid and the annual payments were in fact made, out of those profits or gains ;

(3) That the fact that no assessment was or could be made on the Board for the year 1922-23 was irrelevant;

(4) That the Board was entitled under Rule 19 to retain for itself the income tax deducted on payment of the interest and annual payments ; and

(5) That Rule 21 had no application to this case.

In delivering judgment in the High Court Mr. Justice Rowlatt said the question he had to decide was *whether this interest had been paid out of profits and gains brought into charge to tax*. He ruled that it had *not*, as the only profits brought into charge for 1922-23 were those of 1921-22, which were nil, and thus out of which no interest *could* be paid; also that Rule 21 did apply, and the Board must account to the Revenue for the tax deducted.

As already stated, the decision was unsuccessfully appealed against, the Master of the Rolls stating that the sum of £409,060

had been stopped in the appellants' hands because, as Lord Loreburn said in *Attorney-General v. London County Council (1907)*, they were required to act as tax collectors for the Crown. That duty was imposed on them by Section 24 (3) of the Customs and Inland Revenue Act, 1888, a Section which was now split up into Rules 19 and 21, and it was plain from it that the person told to deduct income tax chargeable on the payee must render an account of the deductions. If the whole of the interest had *not* been paid out of profits and gains brought into charge the account must be of the whole amount deducted. If only part of the interest had been paid out of profits and gains brought into charge the account must cover the other part. He thought there was good ground for the Crown's argument that in Rule 19 the words "payable wholly out of profits or gains brought into charge" did not mean payable out of a fund that *might* be brought into charge, or was, or would be, a factor for the purpose of charge, but referred to *a fund brought into charge*, out of which tax was payable and to be paid. The appellants paid income tax, but their assessment was measured by annual value, and that annual value was the profits of the preceding year, viz. nil for 1921-2. The appellants could not alter their assessment, which for the year stood at nil, and for the purpose of the rule rely on a charge which did not exist for that year. Reference was made by the Master of the Rolls to the speech of Lord Haldane in *Sugden v. Leeds Corporation (1913)* in which he said: "In each case the question is whether the annual payments taxed are actually and properly payable out of the profits. If they are, these profits are treated by the Acts as diminished *pro tanto* in the hands of the owner, and he, having paid once for all on the whole, is thus entitled to retain for his own benefit the amount of tax he deducts from the annual payments before making them as being tax he has already paid."

It would be no answer to the Crown to say that the profits of this year would in the next year be "understood to be" the annual value on which tax should be paid. In the case of *London County Council v. Attorney-General (1901)*, Lord Macnaghten said that the amount deducted must be paid over to the Crown unless the amount comes out of income which has already paid the duty, and the word "paid" might, it seems, be equivalent to "brought into charge" for the payment of duty.

The Master of the Rolls declared that the judgment of Mr. Justice Rowlatt in the case was right and the appeal must be dismissed, and Lords Justice Sargant and Lawrence delivered considered judgments to the same effect.

The Hampstead Council Case (King's Bench Division) (1927).

The Hampstead case was fought on the question of Housing "set-off," to test (*inter alia*) the contention of local authorities on this matter, as already explained and illustrated in the present chapter.

The Hampstead Borough Council (the respondents) had embarked upon a housing scheme under the Housing and Town Planning Act, 1919, and the regulations issued thereunder by the Ministry of Health. It had borrowed money for the purpose and had paid interest thereon deducting income tax at the rate in force at the time under provision of Rule 21 of the General Rules of the Income Tax Act, 1918. The interest was paid out of the General Rate Fund into which were paid all profits or gains of the authority whether derived from the housing scheme or other source. No special fund existed out of which housing expenditure was paid. Profits (other than from housing schemes) amply sufficient to cover the interest payable on the housing loans had been credited to the general fund and these profits had been brought into charge. It was contended that the interest was *wholly payable and paid* out of profits or gains brought into charge to tax within the meaning of Rules 19 and 21 of the General Rules and consequently the Council was under no liability to account for the amount of tax deducted when paying such interest. The respondents could have opened a special housing account and paid thereto enough profits from the electricity undertaking to cover the interest and so make certain that the interest on the housing loans was actually paid out of profits brought into charge, and they contended that merely because all items had passed through a general account they ought not to be in a worse position on that account.

The Crown's contentions were, *inter alia*, that the principal and interest were charged on the General Rate, and therefore were not paid out of profits and gains brought into charge, and the fact that certain receipts being profits or gains brought into charge were paid to the general fund did not entitle the local authority to say that the interest was paid out of those items, and that the interest in so far as it exceeded the revenue from the housing scheme was *not* payable out of other profits or gains of the Council brought into charge, and further, that such excess was not so payable out of other profits because it could not **fall** on the respondents (presumably because of the Government Grant). It also contended that the Housing Act, 1919, clearly indicated that assisted housing schemes should be **kept**

entirely separate in matters of finance from all other undertakings. Further, it contended that if the local authority's contentions were correct, housing schemes, although actually carried on at a loss, would result in a profit to a local authority where such authority had other enterprises which were profit producing. The Commissioners had discharged all assessments in question.

Mr. Justice Rowlatt allowed the Crown's appeal with costs. He held that only to the extent to which the interest on the debt had been paid out of income from the housing scheme had such interest been paid out of profits and gains brought into charge. The deficiency on the housing scheme was made good partly by the ratepayers and partly by Exchequer grants and not out of profits or gains of other undertakings. He stated that if the Council was allowed to do what it claimed it would be enjoying the profits of trading undertakings (in the case in question, electricity profits) tax free to the extent to which it contended that housing interest was payable out of such profits, because such interest would be refunded to them. The Corporation was indemnified against having to pay such interest at all, except so far as it was paid out of the housing fund. The fact that profits of the electricity undertakings had been passed through the general account had nothing to do with it.

The decision was of course only that of the King's Bench Division of the High Court and though the case did not go to a higher court one involving similar points of issue was taken through to the House of Lords by the Birmingham Corporation without success. The judgment of Mr. Justice Rowlatt in the Hampstead case seems to be based on moral or equitable grounds rather than on legal ones, and that basis is contrary to the general legal interpretation given to taxation statutes. Quite recently Lord Sands (in *Oranite City Steamship Co. v. Commissioners of Inland Revenue*) stated that "equity and income tax are strangers." From the strictly legal point of view there seems to be something in the taxpayer's contention.

The Corporation of Birmingham v. Commissioners of Inland Revenue (High Court, Court of Appeal and House of Lords).

The Birmingham case involved points similar to those in the Hampstead case, but was taken to the utmost length before a decision was accepted as final.

In the High Court of Justice (King's Bench Division) on 30th January, 1929 (before Mr. Justice Rowlatt), the Corporation

of Birmingham appealed against assessments for the three years ending 5th April, 1924, made upon it under Rule 21 of the General Rules applicable to all Schedules, Income Tax Act, 1918, as amended by Section 26 of the Finance Act, 1927, in respect of interest paid on money borrowed for the purposes of its assisted scheme undertaken in pursuance of the provisions of the Housing and Town Planning, etc. Act, 1919. On making payment of such interest the Corporation had deducted income tax and the question was whether the Council was bound to account to the Crown for the income tax so deducted. One general fund was kept into which was (and are) paid its receipts from its various undertakings and out of which its general expenses under the Public Health Acts were defrayed. It had raised loans for the purposes of its assisted housing scheme, such loans being secured on the rates, revenue and property of the Corporation, and in the case of local bonds issued by it the rates, revenues and properties were expressed to include "the grants to be paid by the Government in aid of the housing scheme" hereafter mentioned. Under Section 7 of the Housing and Town Planning Act, 1919, and regulations thereunder, a local authority is to keep separate accounts called "the Housing (Assisted Scheme) Accounts," including a revenue account to which is credited the produce of a penny rate levied in the area chargeable with the expenses of the scheme, or such less amount as may be necessary to meet the deficit for the financial year, and the rents of the houses acquired or provided under the assisted scheme; to this revenue account there is debited the ordinary outgoings in respect of the assisted scheme, including interest on moneys borrowed for the purposes of the scheme. In the event of a deficit a Government subsidy is made to meet the deficit during the carrying-out of the assisted scheme subject to the compliance of the local authority with the regulations made under the Act. The Birmingham Corporation had a deficit on its Housing Scheme Revenue Account during the years in question and thus became entitled to the Government subsidy, subject to the regulations above mentioned. The dates of payment of the instalments of the subsidy did not correspond with the dates of payment of the interest on loans borrowed for the purpose of the Council's housing scheme. During the years in question the total taxed profits belonging to the Corporation and derived from its property and undertakings exceeded the aggregate of the interest paid by it on all its loans including the interest on the loans under the housing scheme. It was contended on behalf of the Birmingham Corporation (*inter alia*)—(a) that the interest

on the loans for the housing scheme was a charge on and lawfully payable and in fact paid out of the taxed income of the borough fund and that such interest was wholly payable and paid out of profits and gains brought into charge to income-tax; (b) that by reason of the difference between the borrowing powers conferred on local authorities in London and those outside, the facts were distinguishable from the case of *Dickson v. Hampstead Borough Council* (7 A.T.C. 494). It was contended on behalf of the Crown that in so far as the interest on loans raised for the purposes of the assisted housing scheme exceeded the taxed income from such scheme such interest was not payable out of profits and gains brought into charge. The Special Commissioners held that the case was indistinguishable from the case of *Dickson v. Hampstead Borough Council* and confirmed the assessments. The Corporation appealed. It was held by the High Court, in dismissing the appeal with costs, that the interest so far as it was not met by the taxed income of the assisted housing scheme must be taken to be paid out of the Government subsidy. The Birmingham Corporation took the case to the Court of Appeal and (lost it) then to the House of Lords, and at both tribunals the appeals were dismissed.

A lengthy report of the reasonings of the law lords was issued as a supplement to the *Financial Circular* of April, 1930, and from a reading of this one is apt to be of the opinion that as in the Hampstead case the decision is based more on equity and a *supposed* intention of legislature than on the strict legal wording of the statutes. From the point of view of equity the writer of this book has no fault to find with the decisions, but in view of the fact that it is well-established law that Taxation Statutes must be interpreted according to the letter and not the spirit, coupled with the fact that the application of this principle has been extended probably to every other case, a dissention on the grounds of inconsistency may surely be pardoned.

The dictum of Lord Cairns, who first laid down the principle so far back as 1869, is apparently equally applicable to-day, though it does not appear to have been adopted in the Birmingham cases. In delivering judgment he stated—

" As I understand the principle of all fiscal legislation it is this : If the person sought to be taxed comes within the letter of the law, he must be taxed however great the hardship may appear to the judicial mind to be. On the other hand, if the Crown, seeking to recover the tax, cannot bring the subject within the letter of the law, the subject is free, however

apparently within the spirit of the law the case might otherwise appear to be. In other words, if there be admissible, in any statute, what is called an equitable construction, certainly such a construction is not admissible in a taxing statute, where you can simply adhere to the words of the statute."

Extracts from the opinions of some of the law lords in the Birmingham case will now be quoted to indicate the grounds of the decision. Viscount Sumner said :—

" Suppose that the small incomings and the penny rate were just to balance the items on the other side. Upon the scheme there would then be no subsidy payable, but on the appellants' contention if there was an apparent loss due to and not exceeding the amount of the tax deducted, the subsidy would have to be called on to the extent of that loss, and yet the Crown would not receive the sums so deducted ; I can find nothing in the Act consistent with this, yet this would be the result if *this separate undertaking is to be influenced by rights which arise partly under fiscal legislation that has nothing to do with the Housing Scheme, and partly under the mode in which, again under wholly independent legislation, the Corporation keeps its accounts.*

" I think that the whole scheme of the Housing Act, under which the Treasury participate with the Corporation in the ultimate outlay on working the Scheme upon a method of calculation which involves a debit of the gross interest paid, is inconsistent with the application of the Income Tax Rules which the appellants assert, and it is therefore unlawful, in the sense of being negatived by the whole tenor of the Act, to retain the tax deducted. *It is true that no words in the Housing Act expressly forbid it, for the settlement of other matters and accounts arising between the Corporation and the Inland Revenue was not within the purview of the Housing Act, but I know of no authority for saying that this right of attribution can be defeated only by express words or for excluding from the exceptions out of this privilege something that is contrary to the general intention of a statute.*

" *The question I think turns upon a claim of right. One statute directed the Corporation to deduct the interest (quaere tax) and in fact they did so ; another directed them to bring the interest item into account at the gross amount, and so they did. Then came the present question—a separate one as I venture to think : Can they successfully assert that they must be deemed to have paid the interest out of profits*

already brought into charge? In view of the Housing Act I do not think that they must be deemed to have done so, for that neither squares with the statutory relations resulting from this Act nor is consistent with any *tolerable* working of it."

Two other law lords concurred in Lord Sumner's opinion and all agreed that the appeal should be dismissed.

A short extract from Lord Atkin's observations appears to support the contention that the judgment has the semblance of being based on equity rather than statute law. Lord Atkin said :—

"The case turns upon the words of Rule 19 and the amended Rule 21 of the General Rules in the Income Tax Act of 1918. (1) Have the interest and the annuities been in fact paid or must they in the circumstances of the case be taken to have been in fact paid out of profits or gains brought into charge—i.e. out of the so-called taxed fund? (2) Was it lawful to pay them out of that fund?

"Mr. Justice Rowlatt and the members of the Court of Appeal have, as it appears, answered both questions in the negative; but they have rather stressed the second question. They have accepted the contention of the Crown that the effect of the Housing Act and the regulations made thereunder was to create a fund of which the subsidy formed an integral part, and that the payment of interest could only be made out of that fund. Alternatively it was said that the subsidy was 'earmarked,' or appropriated by statute, to the payment of interest, so that it was unlawful to use it for any other purpose. My Lords—I am not prepared to accept either view. I think that there was no fund created—certainly not actually—for by law there could be no fund except the Borough Fund, nor nationally, for the account to which so much importance is attached is an account and not a fund, a calculation and not a source of payment. In fact, the loss was incurred and in practice had to be incurred before the amount of the subsidy could even be ascertained, much less paid. Nor was there any earmarking. The statutory power to grant the subsidy is in the Housing, Town Planning, Etc., Act, 1918, Section 7 (1), which, omitting immaterial words, provides: 'If it appears to the Local Government Board that the carrying out by a local authority of any approved scheme has resulted or is likely to result in a loss, the Board shall pay such part of the loss as may be determined to be payable under regulations/

Such an obligation is common among individuals. 'A' promises 'B' expressly or impliedly that if 'B' will embark upon a particular venture 'A' will repay him the whole or part of his loss. In ordinary circumstances no legal obligation rests upon 'B' to apply the money so paid to him by 'A' in any particular way. The result and the intended result is that 'A's' own resources, from which he has met or is bound to meet the loss, shall be restored to the extent of the agreed amount. *I see no reason for imposing any further obligation upon the parties in the present case ; in view of the terms of payment in practice an obligation to pay only out of the subsidy seems impossible to carry out. If the case therefore turned only on the second question I should have come to the conclusion that it was lawful for the Corporation to pay out of their taxed funds.* But the first question remains, did they in fact do so ? As it was lawful for them to pay out of their taxed funds, so it was lawful for them to pay out of their untaxed funds. In both cases they must deduct the income tax ; in the former case they could put it in their pocket, in the latter case they must account to the Crown. In the former case their loss caused by payment of interest would be limited to the net amount paid ; in the latter case it would extend to the full amount. But in preparing the account for the subsidy under the regulations they return the amount required for interest as the full amount without deduction ; and they give no credit for and make no reference to the deduction. The account is prepared for the purpose of ascertaining the loss on the Housing Scheme, and in these circumstances it must, I think, be taken that the Corporation are representing that they are out of pocket the full amount of the interest, or in other words, that they have no right to keep for themselves the income tax deducted. This can only be on the footing that they have in fact paid the interest out of their untaxed funds. I do not think that it is necessary to involve the principles of estoppel, even if the necessary conditions for an estoppel exist, as to which I say nothing. The effect of the form of the account, charging the gross amount of interest as an element of loss intended to result in receipt of a subsidy and followed by the actual receipt of the money based upon the representations contained in it, is to afford to my mind conclusive proof that the Corporation in fact paid the interest out of untaxed funds. If so, the assessments in question were correctly made. I think therefore that their appeal should be dismissed."

Miscellaneous Points,

The following points, though termed "miscellaneous/" are of considerable importance, and while not purporting to be comprehensive afford a wide and varied selection.

*Schedule (A) Concession on Town Hall, Etc. Lettings
(Method of Calculating).*

Where there are casual lettings for concerts, etc., the proportion to be calculated as "set-off" is that borne by the total lettings to the sum of the net Schedule (A) assessment plus running expenses (including repairs and general administration charges) of the premises :—

Example.—

Schedule A (net),	.	£500
Total expenses,	. . .	1,000
		£1,500

Lettings £300. Allowance — of £500 = £100.
1,500

Sewage Farms.—Schedule (A) assessment is not allowed as "set-off" (unless let to tenants), except to the extent of any taxed amounts received in respect of easements (but Schedule (B) assessment is allowed)..

Small Holdings and Allotments.—Under the Small Holdings and Allotments Act, 1908, surplus can only be applied in relief of rates with the sanction of the Ministry of Health, and until such is obtained no "set-off" is allowable.

Slaughter-houses.—Slaughter-houses are regarded as trading concerns, except where debarred from profit-earning by local Act (or other authority) under which they are operated.

*The Effect of Trading Departments' Contributions in Aid of
Rates in Relation to Income Tax.*

A local authority may so arrange its policy as to vary its aggregate liability for income tax. If in the aggregate there is a

margin of assessed profits over interest on loans it is legally and economically possible, by a reduction of the charges sufficient to absorb the profits, to keep down the aggregate liability to tax and so effect a net saving to the ratepayers.

In illustration of this, it may be assumed that the Gas Department has made a profit of £10,000 in excess of interest on loans, and its policy is to contribute the available surplus towards the rates. The rate fund would benefit to the extent of £10,000 less tax at the appropriate rate (as it would be assessed on this) which would reduce the transfer to say £7,750. By lowering its charges for gas by such a figure as will reduce the net profit by £10,000, there would be no liability to income tax, but there would be no contribution available in aid of the rate. In one case the rate would be relieved by £7,750 ; in the other case there would be no contribution in aid of the rate, but there would be relief on the charge for gas to the extent of £10,000, a *net gain* of £2,250.

It is contended by many that where trading departments make a profit and hand that profit (less tax at the highest rate) over to the rate fund, individuals, both as consumers and rate-payers, suffer under indirect taxation at the top rate, whereas individually many of them are either exempt from income tax liability or are chargeable only at a reduced rate.

As an alternative to the obtaining of a net saving by reducing profits it may be urged that a local authority's profits should not be taxable, and that interest upon which tax has been collected by deduction, together with interest earned (gross), should be the measure of liability to income tax. This topic is reviewed later in the present chapter.

Restrictions as to Application of Surplus,

Profits assessed to income tax which are *required by statute* to be retained by an undertaking in reduction of future charges, or for other specific purposes than the relief of rates, are not available as set-offs, though a proportion of the assessed profit is admissible in respect of the amount (if any) which *may* be applied in aid of a rating fund as distinguished from the restricted portion (if any), whether actually transferred or not.

Thus, if the surplus of an undertaking is restricted entirely it cannot come within the pooling, even though statutes may impose upon the ratepayers the liability of meeting any deficiency on the undertaking, and the available set-offs of other accounts

within the same rating fund cannot be used to support the retention of tax deducted from interest on loans of that department.

Illustrations of restricted portions of a surplus or profit arise where interest on statutorily accumulating sinking funds or redemption funds in connection with loans must be credited to such funds. Here it may be mentioned that sinking funds connected with the Public Health Acts are subject to special provisions ; the interest earned is not carried to the sinking fund but to the General Rate Fund and in turn the General Rate Fund contributes an amount equal to what the fund is assumed to have earned. Set-off is, in these circumstances, obtained. Another instance is that in respect of electricity profits, which may not be transferred in aid of rates until the reserve fund of the undertaking reaches a prescribed total.

It may be noted that the Royal Commission on Income Tax did *not* recommend that earmarked income should be available as set-off, and stated " so long as local authorities are required by statute to devote profits to purposes other than the payment of interest, we think that the income tax liability should be governed by the restrictions so imposed."

Interest Received on Private Street Works Funds.

The interest received from frontagers on amounts owing by them in respect of street works performed by the local authority is assessable, and if the assessment exceeds the amount of interest on the authority's loans raised for the purpose no further assessment is permissible, but if interest on loans is the greater, tax on the difference must be paid over by the Council. It is interesting and important to note that when this latter circumstance arises it is economical to have bank interest on the private street works fund account assessed along with interest from frontagers so as to obtain a larger set-off figure.

Interest from frontagers is receivable from them " gross," i.e. where there is no definite loan agreement tax is not deductible from the interest portion of the instalment by the payers. It was held in the case of *Gateshead Corporation v. Lumsden (1913)* that such interest was not " yearly interest." In delivering judgment Lord Sumner (1914, 2 K.B., p. 889) stated :

" There is no agreement for a short loan or a long loan. The debt is due and repayment is not enforced ; only in that sense is there a loan. Truly speaking, there is simply a for-

bearance to put in suit the remedy for a debt. It is thought, however, that where an agreement is specifically entered into making the capital sum incapable of being called in or sued for so long as the instalments are duly paid, the interest portion of the instalment is truly annual interest from which tax is deductible by the payer."

Ought Local Authorities to be Exempt from Payment of Income Tax ?

Though many suggest that exemption from liability to Imperial income tax should be extended to local authorities, probably no one would advocate that tax deducted from interest on loans paid by the authorities should be retained. Such should undoubtedly be handed over, as a local authority and any other payer similarly placed, is in this respect merely acting as an unremunerated collector for the Revenue Authorities. The effective bearers of the tax are the loan holders.

The following are the usual arguments urged for and against local authorities being immune from income tax liability.

Arguments in Favour of Exemption :—

(1) Payment of income tax by local authorities involves the transfer of money from ratepayers to taxpayers. Being practically the same persons generally, this seems to be imprudent. They are not quite the same, but the Government makes grants to local authorities in aid of national expenditure incurred locally, an adjustment with the effect of making them more nearly the same body.

(2) Local authorities do not as a general rule make profit. And where they do, as in the case of trading undertakings, the profits or portions of them are usually transferred in aid of rates, or alternatively the charges are lowered, or in other cases they are used to redeem capital expenditure. As the profits are merely transfers between the pockets of the same persons it seems unreasonable that they should be taxed.

(3) Needless expense is incurred in administration which gives value to neither taxpayer nor ratepayer. In this category come costs of valuation, appeals, Utigation, and promotion of legislation.

(4) It is doubtful whether the net gain to the Revenue is worth while.

Arguments Against Exemption :—

(1) If trading and other competitive services or works were granted immunity from tax liability they would be unduly privileged as compared with commercial undertakings. There is, however, not much competition, as the services performed by local authorities are mainly monopolies.

(2) The incidence of taxation would be altered by the shifting of burdens. But to a large extent taxpayers and ratepayers are the same body of persons.

CHAPTER X.

GOVERNMENT GRANTS TO LOCAL AUTHORITIES.

THE general principle which operates in making Government grants to local authorities is the aiding at national cost of expenditure on services which are undoubtedly more or less national in character, but which, owing to the nature and conditions of such services, can better be administered by local authorities. Such expenditure is onerous and, it is claimed, should be state-aided. Grants are not compassionate allowances but constitute a charge which should fall on the taxpayer as distinguished from the ratepayer. If such aid were not forthcoming the possibility is that expenditure on the services concerned would be kept down to a minimum at the expense of efficiency and general benefit. Thus a system of State aid acts as a stimulus and helps to secure a general uniformity of administration of certain functions. To a large extent the money is raised in the area to which it is given back, thus ensuring in a measure that local expenditure is met indirectly from local sources, but largely from a different set of people. The revenue is mainly a tax on luxuries, and is contributed to by many persons who escape payment of local rates.

From the opposite standpoint it is held that full Parliamentary control, and a guarantee of economy, are lost, and that subsidies granted to local authorities are apt to be expended lavishly.

The objects of making grants-in-aid by the State to local authorities may be summarised as follows:—

(1) To equalise, to some extent, by preventing extreme inequalities, the burden between one district and another.

(2) To secure to the Government a degree of supervision and control over the administration of the service aided, with the idea of inducing—(a) a national maximum of efficiency; (6) the dissemination of the accumulated experience of the central authority amongst local bodies administering the services, with a view to raising the general standard of efficiency; (c) economical administration of the service effected through inspection.

(3) To assist local authorities financially in their administration of services of a national or semi-national character.

The principle of making Imperial subventions has been in operation for a great many years, during which period the number and amount have constantly been increasing. Since the passing of the Local Government Act, 1929, the number of distinct grants to local authorities has been reduced considerably but the amount involved is greater than hitherto.

For many years there has been much controversy both on the advisability of making Imperial grants and the basis on which subventions should be computed. The most common basis prior to the coming into force of the block grant under provisions of the Local Government Act, 1929, was that which consisted of a percentage of approved net expenditure either with or without maximum and minimum figures. Many of the separate grants were abolished by that Act and one need not discuss the relative merits and de-merits of those no longer in existence. An outline of the bases on which grants can be and are made will, however, be given.

It is suggested that the following are desirable attributes of a good basis :—

(a) It should, as nearly as possible, represent the benefit derived by the nation as a whole from the " services " in respect of which the grant is made.

(b) It should operate equitably between different authorities.

(c) Provision should be made to meet the needs of exceptional cases.

(d) It should not tend to cause local extravagance, though encouragement should be given to the wisely progressive authority.

Alternative Bases of Grants.

(1) *The Percentage Grant*.—This consists of a grant equivalent to a certain percentage of the net approved expenditure on the particular " service." In consequence of its popularity and its generally satisfactory nature this basis is reviewed in more detail later in the present chapter.

(2) *The Block Grant*.—A grant fixed at a certain annual amount for a number of years, *e.g.* the Local Taxation (Customs and Excise) Duties Grant in respect of higher education and the Exchequer grant under the Local Government Act, 1929.

(3) *The Unit Grant*.—A contribution of a uniform amount per

unit chosen as the basis, *e.g.* £9 per house for 40 years in respect of housing schemes under the Housing (Financial Provisions) Act, 1924.

(4) *A Special Formula Grant*.—In this case the grant is assessed in accordance with a special formula—it is really a more elaborate version of (1)—*e.g.*, substantive grant in respect of elementary education.

Percentage Basis.—This basis has, in the past, been found to be the most generally satisfactory in practice, being free from many of the serious disadvantages of the other bases, though it is often alleged that it acts as an incentive to extravagance. With adequate safeguards, however, this argument is probably more apparent than real. Its disadvantages (if any) are (i) the alleged encouragement of extravagance on the part of local authorities, expenditure being increased in order that more grant may be earned, (ii) that it entails detailed supervision on the part of the Government with its attendant cost and much-objected-to interference.

The Geddes committee recently described the grant-in-aid system where paid on a basis of percentage of actual expenditure as a " money-spending device " on the ground that it destroyed the incentive for local authorities to economise and that it weakened the control of Government departments over authorities' commitments on grant-aided services. There is, perhaps, little doubt that the system has been a contributory cause of the willingness of local authorities to embark on expensive projects.

But the grant-in-aid can be used to retard expenditure as well as to encourage it, particularly when the unit-of-cost basis suggested by the Geddes committee is adopted.

Block Grants.—As this type of grant does not vary according to expenditure, there is less encouragement of local extravagance. And as less detailed supervision is required by the Government than with percentage grants, there is a saving in cost to the National Exchequer and perhaps less annoyance to the local authority. There is also no difficulty in estimating the revenue from this source to a local authority when making up its estimates.

The disadvantages comprise the difficulty in determining, a really equitable basis and the inconvenience of having to make adjustments when time comes for revision.

Unit Basis.—There can be little or no doubt that the unit basis acts as an incentive to local economy, and if costs were uniform through the country it would probably be an ideal basis.

Less Government supervision is needed than with percentage grants.

Allowance of Expenditure for Purposes of State-Aided Services.

—Though the three services named in the following extract from a letter of the Ministry of Health have ceased to be the object of separate grants, the principle apparently still holds good where separate grants are receivable towards specific services.

Representations were made by the Institute of Municipal Treasurers and Accountants to the Ministry of Health in 1927 regarding the practice of the latter in disallowing, when calculating grants in respect of state-aided services, the cost of work carried out by the staff of other departments of the local authority. The letter continued :—

" Thus, for example, the cost of installing gas appliances or electrical apparatus in a maternity hospital has been disallowed as expenditure on which the grant is based when the cost in question represents payments to the gas department or the electricity department of the local authority concerned. Where similar work is carried out by a private contractor or statutory company, or even by another local authority, the expenditure is allowed to rank in calculating the grant, and the Council feel that this differentiation acts unfairly as between different authorities."

It was pointed out that in the Institute's opinion the nature of the expenditure should be the test as to whether or not it should be allowed to rank for grant, and it requested the Minister to consider a revision of the existing practice in the light of the representations.

In reply it was stated :—

" The Minister assumes that the Council (*i.e.* of the Institute of Municipal Treasurers and Accountants) have in mind the practice hitherto adopted by him in assessing grants as indicated, *e.g.*, in Memorandum 126 M.C.W. relating to the payment of grants for maternity and child welfare, tuberculosis, venereal diseases, etc. for the year ending March, 1927, namely, that grants will not be available in aid of the salaries or wages of those regular employees of the authority who will be paid whether or not they are engaged **on** the grant-aided services. In this matter he has acted on the view that the authority is only entitled to receive Exchequer grant in respect of expenditure in excess of **that**

which would have been incurred if the grant-aided **service** had not been undertaken. Further consideration has **now** been given in the matter. The Minister has decided that, while a good case could be made out for maintenance of **the** practice hitherto adopted, he will in all the circumstances be prepared to admit for grant, wages of permanent workmen of the authority for the period during which they are engaged on the grant-aided works. He will not be prepared, however, to admit for grant, any charge in respect of the salaries of officers of departments, such as the surveyor's department, which are in any case required for the normal functions of local administration. This arrangement will operate **in** respect of grants payable for the year ending 31st March last and for subsequent years."

It will be understood that the foregoing modification is applicable only to expenditure chargeable against revenue account.

The change in the grant system in consequence of the Local Government Act, 1929, took place as from 1st April, **1930**. The principal objects of the new system of grants were stated by the Government to be :—

(i) To provide a contribution from the State towards local Government expenses, and

(ii) To secure that the amount of this contribution **shall** ultimately be distributed among the several Counties and County Boroughs in proportion to their respective needs as measured **in** the manner laid down in the Act.

Discontinued Grants.—It seems appropriate first to review briefly the grants that were discontinued and to name and explain their substitutes. Following this, an alphabetical list of grants **will** be given accompanied by a brief description of each.

The Second Schedule to the Local Government Act, **1929**, sets out the Exchequer grants which were discontinued as from the 31st March, 1930. These are :—

(1) All grants hitherto paid out of the local taxation account, viz.:—

(a) The estate duty grant.

(b) The equivalent of the proceeds of such of the local taxation licence duties as are not levied by the Councils of Counties and County Boroughs (including **the** fixed sums payable in respect of the duties **on** carriage licences and liquor licences).

- (c) The annual grant of £60,000 towards the cost of the collection of licence duties.
- (d) The fixed grant payable in respect of the proceeds of the local taxation (Customs and Excise) duties.
- (e) The fixed grant payable under the Agricultural Rates Act, 1896.
- (f) The variable grant payable under the Agricultural Rates Act, 1923.

(2) The undermentioned grants hitherto made in respect of certain health services, viz. :—

- (a) Grants for maternity and child welfare, other than the training of midwives and health visitors.
- (b) Grants for the treatment of tuberculosis.
- (c) Grants for the treatment of venereal diseases.
- (d) Grants for the welfare of the blind.
- (e) Grants in respect of mental defectives.

(3) The undermentioned road grants hitherto made out of the Road Fund, viz. :—

- (a) Classification grants in respect of Class I or Class II roads and bridges in London and County Boroughs.
- (b) Grants for the maintenance of unclassified roads in areas comprised in administrative Counties.

The grants specified above were paid (for the last time) in respect of the year ended 31st March, 1930.

Local taxation licence duties continue to be leviable by the Councils of Counties and County Boroughs, the proceeds being credited to the general county fund or the general rate fund as the case may be.

Payments from Exchequer Contribution Accounts.—The following payments which County and County Borough Councils were hitherto liable to make out of their Exchequer Contribution Accounts are now payable by these Councils out of their general funds ; these include :—

- (a) Payments towards salaries of medical officers of health, sanitary inspectors, etc.
- (6) Payments to public vaccinators.

Sums hitherto paid out of the local taxation account by the Government and which were applicable specifically towards costs of the pay and clothing of the police, police superannuation

and higher education are now merged in the grants payable in respect of police and higher education by the Home Office and the Board of Education respectively.

Substituted Grants.—In place of the discontinued grants there have been substituted :—

- (1) A General Exchequer Grant; and in certain circumstances
- (2) An Additional Exchequer Grant; and in certain circumstances
- (3) A Special Exchequer Grant.

These grants are paid out of a national pool of money provided by Parliament for the purpose of distribution to local authorities. The money is called the General Exchequer Contribution.

The General Exchequer Contribution Pool comprises :—

- (1) An amount approximately equal to the "*total losses on account of rates*" of all Counties and County Boroughs (estimated at £24,000,000).
- (2) An amount equal to the approximate "*total losses on account of grants*" of all Counties and County Boroughs (estimated at £16,500,000).
- (3) An additional sum, which for the first fixed grant period is fixed at £5,000,000 per year, and for subsequent fixed grant periods an amount to be determined by Parliament. (The revision of this additional sum is subject to the condition contained in Section 86 (3) (c), which provides for the maintenance of a certain minimum ratio between the General Exchequer Contribution and the total rate- and grant-borne expenditure of the country.)

The terms "*total losses on account of rates*" and "*total losses on account of grants*" are interpreted by Parts I and II of the Fourth Schedule to the Local Government Act, 1929, in accordance with which the calculations are made by the Ministry of Health. Briefly stated, the meanings are as follows :—

"*Total losses on account of rates*" signifies the aggregate losses of local authorities on account of the de-rating provisions of the Act, calculated with reference to the adjusted rate-borne expenditure of the "*standard year*" (1928-29), expenditure on the "*transferred services*" being regarded for this purpose as expenditure of County or County Borough Councils. The loss on account of rates of a County is the aggregate of the losses of all the separate rating areas in the County.

" *Total losses on account of grants* " indicates the total amount of the grants discontinued which was payable in respect of the standard year, excluding sums applicable to higher education and police services. Loss on classified road grants is calculated as if those grants had been made at the 1929-30 rates, viz. 60 per cent, **for** Class I roads, 50 per cent, for Class II roads. The loss on account of grants of a County is the aggregate of those losses for the County Council and for every Borough Council, District Council and other spending authority within the County.

The annual amount of the General Exchequer Grant to local authorities will not vary during a " fixed grant period." In accordance with the provisions of Subsection 2 of Section 86 of the Local Government Act, 1929, the annual amount of the General Exchequer Grant for the first fixed grant period will be revised for the second fixed grant period as from the beginning of that period ; the annual amount for the second fixed grant period will, for the third fixed grant period, be revised as from the beginning of the third grant period ; and so on for each subsequent fixed grant period. The first fixed grant period was the period of three years from the 1st April, 1930, to the 31st March, 1933 ; the second fixed grant period is the period of four years from the 1st April, 1933, to the 31st March, 1937 ; and each subsequent fixed grant period is the period of five years from the expiration of the previous period. At each revision the amount of the General Exchequer Grant is to be determined by Parliament, subject, however, to the condition contained in Subsection 3 (c) of Section 86, which provides for the maintenance of a certain minimum ratio between the General Exchequer Grant and the total rate- and grant-borne expenditure of the country.

Apportionment of General Exchequer Contribution.

The General Exchequer Contribution is first apportioned, on the basis specified in the Act, among all the administrative Counties and County Boroughs. The amount so apportioned to any County is called the County Apportionment and the amount so apportioned to any County Borough is termed the County Borough Apportionment. In the case of a County Borough, the County Borough Apportionment is payable to the Council of that County Borough as its General Exchequer Grant. In the case of a County, the County Apportionment is divided between the Councils of the County Districts on the one hand and the

County Council on the other hand ; and the balance of the County Apportionment, which remains after the amount payable to the Councils of the County Districts has been set aside **for that** purpose, is payable to the County Council' as its General Exchequer Grant. The total grant payable to the Council of a County District is the General Exchequer Grant of that Council.

During the first and second fixed grant periods (1930-33 and 1933-37) the General Exchequer Contribution is apportionable among County and County Borough Councils as follows :—

- (1) Firstly to each County or County Borough, 75 per cent, of its " losses on account of rates and grants " on the basis of the standard year.
- (2) Then the balance of the General Exchequer Contribution will be apportioned among the Counties and County Boroughs in proportion to their weighted populations, as ascertained in accordance with Part III, Fourth Schedule of the Act.

For the third and fourth fixed grant periods (1937-42 and 1942-47) the corresponding percentages are 50 and 25 respectively. After 17 years the whole of the General Exchequer Contribution will be apportioned on " weighted population."

The " formula " for ascertaining the " weighted population " of each County or County Borough is as follows :—

(1) The Registrar-General's estimate of the population for the calendar year 1928 is increased by the following percentages :—

- (a) Where the number of children under 5 years of age per 1,000 of estimated population is more than 50, by the percentage which the excess over 50 bears to 50.
- (6) Where the rateable value per head of estimated population is less than £10, by the percentage which the amount of the difference between £10 and the rateable value per head bears to £10.

(2) The population, as increased under (1) above, is further added to :—

- (i) Where the average number of unemployed insured men (plus 10 per cent, of unemployed insured women) for the calendar years 1927, 1928 and 1929 exceeded $1\frac{1}{2}$ per cent, of the average estimated population for those three years, by a percentage equal to 10 times the excess.

- (ii) In the case of Counties only (other than London), by a percentage in respect of sparsity of population, ascertained as follows :—

- (a) Where the population per mile of public road is less than 100 the percentage addition will be the percentage represented by the proportion which the difference between 200 and the population per mile of road bears to 200.
- (b) Where the population per mile of public road is 100 or more the percentage addition will be the percentage represented by the proportion which 50 bears to the population per mile of road.

Illustration as to Method of Calculation.—The following example shows the method of applying the factors in a hypothetical county :—

(1) The population	400,000
(i) Number of children under 5 years of age per 1,000 of the estimated population 90 Excess of 90 over 50 is 40, which is 80 per cent, of 50. Therefore add 80 per cent. of 400,000.	320,000
(ii) Rateable value per head £4 £4 is less than £10 by £6, which is 60 per cent. of £10. Therefore add 60 per cent. of 400,000.	240,000
Total of foregoing numbers,	960,000
(2) (iii) Percentage of unemployment as certified by Minister of Labour 2½ Excess of 2½ per cent. over 1½ per cent, is 1 per cent. ; 10 times this excess is 10 per cent. Therefore add 10 per cent. of 960,000.	96,000
(iv) Population per mile of road 250 Proportion which 50 bears to 250 = 1/5 = 20 per cent.	192,000
	1,248,000

Distribution of General Exchequer Contribution.

General Exchequer Grant.—The amount of the General Exchequer Contribution so apportioned to a County Borough will be the "County Borough Apportionment," and this will be paid to the County Borough as its "General Exchequer Grant."

The amount of the General Exchequer Contribution so apportioned to a County will be the "County Apportionment," and from this sum certain amounts are first set aside for each District Council within the County, viz. :—

- (1) A capitation grant, calculated in Non-county Boroughs and Urban Districts at a flat rate per head of (unweighted) population, and in Rural Districts at one-fifth of that flat rate.
- (2) A sum allocated to each Rural Council which suffers loss of special or parish rates equal to 75 per cent. of that loss.
- (3) A sum allocated to each County District Council which administers maternity and child welfare services—such sum to be determined by a scheme made by the Minister of Health.

In a simple case the amount so determined is the General Exchequer Grant of the District Council, and the balance of the County Apportionment remaining after these sums are set aside is the General Exchequer Grant of the County Council.

Where the County Apportionment is less than the amounts to be so set aside, the deficiency is made good by Parliamentary moneys, which are treated as part of the County Apportionment.

In all cases the General Exchequer Grant is paid direct to the County, County Borough, Borough, Urban and Rural District Councils.

Additional Exchequer Grant.—If a County Apportionment or County Borough Apportionment does not exceed the "standard sum" by an amount equal to Is. per head of the estimated population for the standard year, an Additional Exchequer Grant will be paid to the County or County Borough in each year to make the net gain Is. per head of the estimated population.

("Standard sum" in relation to a County means "aggregate losses on account of rates and grants." It bears this same meaning in relation to a County Borough which is co-terminous with a poor-law union, but in the case of a County Borough which is not co-terminous with a poor-law union "standard sum" means the corresponding aggregate for that Borough, plus or minus the

" loss " or " gain " due to any alteration of area of charge consequent upon the transfer of poor-law functions).

Supplementary Exchequer Grant.—There is a further type of grant, called the Supplementary Exchequer Grant, which is not part of the main scheme, but is a temporary and diminishing grant intended to ease the transition from the system of local government grants prior to the change to the new system. The object of making these grants is to ensure that no separately rated area shall, owing to the operation of the scheme, suffer any increase of rate poundage for the first five years of the scheme. After the first five years each Supplementary Exchequer Grant will be reduced annually by one-fifteenth of its initial amount, so that after 19 years no Supplementary Exchequer Grant will be payable. These Supplementary Exchequer Grants, like the Additional Exchequer Grants, are not payable out of the General Exchequer Contribution, but out of additional sums provided by Parliament. Supplementary Exchequer Grants are payable (*a*) to the Councils of County Boroughs which contain two or more separately rated areas, and (*b*) to the Councils of County Districts. The Supplementary Exchequer Grant is, of course, only payable in cases where it is estimated that an increase of rates would otherwise result from the operation of the Act. Supplementary Exchequer Grants are not payable to County Councils, except in the case of the London County Council, where gains and losses under the Act are effected by means of a differential County rate. The gain or loss of each separately rated area is ascertained, and any loss {i.e. increase of rate poundage) so shown is made good by increasing the General Exchequer Grant by the amount of the loss. One-half of the amount so required is contributed by the separately rated areas which gain, and the other half by the Exchequer. The Supplementary Exchequer Grant is not paid as such to District Councils, but it operates to increase or decrease the General Exchequer Grant in appropriate cases.

A County Borough does not receive a Supplementary Exchequer Grant unless it contains two or more separately rated areas, one or more of which would otherwise suffer a loss (i.e. an increase of rate poundage). If the calculations show that in any such area a loss would result, a Supplementary Exchequer Grant is payable to make good one-half of that loss. But if the County Borough is already entitled to receive an Additional Exchequer Grant, the amount of the Supplementary Grant is limited to the sum necessary to make up the amount of the Additional Grant to one-half of the aggregate losses. Any

amount so payable is the Supplementary Exchequer Grant of the County Borough.

Grants to County Districts.—As previously stated, a part of the County Apportionment is earmarked for the Councils of County Districts, *i.e.* to Non-county Borough Councils, Urban District Councils and Rural District Councils, the remainder being the County Council's own share of the grant. The portions allotted to County Districts are paid direct to the Councils concerned.

Grants to Non-county Borough and Urban District Councils.—The grant payable to the Council of Non-county Boroughs or other Urban Districts is called the General Exchequer Grant of that Council, and in accordance with the provisions contained in Sections 91, 93 and 94 of the Local Government Act, 1929, is arrived at as follows :—

(a) Sums set aside from the County Apportionment :—

- (i) A capitation grant, calculated at a flat rate per head of (unweighted) population, for every Urban District in England and Wales.

(The flat rate at which the above-mentioned capitation grant is paid is determined by dividing one-half of the aggregate of the County Apportionments of Counties (other than London) by the aggregate population (unweighted) of those Counties, the result being taken to the nearest penny. It is estimated that the flat rate would have been about 12s. 6d. per head in the year 1926-27 if the Act had been in operation in that year) ; and

- (ii) A sum allocated to any Council which administers maternity and child welfare services, determined in accordance with a scheme made by the Minister of Health.

(b) A sum added by way of Supplementary Exchequer Grant in any case where it is estimated that an increase of rates would result from the operation of the scheme.

The Act makes provision, as part of the gradual process by which the new scheme is being brought into operation, that no separately rated area shall suffer an increase of rate poundage by reason of the operation of the scheme during the first five years in which the scheme is in force, and that any necessary rate adjustments

consequent on the operation of the scheme shall be spread gradually over the following fourteen years.

The adjustments will be based on gains or losses which the Minister is to ascertain in respect of each separately rated area in accordance with the rules set out in the Fifth Schedule to the Act. If the calculations made under that Schedule show that any such area would suffer a loss (*i.e.* an increase of rate poundage) by reason of the operation of the scheme, then to the General Exchequer Grant otherwise payable by the Minister to the Borough or District Council of the area he will add for each of the first five years of the scheme a sum equal to the whole amount of the loss as ascertained in accordance with the rules. The money out of which any such additional sum will be paid by the Minister will be obtained from the undermentioned sources :—

- (a) One-half will be obtained from contributions drawn from those separately rated areas within the county which gain under the scheme. All the areas which gain will for this purpose give up, by way of deductions made from the General Exchequer Grants otherwise payable to their Councils, an equal proportion of their gains, provided that no Council will be required to give up, by way of such deduction, a sum larger than the amount of its capitation grant.
- (b) The other half, together with any deficiency in the contribution arising from the limitation mentioned in (a), will be obtained from a further Exchequer Grant called the Supplementary Exchequer Grant.

The amount of each of the sums mentioned in (a) and (b) will remain fixed for each area for the first five years of the scheme. Thereafter the amounts of any contributions so made by the areas and the Exchequer will be reduced annually by one-fifteenth of the initial amounts, and the sums received out of those contributions will likewise be reduced by one-fifteenth annually.

In any case where it is estimated that a decrease of rates would result from the operation of the scheme there will be deducted from the amount of the afore-mentioned capitation grant for the district a sum representing a contribution towards the losses in other districts in the County as already stated.

Grants to Rural District Councils.—The grant to the Council of a Rural District is called the General Exchequer Grant of that Council and is arrived at in a manner similar to that for the Councils of Urban Districts, subject to the following modifications :—

- (i) The capitation grant is calculated at a flat rate of one-fifth of that applicable in the case of Urban Districts.
- (ii) In calculating losses and gains of separately rated areas parish rates and special rates are not brought into account.
- (iii) Where a parish rate or special rate was levied within a Rural District in the "standard year," there is also set aside out of the County Apportionment a further sum to be paid by the Minister of Health to the Rural District Council in respect of losses on account of special rates and parish rates levied within the Rural District. For the first and second fixed grant periods this further sum will be equivalent to 75 per cent. of the losses on account of such rates estimated on the basis of the figures for the "standard year." During these two periods the remaining 25 per cent. of the last-mentioned losses is payable by the County Council to the Rural District Council. The manner in which the additional sums received by a Rural District Council (*a*) from the Minister and (*b*) from the County Council are to be applied in aid of special and parish rates is dealt with in regulations made by the Minister.

Application to the Metropolis.

Grants to the London County Council.—The London County Apportionment is calculated in the same manner as for other administrative Counties and the General Exchequer Grant to the London County Council is the balance of the County Apportionment after deducting the sums set aside for payment to the Common Council of the City of London and the Councils of the Metropolitan Boroughs. The provisions as to Additional Exchequer Grants also apply to the London County Council as they apply to the Councils of other administrative Counties. In the case of London, however, there are special provisions relating to the Supplementary Exchequer Grants. These grants are necessarily payable to the local authorities charged with the

duty of making such rate adjustments as will ensure that no separately rated area shall, for the first five years, lose by reason of the scheme. Except in the County of London these authorities are the rating authorities. In London, because the rate adjustments are made, not by the rating authorities, but by the County Council, and by means of a differential county rate, the Supplementary Grant in respect of areas within the County is payable to the County Council.

Grants to the Common Council of the City of London and to the Councils of Metropolitan Boroughs.—The only grant payable under the Local Government Act, 1929, to each of these Councils is the General Exchequer Grant of that Council. These grants are set aside by the Minister of Health out of the London County Apportionment and paid to each Council direct. They are not calculated in the same manner as those set aside for County Districts out of the County Apportionments of Counties other than London, but are more analogous to the General Exchequer Grants payable in the case of County Boroughs. Thus, the General Exchequer Grant payable to each of these Councils, for the first fixed grant period, is the sum of the following amounts :—

- (i) 75 per cent. of the aggregate of the losses on account of rates and the losses on account of grants of the Council.
- (ii) A grant based on population weighted by the children and rateable value factors only and calculated at one-third of the rate per head applicable in the case of County Boroughs.

An appropriate proportion of the expenditure and grants of the Receiver of the Metropolitan Police District is for this purpose regarded as rates and grants of the Council of each Metropolitan Borough.

The two modifications of the method of calculating the shares of the City of London Corporation and the Metropolitan Borough Councils as compared with that of County Borough Councils are :—

- (1) The money factor which is applied to the weighted population is to be taken at one-third only of the money factor applicable under Clause 69 (2) (b) in the case of County Boroughs.
- (2) The weighted population is not, as in the case of County Boroughs, to be increased by the unemployment factor.

The reason for this difference in treatment is that the Metropolitan Boroughs are not responsible for education and poor-law service.

The additional grants in the case of London are calculated in precisely the same way as in the case of the Counties.

Grants to Voluntary Associations.

Sections 101 and 102 of the Local Government Act, 1929, provide for the continuance of financial assistance, through the local authorities, towards the cost of the services rendered by voluntary associations for maternity and child welfare, the welfare of the blind, the care of mental defectives, and (in Wales) the treatment of tuberculosis. Direct grants are no longer payable to these associations by the Ministry of Health, but are replaced by contributions payable by County and County Borough Councils (and in certain cases—maternity and child welfare only—by District Councils).

The amounts of these contributions are determined by schemes approved or made by the Ministry of Health. In the case of maternity and child welfare associations, a special provision is included for contributions to be increased following an expansion of services during a fixed grant period, but in relation to the other services the amounts of contributions are stabilised for each fixed grant period.

These contributions may be charged against the Council's General Exchequer Grant. Under Section 106 the Council may arrange for its contributions to any voluntary association (for public health services) to be deducted from its General Exchequer Grant and paid to the association by the Minister direct.

Payment of Grants.

Grants are payable to local authorities' banking accounts *direct*, by instalments (not exceeding six) spread over the year, the first being paid in May.

The Minister of Health is empowered (subject to confirmation by Parliament) to reduce the grant payable to any authority by such amount as he thinks just, if he is satisfied that—

- (1) A reasonable standard of efficiency and progress has not been achieved or maintained in matters of public health ; or

- (2) The expenditure has been excessive and unreasonable, regard being had to the financial resources and other circumstances of the area ; or if
- (3) The Minister of Transport certifies that the roads or any part thereof have not been maintained in a satisfactory condition.

Grants Not Affected by the Local Government Act, 1929, and those
Provided for Other than by the New Exchequer Grant
under that Act.

The new scheme of State aid does not affect previously existing grants in aid of education, housing, police, and (classified) roads in counties other than London. With regard to education and police, the equivalent of that part of the " assigned revenues " which was applied in pursuance of statutory requirements to higher education and police services is now merged in the grants payable by the Board of Education and the Home Office respectively to higher education and police authorities.

There are, however, certain other grants which hitherto passed through the Local Taxation Account of the Government and the Exchequer Contribution Accounts of Counties and County Boroughs. These are dealt with in the Third Schedule of the Local Government Act, 1929, and consist of :—

- (i) (a) The cattle pleuo-pneumonia grant, and (b) that for rates on tithe-rent charges.

The expenditure (by the Government) under these heads which has in the past been borne by the Local Taxation Account is now payable out of Parliamentary moneys and the Consolidated Fund respectively,

- (ii) Salaries of medical officers of health and of sanitary inspectors, and the remuneration of public vaccinators.

Payments corresponding to those previously made out of the Exchequer Contribution Accounts of County and County Borough Councils are payable by the Councils out of their general funds.

Local Taxation Licences continue to be levied by County and County Borough Councils, the proceeds being credited to general county fund and general rate fund respectively.

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GENERAL LIST OF IMPERIAL GRANTS.

The following is a list of all grants made. Being alphabetical it does not show the items in order of importance.

Name of Grant	By whom paid	Purpose for which made	Amount	Remark!
(1) Afforestation.	Forestry Commission.	In aid of expenditure on afforestation.	Up to £4 per acre according to character of the work.	
(2) Agriculture.	Ministry of Agriculture and Fisheries.	Refund of cost of administration in case of County Agricultural Committees.	Cost incurred.	
(3) Detention. (a) Places of detention for children under Children Acts.	Home Office.	Towards cost incurred in respect of children and youthful offenders (under 16) detained in Certified Schools in lieu of sending them to prison. Includes cost of removal from one school to another and of emigration where the persons are so disposed of. Expenses are payable out of the police fund.	One-half of net expenditure.	
(b) Remand Homes and approved Schools (under Children and Young Persons Act, 1933), where places of detention under 1908 Act not available.	Do.	Towards cost.	Not fixed.	
(c) Inebriates' Homes under Inebriates Act, 1898.	Do	Towards cost of maintenance, etc. of persons detained in inebriates' reformatories.	Under Section (1) 16/- per week per inmate. Under Section (2) 10/6 per week per inmate.	

Name of Grant	By whom paid	Purpose for which made	Amount	Remarks
(d) Reformatory and Industrial Schools.	Do.	Towards cost of maintaining reformatory and industrial schools for youthful offenders committed by the Courts.	A figure which may be varied year by year. For 1930-31, 15/- per head.	
(e) Probation of Offenders.	Do.	Towards expenditure under Probation of Offenders Act, 1907.	One-half of net expenditure.	
<4) Diseases of Animals.	Ministry of Agriculture and Fisheries (under directions of the Treasury).	In recoupment of compensation paid for animals slaughtered in pursuance of Orders relating to tuberculosis in cattle (Diseases of Animals Act, 1925).	75 per cent. of gross compensation paid, i.e. no deduction is to be made for sale of carcase, etc.	Claims made by local authorities quarterly. as on 1st. January, April, July and October, in respect of compensation paid during three previous months.
<5) Education.				
(a) Elementary Education.	Board of Education.	Towards cost of expenditure on elementary education.	Based on net approved expenditure, with minimum of 50 per cent.	Reviewed in detail in Chapter VI.
(b) Higher Education.	Do. and Minister of Health.	Towards cost of expenditure on higher education.	50 per cent. of net approved expenditure. Also grants to bodies other than local education authorities.	Do.
	Treasury.	Do.	Special grant to College of Technology, Manchester.	
(c) Agricultural Education.	Ministry of Agriculture and Fisheries.	Towards expenditure thereon.	75 per cent. on capital account, 66 $\frac{2}{3}$ per cent. of annual expenditure.	Reviewed in detail in Chapter VI.
(d) Intermediate Education (Wales).	Treasury.	Do.	Equivalent to produce of $\frac{1}{2}$ d. rate.	
(6) Exchequer Grant				
(a) General Exchequer Grant.	Ministry of Health.	In aid of rates generally.	Varying sums.	Reviewed in detail earlier in present chapter.

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Name of Grant	By whom paid	Purpose for which made	Amount	Remarks
(b) Additional Ex-chequer Grant.	Ministry of Health.	In aid of rates generally.	Varying sums.	Reviewed in detail earlier in present chapter.
(f) Special Ex-chequer Grant.	Do.	Do.	Do.	Do.
(7) Fire Brigade (London County Council).	Treasury.	In aid of expenditure on services of London fire brigade.	£10,000 per annum.	
(8) Highways (County Councils only)	Ministry of Transport.	Towards expenditure on classified roads.	Class (1) Roads — 50 per cent, of expenditure. Class (2) Roads — $33\frac{1}{3}$ per cent, of expenditure Salary of engineer and surveyor 50 per cent. of proportion.	Also special grants made towards cost of road construction.
(9) Housing. (a) 1919 Act Grant (Assisted Schemes).	Ministry of Health.	Towards loss on provision of dwellings for the working classes.	Excess of net annual expenditure over 1d. rate.	See. notes later in present chapter.
(b) 1923 Act Grant.	Do.	Do.	Varying figures (see notes).	Do.
(c) 1924 Act Grant.	Do.	Do.	Do.	Do.
(d) 1926 (Rural Workers) Act Grant.	Do.	Do.	Do.	Do.
(e) 1930 Act Grant.	Do.	Do.	Do.	Do.
(10) Investigations of Scientific and Industrial Research.	Do.	Towards expenditure on investigations carried out on behalf of the ¹ Department of Scientific and Industrial Research.	One-half of approved expenditure.	

Kame of Grant	By whom paid	Purpose for which made	Amount	Remarks
(11) Land Drainage.	Ministry of Agriculture and Fisheries.	Towards expenditure of County Drainage Committees in exercise of drainage powers; inquiries regarding schemes for drainage of small areas, and carrying out such schemes.	Special grants.	
(12) Local Museums.	Board of Education.	Towards cost of 6 provincial museums in purchase of objects, principally casts and reproductions.	Not exceeding 50 per cent. of expenditure.	
(13) Midwives' Training.	Ministry of Health.	In respect of each student who completes a course of training (Midwives Training Regulations, 1919).	£20 per student.	
(14) Police. (a) General expenditure, including pensions.	Home Office and Ministry of Health.	Towards expenditure on police, including pensions.	To make income from licences up to 50 per cent. of approved expenditure, plus one-half of the amount of income tax deducted from dividend on investment of old pension funds.	
(b) Conveyance of prisoners.	Home Office.	Refund of expenditure on removal of remanded prisoners in cases where Prison Commissioners are responsible.	Cost incurred.	
(15) Port Sanitary Administration.	Ministry of Health.	Towards expenditure by Port Sanitary Authorities.	Mainly 50 per cent. of approved net expenditure, but whole cost of medical inspection of aliens at certain ports.	
(16) Rates. (a) Exchequer Grants.	Do.	In aid of rates generally.	Varying.	Reviewed in detail earlier in present chapter.
(6) Rates on Crown Properties.	Treasury.	A voluntary contribution of an amount equivalent to rates on Crown properties in consequence of such being non-rateable.	Sums equal to rates.	

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Name of Grant	By whom paid	Purpose for which made	Amount	Remarks
(c) Tithe Rent Charge Contribution.	Commissioners of Inland Revenue.	Towards loss in consequence of concession granted to owners of tithe rent charges attached to benefices.	One-half of the rate for the current year.	
(17) Registration of Electors.	Treasury.	Contribution towards cost of compilation and printing of registers of electors.	50 per cent. of expenditure.	The expenditure approved for grant purposes is limited by a scale framed by the Treasury, and which may be altered from time to time, but any excess properly incurred may, with the sanction of the Treasury, be included.
(18) Registration and Licensing of Motor Vehicles.	Ministry of Transport.	Towards expenditure involved.	100 per cent. of expenditure.	
(19) Roads.	Ministry of Transport.	Towards cost of maintaining Class (1) Roads.	60 per cent. of expenditure.	County Councils only (outside London). J Prior approval of Ministry necessary.
	Do.	Towards cost of maintaining Class (2) Roads.	50 per cent. of expenditure.	
	Do.	Towards salary of Surveyor.	50 per cent. of expenditure.	
	Do.	Towards cost of provision and erection of automatic traffic signals.	60 per cent. of expenditure.	
	Do.	Towards maintenance of automatic traffic signals.	60 per cent. of expenditure.	
(20) Small Holdings and Allotments.	Ministry of Agriculture and Fisheries.	Recoupment of losses incurred by small holdings authorities under Small Holdings and Allotments Acts, 1908-1925.	100 per cent. of losses.	
	Do.	Do. Small Holdings, Etc. Act, 1926.	Up to 75 per cent. of losses.	
	Do.	Recoupment of losses on allotments where such are controlled for the Ministry, who have provided the allotments for unemployed persons (Agricultural Land (Utility) Act, 1931).	100 per cent. of losses (also a grant towards cost of seeds, bulbs, implements, etc.).	

Name of Grant	By whom paid	Purpose for which made	Amount	Remarks
(21) Unemployment Relief Schemes.				
(a) Non-revenue producing schemes.	Ministry of Health.	Towards interest and sinking fund charges.	65 or 75 per cent. (according to circumstances) of interest and sinking fund charges.	Reviewed later in present chapter.
(b) Revenue producing schemes.	Do.	Do.	50 per cent, of interest for 15 years.	Do.
(c) Wages grant.	Unemployment Grants Committee.	Towards expenditure involved.	75 per cent. of wages bill.	Do.
(d) Juvenile unemployment centres.	Ministry of Labour.	Do.	Varying according to local circumstances, but normally 75 per cent, of expenditure.	
(e) Administration of choice of employment schemes.	Board of Education.	Do.	50 per cent. of cost.	

Some of the grants included in the foregoing list merit more detailed consideration than was possible in the limited space available in the summary, and so further comments will now be given.

Housing Grants.

(a) Grants in Respect of "Assisted Schemes" under the Housing and Town Planning Act, 1919.—Grants are not made towards the meeting of capital expenditure, but on revenue account the Ministry of Health must make a grant of an amount equal to the excess of approved net expenditure over income after deduction of an amount equivalent to the produce of a penny rate. The figures have to be certified by the district auditor in all cases, and are based on decennial revisions.

(b) Grants under the Housing Act, 1923.—These are as follows:—

(i) In respect of houses completed before 1st October, 1927,

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a grant of £6 per house erected (or subsidised) by the local authority, or the actual expenses incurred if such are less than £6, for 20 years. (The commuted value of £6 per annum for 20 years is officially regarded to be the equivalent of a lump sum of £75.)

(ii) In the case of houses completed between 1st October, 1927, and 30th September, 1929, the grant is only £4 per house for 20 years.

(iii) Houses completed after 30th September, 1929, are not entitled to subsidy.

(iv) A permissive supplementary grant by the London County Council to Metropolitan Borough Councils may be made of a sum not exceeding £3 per house per annum for 20 years, reducible to £2 per house for 20 years in respect of houses not completed by 30th September, 1927.

(c) **Grants under the Housing Act, 1924.**—The grants under this Act relate to houses which are subject to special conditions and are as follows :—

(i) In respect of houses completed before 1st October, 1927, a grant of £9 per house erected (or subsidised) by the local authority for 40 years (£12 10s. 0d. per house in the case of those houses situated in agricultural parishes, reducible if justified by a reduction in costs). (The commuted value of £9 per annum for 40 years is taken as £150.)

(ii) In the case of houses completed between 1st October, 1927, and 30th September, 1929, the grant is only £7 10s. 0d. (instead of £9) per house for 40 years, or £11 (instead of £12 10s. 0d.) per house for 40 years in agricultural parishes.

(iii) A permissive supplementary grant may be made by the London County Council to Metropolitan Borough Councils of a sum not exceeding £2 5s. 0d. per house per annum for 40 years, reducible to £1 17s. 6d. per house per annum for 40 years if not completed by 30th September, 1927.

(d) **Grants under the Housing (Rural Workers) Act, 1926.**—This Act, which applies to County Councils and County Borough Councils only (except where the Minister of Health determines that it should extend to other authorities), provides that local authorities may give financial assistance towards the construction and improvement of houses and other buildings by way of loan or gift. The Government's contribution to such local authorities is one-half of the estimated average annual payments falling to be made by them as loan charges on loans raised to be paid away as grants under this Act, or, where the sum is not raised by a local authority by way of loan such figure as would have

fallen to be made as debt charges if the money had been raised by loan.

(e) **Grants under the Housing Act, 1930.**—This statute provides that local authorities may make a contribution of £3 15s. 0d. per house per annum for 40 years. The contribution may in the authority's discretion be increased in any year and the authority may with the approval of the Ministry of Health reduce the figure. In the case of rural parishes the County Council must also make a contribution of £1 per house, increasable if it thinks fit.

The Government's grant to local authorities is a unit one payable for 40 years of £2 5s. 0d. per person displaced for whom re-housing, accommodation is rendered available. The grant may be increased to £2 10s. 0d. in the case of agricultural parishes and to £3 10s. 0d. per house in special cases where it is shown to be necessary to build on a cleared site in buildings more than three storeys in height or on alternative sites costing more than £3,000 per acre.

Review of Government Grants for Housing,

The Housing (Revision of Contributions) Act, 1929, provides that the Government contribution in respect of any house sold before the expiration of 20 years from the date when the contribution first became payable shall not be reduced by more than £3 10s. 0d. (instead of £3), or in an agricultural parish £7 (instead of £6 10s. 0d.), and the duration thereof is not to be curtailed by more than 20 years.

The Housing Act, 1930, enacts that housing subsidies shall be reviewed after 1st October, 1933, and thereafter in each third succeeding year. In future all housing subsidies will be reviewed together.

Small Holdings.

A grant is made by the Government towards losses on the provision of small holdings. It consists of:—

- (1) The annual deficiency calculated on the difference between the annual liabilities and the annual net income as ascertained at the 1926 valuation (this to continue until such schemes as were included in that valuation show a net income equal to the liabilities) ; plus

- (2) 75 per cent. of the estimated annual loss on subsequent schemes, *i.e.* those under the Small Holdings and Allotments Act, 1926.

Unemployment Relief.

Grants are made in respect of expenditure on schemes approved by the Unemployment Grants Committee as being works of public utility put in hand by local authorities out of the ordinary course and expressly for the purpose of relieving unemployment. It has to be shown that the works are such as would not otherwise have been undertaken for a considerable period (ordinarily five years or more) and that the unemployment sought to be relieved is exceptional.

Contracts must be placed in this country, unless the Committee agrees to the contrary.

The actual working of the scheme and the accounts relating thereto must be open at any time to any inspection required by the Committee and the Government Departments concerned. The accounts of each work are examined by district auditors (in Scotland by the auditors appointed to audit the accounts of the local authorities).

Labour conditions are imposed as follows :—

(a) All labour required must be obtained from the Unemployment Exchange, other than controlling or supervisory labour which must be limited to 10 per cent. of the whole.

(b) At least 75 per cent. of the unemployed men taken on for the work must be ex-Service men.

(c) In certain cases it will be within the discretion of the local authorities to apply to the Public Assistance Committee for labour for their schemes. *

(d) The unemployed men engaged must remain on the registers of the Unemployment Exchange, and they are required to undertake other work at any time if the Exchanges are in a position to offer them such work.

Where the local authority executes the work by direct labour the rate of wages paid must not exceed the local authority's rate of pay to its own workmen on similar classes of work, or alternatively the recognised district rate if that is lower.

Grants are not payable in respect of housing schemes or of other works already eligible for assistance from public funds, but grants may be paid by the Government in respect of the

development of sites outside the State housing schemes. Road schemes which are being assisted by the Ministry of Transport are not eligible for inclusion in schemes ranking for unemployment grant, but road works on non-classified roads towards which financial aid is not being given by the Ministry of Transport come within the range of operations recognised by the Unemployment Grants Committee.

Neither wages of permanent workmen nor remuneration of officials may be included as expenditure ranking for grant, except so far as the Government Department concerned permits such payments to be made out of loan moneys.

The grants are as follows :—

(1) *Schemes Financed by Way of Loan.*

Non-revenue Producing Schemes (financed by way of loan). The rate of grant for non-revenue producing schemes carried out by way of loan is (where transferred labour under a migration scheme is employed) 75 per cent. of the interest and sinking fund charges on any loan raised to meet expenditure for the first half (up to 15 years) of the loan period, and 37½ per cent. of the interest and sinking fund charges for the remainder (up to 15 years) of the loan period.

Where transferred labour is not employed the rate of grant is 75 per cent. of the interest and sinking fund charges on any loan raised to meet the expenditure for the first half (up to 15 years) of the loan period.

Revenue Producing Schemes (financed by way of loan). In respect of revenue-producing schemes the rates of grant are the same for all approved schemes (whether or not transferred labour is employed), i.e. 50 per cent. of the interest on any loan for 15 years or for the period of the loan, whichever is the shorter.

Special grants may be made in respect of works of magnitude.

In respect of a scheme of a substantial character and high economic value, where the period of construction is likely to be long owing to the magnitude of the work, and the date of revenue-earning deferred, the rate for grant may be 100 per cent. of the interest up to a stated date on any loans raised as required to meet approved expenditure, and 50 per cent. of the interest after that date for the remainder of the period, not exceeding 15 years in all; in respect of each loan. In order to qualify for a grant on this basis the capital cost of the proposed work must be not less than £100,000, and the anticipated period of construction must not be less than 18 months.

(2) *Schemes Not Financed by Loans (Revenue Producing and Non-revenue Producing),*

In respect of schemes of work financed otherwise than by loans the rate of grant is the same for all schemes, whether or not transferred labour is employed, and is 75 per cent. of the wages of unemployed men taken on for the work. The work proposed must be approved as a work of public utility, and not less than 65 per cent. of the men taken on must be ex-Service men.

Migration Schemes.—A migration scheme is one which effects transfers of men from areas where distress is extraordinarily acute to other areas where grant-aided work is proceeding. In all areas except those in which unemployment is regarded as having been severe and prolonged, there must be employed on an approved scheme a proportion of men drawn from areas selected by the Ministry of Labour other than the local area. This proportion will vary according to the percentage of adult males unemployed in the local area as determined by the Ministry of Labour. Where the average monthly percentage of local men unemployed during a period of a year is less than 6 per cent. the proportion of transferred men must be substantial—40 to 50 per cent. In areas where the average monthly percentage of local men unemployed during a period of twelve months is between 6 and 10 per cent. the proportion of transferred men may vary between 25 and 50 per cent. as approved by the Committee in the light of the circumstances of the particular area and the character and magnitude of the work.

In such schemes the condition as to " five years acceleration " is not insisted upon.

Calculation of Grant.

All grants are calculated on the assumption that the loan is repayable by equal instalments of principal and interest combined over the whole period of the sanction. The interest rates employed in calculation are as follows :—

(a) When specific loans are raised for the period of the loan sanction carrying a fixed rate of interest, the rate actually payable is used.

(6) Where specific loans are not raised at a fixed rate and the work is financed by short-term or temporary borrowings, the rate of interest is fixed year by year by the Unemployment

Grants Committee according to the current rate for mortgage loans. The actual rates fixed have generally been the subject of discussion between the Council of the Institute of Municipal Treasurers and Accountants and the Unemployment Grants Committee. The date on which the loan charges are deemed to commence is an equated one based on the period in each financial year during which expenditure takes place, and equal instalments of grant will be payable at yearly intervals from that date.

CHAPTER XI.

PUBLIC ASSISTANCE.

THE term " public assistance " is a new one in the history of the finance and accounts of local governing bodies, dating back to 1st April, 1930, only. The Local Government Act, 1929, which amongst other important changes abolished boards of guardians and " workhouses," did not diminish the duties and services which those bodies performed up to 31st March, 1930 ; it merely transferred them to existing local authorities—County Councils, and County Borough Councils—and in order that duplication of services might be eliminated, or considerably reduced, it enables the authorities to grant such assistance (as can be given other than by way of poor relief under poor law powers) through their existing services.

County Councils and County Borough Councils were empowered to make a declaration in their administrative schemes that certain forms of assistance could be granted other than as poor law relief, the remainder to be dealt with under the poor law by a new committee (or department) called the Public Assistance Committee (or Department).

At this juncture it may be interesting to note that the accounts of the Public Assistance Committee in all cases fall to be audited by the district auditor of the Ministry of Health ; transactions relating to relief administered other than as poor law relief (*i.e.* through other services) are subject to the audit that applies to the accounts of those services (*i.e.* borough audit, or district audit).

As stated above, the statutory change neither abolished nor reduced the number of services hitherto performed by the guardians but merely transferred the administration of them. It is consequently desirable in a work of this description to set out a list of the duties concerned. But as there is not uniformity in the items covered by each separate authority's declaration, each having power to exercise considerable discretion, it is

impossible to note against each the method by which such item is now treated. A general idea only is given.

The functions of the late boards of guardians were mainly as follows :—

- (1) The relief of destitute poor (including lame, impotent, old, blind, insane and others).
- (2) The certification of lunatics (a statutory duty of relieving officers).
- (3) The carrying-out of the provisions of the Vaccination Acts.
- (4) The registration of births, deaths and marriages to the extent of the appointment of superintendent registrars, which appointments were (and still are) subject to the sanction of the Registrar General. After appointment these officers are under the direct control of the Registrar General.
- (5) To receive grants from the Government in aid of the expenditure.
- (6) To recover expenditure where possible and authorised by law.
- (7) To exercise borrowing powers duly sanctioned by the Ministry of Health.
- (8) To bury poor persons.
- (9) To educate poor children.
- 10) To precept for rates to meet deficiencies.

The methods by which the duties were accomplished were :—

- 1) The giving of outdoor relief in money and/or in kind.
- 2) The granting of relief by way of loans (repayable to the guardians).
- 3) By affording relief to casuals and vagrants.
- 4) By apprenticing children of persons unable to maintain them.
- 5) The setting to work of such persons able to work.
- 6) Adopting children having undesirable parents.
- 7) By erecting and maintaining workhouses **and** infirmaries (indoor relief).
- 8) By erecting and maintaining schools for the reception and education of poor children.
- 9) By providing allotments.
- (0) By subscribing to any public hospital or institution for the sick, diseased, disabled, wounded or poor, **and** to any asylum or institution for the deaf, dumb or naturally infirm.

It is obvious from a perusal of the foregoing that some of the obligations which fell on the late boards of guardians were such as were also being provided by local authorities, notably, hospital and other medical treatment and free education.

The clear separation of expenditure on services declared to be those which would in future be provided otherwise than as poor law relief from the remainder has been the cause of difficulty in and abstention from making declarations so far at least as certain services are concerned. The difficulties arise mainly owing to the situation and structure of institutions.

The extent to which declarations and delegations are made has an important bearing on financial arrangements. By the term "delegation" is meant the transference of certain of the functions of Public Assistance Committees to other committees. It is provided by the Local Government Act, 1929 (Section 17), that separate accounts shall be kept by Councils of their receipts and expenditure in respect of functions (other than those relating to infant life protection and vaccination) transferred to and discharged by the Council as such, and that these accounts shall be subject to district audit.

The Public Assistance Committee is ordinarily subject to the same financial regulations as other spending committees of Councils, including the preparation of annual estimates and internal audit.

Recovery of Relief Granted.—Any relief which may lawfully be granted to any person over 21, to his wife, or to any child under 16, may be granted by way of loan and if so granted is thus recoverable from the person relieved in the event of his being able subsequently to repay. In accordance with the decision in *Pontypridd Guardians v. Drew* (1927), it must be made clear to the recipients that the relief is granted by way of loan. Although the Council may agree to release the debt in any individual case, on a consideration of the particular circumstances, it is *ultra vires* for them to release all loans owed to them without such consideration (*Attorney-General v. Tynemouth Guardians*, 1930).

Recovery of the value of relief granted by way of loan may be sought either through the County Court, or by recovery out of wages from the person's employer by action taken in a Court of Summary Jurisdiction. If an employer refuses to comply with the Court order and pay the amount ordered to the Council, the money is recoverable from him as a civil debt.

Provision is made by the Local Government Act, 1929, for the recovery of relief granted by way of loan from any trustee

or society paying an annuity or benefit to the recipient of relief, subject however to certain savings in favour of dependents, etc. of a member of a friendly society.

The cost of burial is recoverable in the same manner as the cost of other relief.

In County areas the **authorisation of relief** is generally in the hands of Guardians Committees appointed under the Poor Law Act, 1930, whose decisions are recorded in the Relief Order Book. In County Boroughs the Public Assistance Committee is responsible for this work.

The outdoor relief list kept by the relieving officer contains details of every case for a half-yearly period and provides for the separation of relief in cash and in kind. The relief to non-settled poor is similarly recorded in a separate list.

Stamp Duty.—Freedom from stamp duty was enjoyed by the late poor law authorities and Section 162 of the Poor Law Act, 1930, certainly appears to continue this freedom. This section reads:—

" Exemption from Stamp Duty.

" No mortgage, bond, instrument or any assignment thereof, given by way of security in pursuance of the rules, orders or regulations under this Act by the Minister, and conformable thereto, nor any contract or agreement made or entered into in pursuance of such rules, orders or regulations, and conformable thereto, nor any other instrument made in pursuance of this Act shall be charged or chargeable with any stamp duty."

In spite of the apparent entire absence of doubt as to the meaning of this the Ministry of Health has ruled that continuance of exemption from stamp duty cannot be justified in the altered circumstances. One may ask—are not cheques and receipts instruments made in pursuance of the Act? And since when has a Government Department had power to reverse specific provisions of a Statute?

CHAPTER XII.

RATES AND RATING.

As was stated in Chapter I I , although income from the General Rate forms the largest item on the income side of the General Rate Fund Account, its logical place for consideration as a source of income is last, because a rate is made only to cover the estimated deficiency of the fund after taking into account income and expenditure from all other sources.

A moment's reflection reveals that if a local authority waited until the end of its financial year to discover the amount of deficiency to be made good by rate it would, during practically the whole of the period, be faced with a large and increasing bank overdraft, with its attendant cost and other disadvantages.

The law enables local authorities, in fact it lays a duty upon them, to raise the money, so far as possible, before spending it. Up to the date when the Rating and Valuation Act, 1925, came into force it was not legal to include in a rate expenditure that had been incurred more than six months previously. That stipulation has, however, been abolished and so, except in the case of County Councils, there is no limit to the period the expenditure of which may be included in a rate. This applies both retrospectively and prospectively. It is customary to make a rate for twelve months, though a shorter or longer period could be and in some cases is adopted. The merits and demerits of short- or long-term rates are set out later. So far as County Councils are concerned the Local Government Act, 1933, prescribes that annual estimates shall be prepared, payable in two half-yearly instalments, the second being adjusted as necessary.

The Various Rates and Their,Main Features.

Rates levied are as follows :—

The General Rate, levied throughout the provinces and in the Metropolis. It is made at a uniform amount in the pound

on rateable value on each hereditament in the rating area. It includes the requirements of all bodies drawing moneys from the rates of the area on which levied.

Special Rates.—These may be levied in certain cases in rural areas only, the object being to charge expenditure to the particular areas benefiting by the expenditure instead of uniformly over the whole Rural District Council's area of jurisdiction.

The *General Rate* in the provinces and the *Special Rates* in rural areas are authorised by the Local Government Act, 1933. The *General Rate* in London is governed by the Valuation (Metropolis) Act, 1869, the London Government Act, 1899, the Valuation (Metropolis) Amendment Act, 1925, and the Rating and Valuation Act, 1928. Later in the present chapter a tabular statement is given showing the main points of difference between the procedure, etc. applicable in London and the provinces.

A **Water Rate** may be levied (independently of other rates) by virtue of Section 56 of the Public Health Act, 1875. This is not generally done, the charge for water being made either as a rent, or on a consumption basis, or as part of the General Rate.

A **Private Improvement Rate** is really a means which may be adopted of charging the cost of street paving or other improvements of streets not already taken over by the local authority as highways repairable by the inhabitants at large, to the owners or occupiers of the properties fronting, adjoining or abutting on such private roads. It is hardly a "rate" in the strict sense of the term.

Properties and Persons Rateable and Exempt from Rates.

All real property capable of beneficial occupation is liable to be rated. There are, however, some exceptions.

As in the case of income tax, exemption from liability to local rates is granted by Statute to certain persons and in respect of certain properties.

Persons (or Bodies) Exempt.

The Crown.—But an amount purporting to be equivalent to what would be payable if liability existed is paid by the Government without admitting liability. Private estates of the Crown **are** not exempt.

Places of Worship, provided they are used exclusively **for worship**.

Caretakers of premises resident solely for the purpose of protection and of showing the properties to prospective tenants.

Lodgers in premises where the main tenant is rateable (lodgers are residents, not occupants).

Licencees to sell refreshments, or to place automatic machines, on a railway platform, etc.

The Royal College of Music.

The Linnean Society.

Indigent Persons, i.e. persons who through no fault of their own are unable to pay.

Scientific and Literary Societies.

Properties Exempt.

Personal Property.

Empty Properties, provided they are not used for storing furniture, etc., but the occupation of a caretaker solely for the purpose of protection and showing the premises to prospective tenants does not render such properties rateable.

Easements.

Grave Spaces.

Premises Occupied Solely by Societies Instituted for Purposes of Science, Literature or the Fine Arts, provided they are supported wholly or in part by annual voluntary contributions, and that the members cannot derive any pecuniary profit therefrom.

Bookstalls on Railway Stations, but the value is included in that of the station.

Moveable Properties, e.g. caravans, wooden or other structures on wheels, provided they are moved (even if only a little way) at least once a year.

Properties in course of Construction and Properties Entirely in course of Alteration or Reconstruction.

Schools.—Land and buildings used exclusively or mainly for purposes of schools, such as school rooms, playgrounds or offices of a non-provided public elementary school.

Agricultural Land to the extent of three-quarters of the annual value.

Territorial Army {Old Volunteer} Storehouses.

Sunday and Ragged Schools (a permissive exemption).

Police Stations.

Ambassadors' Houses.

Lands Struck with Sterility, e.g. Highways.

Public Parks.

Bodies and Properties Not Exempt.

The following bodies and properties are not exempt:—

Societies for the Promotion of Religion.

Educational Societies.

Philosophical Societies.

Shop Used Partly as a Post Office.

Libraries and Reading Rooms.

Newspaper Rooms.

Council Offices of Local Authorities.

Temporary Buildings are rateable, e.g. workmen's huts, mess-rooms, etc., but where a builder uses as workshop, etc. one of the rooms in a building he is constructing, no part of such building or workshop is, in consequence, rateable.

Boarding Schools.

Universities.

The United Service Institution (Museums, etc.).

The Zoological Society.

The Art Union of London.

Workmen's Halls and Institutes (even though not run for profit).

Hospitals.

Missionary Societies.

Colleges for Education of Persons for the Ministry.

Slag and Rubbish Heaps.

Cemeteries and Burial Grounds.

Woodlands.

Sporting Rights.

Football, Cricket, etc. Grounds.

Bathing Stations, Letting of Chairs, etc. on foreshore.

Turbary {i.e. the right to take turf from another's ground}.

Docks, Wharves, Harbours and Piers.

Canals.

Navigable Rivers (where tolls, etc. are received).

The Crown's Private Estates.

Empty and Exempt Properties—Ought They to be Rated?—

The circumstances in which empty and statutorily exempt properties are granted immunity from liability to local **rates**

have already been named. The question is a controversial one and it is thought desirable to make further observations on the subject. As the law stands, vacant properties (with few exceptions) are not rateable. In high places there have been discussions on the matter and recommendations have been made for an amendment of the law to enable at least a proportionate part of the rate to be collected from the owners. It is not considered to be a difficult matter to determine what would be a reasonable proportion in such a way that would ensure complete agreement with the parties concerned.

A close review of the present position appears to reveal that such a liability was the intention in spirit of the legislative body responsible for the Rating Acts, even though the letter of the law cannot be so construed. *Beneficial occupation* is the test, and to some extent is the measure of liability to be assessed. This being so, the case for rating empties is already half made. The adjectival qualification undoubtedly makes owners morally liable to pay for the benefits which their vacant premises enjoy and which, incidentally, such owners would be the first to miss and complain about if they were not accorded them. In fact, the degree of benefit extended to and needed by unoccupied properties is in respect of some of the services rendered by local authorities, greater than that applicable to occupied premises, because the former lack the personal attention, care and protection which the occupants of the latter naturally and automatically bestow.

Some figures will be reviewed in an endeavour to arrive at a suggestion for a reasonable basis for rating empty properties. Figures relating to the administrative county of London have been used in the preparation of the illustration. In other parts of the country the proportion of empty properties to those occupied will, of course, vary, even as it does v(w:y markedly between the boroughs in London, but the degree of benefit which these premises receive is practically uniform everywhere.

If one looks at the list of services the cost of which makes up the General Rate levied, one finds that each of the following items, to some extent, benefits all property that is vacant and awaiting tenants, and some of the items benefit to as great or even greater extent empty premises as they do occupied property. The percentages stated after each are purely figures suggested by the present writer:—

Services which Benefit Empty Properties.

	Percentage of benefit as compared with occupied properties
(1) .Police protection, .	150
(2) Street cleansing, etc. services,	75
(3) Street repairs,	100
(4) Maintenance of main roads, .	100
(5) Fire brigade services, .	100
(6) Public lighting, .	50
(7) Main drainage,	75
(8) Local drainage,	75

Actual figures relating to the above-named services (shown as rate poundage) are quoted below, together with a group total for all other services which it may reasonably be contended are those from which no benefit accrues to vacant premises. The figures are taken from a recent rate demand note.

Service	Rate in £ levied	Suggested Proportion Benefiting Empty Property
(1) Police,	Pence 5'77	Pence 8'65
(2) Street charges,	11'60	8'70
(3) Street repairs,	8'52	8'52
(4) Main roads, .	1'25	1'25
(5) Fire brigade, .	1'59	1'59
(6) Public lighting,	2 02	101
(7) Main drainage,	1'62	1'22
(8) Local drainage,	1'64	1'23
(9) Total	34 01	3217
(10) Other services not ordinarily benefiting empty properties,	57'41	
(11) Total	91'42	

As Government grants in aid have been ignored throughout, the foregoing figures can be regarded as reasonably fair.

The percentage of line 9 (second column) to line 11 (first column) is 35, and it is submitted that such is an approximate degree of benefit which empty properties derive in proportion to occupied premises. It is interesting to note that a short

time ago the London County Council suggested a figure of 28 per cent. The following is a quotation from its agenda, dated 19th July, 1932.

" The Council has on several occasions supported the principle that empty properties should bear a proportion of the rates payable on occupied premises. On February 12, 1924, in connection with the Draft Rating and Valuation Bill, it expressed the opinion that the Bill should provide that unoccupied properties should be made rateable at one-fourth the full rate. On May 26-27, 1925, it decided to seek the inclusion in the Rating and Valuation Bill, 1925, of a clause to that effect. When the proposal was discussed in Committee on the Bill in the House of Commons it was rejected.

" From an analysis which has been prepared of the rates in the County of London for the year 1931-32 under various heads of service, it appears that the services from which empty properties benefit directly (though not, of course, to the same degree as occupied properties) are as follows, the average amount of the rate (d. in the £) being given in each case :—

Protective services—(Police, 11'92d. ; Fire	
Brigade, 3-30d. ; Public Lighting, 2-94d.), .	18-16d.
Means of access—(Streets (say)), ...	17-54d.
Drainage—(Main Drainage, 3-27d.; Local	
Drainage, 1-64d.), ...	4'91d.
Total, ...	40'61d

The sum of these items (3s. 4-61d.) is 28 per cent. of the average total rates (12s. 0'24d., apart from grants and adjustments under the Local Government Act, 1929) in the year 1931-32.

" We have again carefully considered the matter, and have come to the conclusion that, having regard to the benefits derived by the owner of unoccupied properties from public expenditure, the Council should reaffirm its opinion that the owner of empty properties should be charged with one-fourth

of the full rates and that the Minister of Health should be informed accordingly."

One should not overlook the fact that if empty premises were rated at the London County Council's suggested figure of 25 per cent. or at the same Council's computation of 28 per cent. or at the writer's estimate of 35 per cent., an anomaly would appear at first sight to arise in respect of industrial and freight transport hereditaments now only liable for one-quarter of the normal rates. Such rateable properties would, in the absence of special legislation, be charged as much (or more) when the property was empty as when occupied. It can be contended, however, that it would not be unfair, as the properties would merely be paying for the protection and benefits received.

Losses through Non-rateability of Empty Properties.—What each rating authority actually loses is not generally known. The figures relating to the Metropolis for the period for which the foregoing information has been taken, viz. 1931-32, show that the percentage of losses through empties to the total amount collected varied from just over 1 per cent. in several boroughs to about 6 per cent. in several others and just under 3 per cent. on the average of the whole of the administrative county.

It must be admitted that a small proportion of empty properties does not derive any appreciable benefit, e.g. derelict or old property awaiting demolition, but such proportion is, one thinks, negligible.

If rates were assessable on empties at say one-quarter the rate in the pound, or on an equivalent alternative basis, the gain to the authorities would (when expressed as a rate poundage) equal about one penny in the £.

It is interesting to note that, so far back as 1901 (before de-rating was in operation) the Majority Report of the Royal Commission on Local Taxation stated—

"We think that it would be fair if some charge were made in respect of unoccupied properties, which undoubtedly receive some benefit from public expenditure. But, at the same time, there would be hardship if the full burden of rates were imposed in such cases. We think the equity of the case would be met by requiring the owners to pay a portion of the rates in respect of unoccupied tenements."

Exempt Properties.—Under this heading are included for the present purposes only such exempt properties as do not attract

either rates or a contribution in lieu thereof. And so Government property does not come up for consideration.

General observations and suggestions only can be made ; actual figures relative to towns obviously must differ so widely that they would be practically useless for present consideration. But this very fact forms the basis of the main argument for agitation for a new scheme of treatment for exempt properties.

Losses through empties, excusals on the ground of poverty, and the like, may, with a certain degree of equity, be regarded as local affairs and as such be held to fall entirely on the town. But losses in consequence of a national concession seem rightly to call for different treatment.

National or semi-national expenditure which has compulsorily to be incurred by local authorities in consequence of general legislation is to some extent met by Imperial subventions. The reason obviously is that the expenditure is of a general, rather than a purely local, character and as it has been forced on local authorities a more general spreading of the burden incurred is desirable, than if it had to be borne entirely by the local bodies. It would seem to be consistent with this principle if exempt properties were made rateable, the rates to be paid either by the Government (who has given the concession), or by the occupiers of the privileged properties, who would in turn be recouped out of the National Exchequer. In this category come—Properties occupied by Ambassadors and Servants, Places of Public Worship, Sunday and Ragged Schools, Non-provided Schools, Societies for Science, Literature and Fine Arts, Lighthouses, Buoys, Beacons, etc., Exemptions under Local Acts, Territorial Army Storehouses, Burial Grounds (partial), Lands Struck with Sterility (*e.g.* Highways), Public Parks.

In respect of certain legally exempt properties, *e.g.* those occupied by the Crown, a contribution in lieu of rates is made, but this is not necessarily equivalent to what the rates would be if the properties were legally rateable and subject to the usual principles of valuation for rating purposes. And so a good case could be made out for rating these properties on a similar basis to hereditaments otherwise occupied.

Suggestions under the afore-named headings would, if they were given effect to, not only lead to a reduction in local rates, but would tend to a more equitable distribution of the burden of rate-borne expenditure.

Estimating the Rate Required.

Rates are made to meet the estimated net deficiency on a local authority's funds and accounts. It will now be shown how the figure is arrived at. At the outset it is perhaps as well that some entirely fallacious notions concerning local rates should be put right. Incidentally if doubts can be banished and knowledge voids filled, good must follow.

A totally erroneous notion, and one held by nearly everybody, is that once a rate is "put on" it is there for ever. On the contrary, no rate continues after it is collected. As already stated, a rate is made to meet the estimated deficiency that will arise on the Corporation's accounts during the ensuing period, generally six months or a year. When that term has passed and the rate has been gathered in so far as is possible, an entirely new rate is estimated for and made to cover the next period. If it happens to repeat one or more of the items that were newly "put on" last time it is because further expenditure is anticipated on that purpose. It should be clearly understood that rates are not re-levied unless they are needed for future requirements.

About the month of March (or even in February) the excess expenditure over income for the next financial period (generally a year) is ascertained. To this figure is added any deficiency by which the last estimate fell short of actual requirements, or if there was a surplus on last year's transactions such figure is deducted. Then if it is expected that the authority's trading concerns will yield profits which they will contribute in aid of the rates the estimated figure to be transferred is also deducted and the result shows the total to be raised in the rate for the ensuing period. Having decided how much must be raised by rate the next duty is to apportion the amount over ratepayers of the town. To accomplish this as equitably as possible it is effected on the basis of rateable value.

Rateable value in respect of one's premises is the normal rent payable (not including rates) less an amount necessary to keep the property in a fit state, *i.e.* for repairs, etc. Thus it will be seen that the rateable value is supposed to be profit from the rent. The total rateable value of the whole town is ascertained by adding together the net annual values of all rateable properties therein. This done, it is easy to find out how much a rate of one penny in the pound of rateable value will bring in. It is so many pennies less the estimated cost of making and collecting the rate.

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The following few figures are given in order to illustrate the procedure in a simple way :—

Net estimated excess of expenditure over income for the year ending 31st March, 1935,	£293,800
<i>Add</i> —Overspending on certain departments' estimates in the year just ended (31st March, 1934) (<i>i.e.</i> a deficiency not provided for in last year's rate),	1,821
	£295,621
<i>Deduct</i> —Saving on certain departments where the rate levied for their services in the year just ended was not wholly spent,	621
	£295,000
<i>Deduct</i> —Contributions of profits from trading departments in aid of rates—	
Gas,	£5,000
Electricity,	2,000
	7,000
Net amount to be raised in the new rate,	*£288,000

A summary of all departmental estimates of the rating fund is then prepared and submitted to the Finance Committee for approval and detailed report. If approved, this Committee recommends the Council to make a rate at so much in the pound for the period (if a year) of 1st April to the following 31st March estimated to produce £... for the General Rate Fund portion of the Council's requirements.

When the estimates have been approved the Council resolves to make and levy a rate to bring in the total net amount required. If the authority is one on which precepts are served by other authorities, *e.g.* by a County Council for its requirements in the case of a Non-county Borough or Urban District Council, such requirements are added to the local authority's own estimates

* Though not shown, some adjustments in this figure would be necessary in consequence of several factors. The amount produced by the previous rate will differ from the estimated figure, and as estimates (and even the rate) are generally made before the previous year has fully expired, the approximate actual expenditure shown for that period differs from the true figure, which becomes known later, and such difference is reflected in the balances brought forward and carried forward.

and a rate of such an amount in the pound of rateable value is made as will produce the total approximate requirements.

The basis of the calculation of the rate poundage to be levied is the valuation list, *i.e.* the list of all rateable properties with their respective rateable values against each. The total of this list gives the total rateable value, from which, after allowing for all losses in collection, etc., is ascertained the amount which a rate of a penny in the pound is estimated to yield. The rate in the pound to be levied for the authority's own requirements is determined by dividing the figure corresponding to these requirements by the approximate penny rate product. The requirements of precepting authorities are then added as a precept for a rate of so much in the pound, the precepting authorities having calculated the figure in the same way as the rating authority does, the estimated product of a penny rate having been furnished to them prior to the issue of the precepts.

Report on the Estimates.—A report on the estimates should be submitted to the Council, and in addition to giving the usual key figures, it is always advisable to call attention to any special points of policy which have arisen during the past period, or are likely to during the ensuing period. There are many difficult financial problems with which local authorities are confronted, such as housing, and unemployment relief schemes are also to be numbered amongst them. The task of financing these schemes is not a light one, and the Chief Financial Officer should present the estimates in such a way as will not only show the present liability, but also the future liability, in respect of these services.

Summary of Outstanding Features of Estimates.

- (1) The estimates should be prepared in January or February of each year on an income and expenditure basis.
- (2) The figures should be compiled by the Executive Officer in collaboration with the Borough Treasurer.
- (3) Yearly estimates are recommended.
- (4) The form should follow the heads of account in the abstract of accounts (or epitome of accounts) furnished to the Ministry of Health.
- (5) A report should be prepared by the Borough Treasurer setting out the salient points for submission to the Council.
- (6) Comparative statements should be prepared at regular frequent intervals, showing the expenditure of each committee as compared with its estimate.
- (7) Monthly or quarterly returns should be prepared and

submitted to executive committees, the Finance Committee and the Council for comparison with the estimates.

(8) The cost of each service should be shown expressed as rate poundage.

(9) Special expenditure not provided for in the estimates should only be submitted to the Council for approval after recommendation by the Finance Committee.

Stabilisation and Rationing of Rates.

A policy worthy of consideration is the rationing of expenditure with a view to stabilising rates or preventing increases which might be avoided. To a very slight extent rationing was prescribed by Statute in the fixing of a maximum rate which might be levied for certain purposes. Amongst these purposes were libraries (limited to a penny) and watching (police) (8d.). But these restrictions have been repealed. There remain, however, quite a number of limits for certain purposes, as set out later in this Chapter, though, as will readily be seen, they do not affect the more costly services, which are the cause of high rates.

Rationed Rates.—A rationed rate is an auxiliary aid to economy in abnormal times, and where it has been tried, has been found, on the whole, to have certain advantages.

The principle is introduced when the Council resolves to levy a rate of so much in the pound and the Corporation services have to be carried on with the amount thereby produced. The figure may be the same for each year or may be different from year to year. If the system is to be a success, it is necessary that the goodwill and co-operation of all departments of the authority be obtained. Each spending committee is allotted its portion and it rests with it to use the money to the best advantage. It devolves upon such committees to effect the necessary economies, to criticise, reduce and if necessary defer expenditure, as opposed to the other system whereby the Finance Committee performs the pruning operations, often to the irritation of the executive committees who ought to be able to perform the task better themselves.

It may be an advantage for a trader to know that the rates in his town will not exceed a certain known figure in the pound for ordinary purposes, and it may stimulate industry.

One point, however, should always be watched. This is that simply because a department is voted a certain sum of money to spend in the year it should not adopt the policy of always

spending the whole of the money whether needed or not, but should always endeavour to save some of its allotment.

A scheme of rationing is based on the principle of "cutting one's coat according to one's cloth," and public expenditure must be regarded by the amount of income available. There are, without doubt, decided merits in any scheme the intention of which is to avoid as far as possible fluctuations in the rate in the pound from year to year. Particularly is this so where the area under review includes many manufacturing and trading concerns.

A rationing scheme for the stabilisation of rates depends entirely upon the desire of the elected representatives of the rate-payers for the time being. Estimates are prepared in the ordinary way, but rationing infers that if the total income required to meet the expenditure according to the estimates is in excess of the amount produced by a specific rate in the pound, then the expenditure must be reduced to give effect to the rate rationing.

The adoption of a scheme of this kind strictly can be applicable at the most for one year on account of the annual changes of the members constituting the local authority. If the controlling committee recommended the Council to approve of the continuance of this policy for, say, the following two or three years, this would be *ultra vires*, as no Council can bind its successors in matters of policy.

Notwithstanding this, however, where adopted for a period which apparently is an attempt to bind the future for a term of, say, three years, it has been found very useful in practice, as a Council generally is loath to rescind its decisions once given, and when it has once expressed its will in such a way the Finance Committee is provided with a powerful instrument and effective authority to secure economy by means of a limited rate in the pound.

Distinction between a Rationed Rate and a Stabilised Rate.—

There is a slight distinction between a stabilised rate (which implies a uniform rate for a period of two or more years) and a rationed rate which (1) may deal with one rate period only, (2) essentially involves a reduction in the amounts called **for** in the draft estimates, but (3) may be either in excess **of or below** the actual rate levied for the previous financial period. But **for** general purposes when considering this question the **term** "ration" is really used **as** being synonymous with **the word** "**maximum.**"

It is considered that the introduction and operation of a rationing scheme tends to induce a Council to weigh financial considerations against those of general or particular policy, with greater advantage to the public than a haphazard financial criticism of individual items of expenditure.

Where a committee is limited by the Council to a maximum sum for all services, it is faced with the task of making reductions if necessary, and itself will curtail or eliminate from its programme those works or schemes which are comparatively unimportant, in order to retain provision for essential services. In this connection it is contended that a rationing scheme is of considerable assistance to the departmental officer, who is afforded an incentive to internal economy and consequent efficient organisation while being free from vexatious control. Rationing is claimed to provide departmental autonomy with effective control.

If every authority could be counted upon to act with all reasonable economy no statutory control in this direction would be necessary, but though most people are agreed that economy in the abstract is highly desirable, they take an opposite view of its application to those services in which they are particularly interested.

How Rates are Made.

Like taxes, rates are made on a basis laid down by Statute. That basis is rateable value of premises occupied. Those premises may be land or buildings or other property capable of beneficial occupation.

Rates **are a Tenant's Charge.**—The person liable for rates is by law (with a few exceptions) the tenant, not the owner. An owner may, however, enter into agreement with the rating authority to assume liability himself, in which case he is assessed and actually hands over the money, but he includes it as a rule in the weekly or other periodical charge made on the tenant, which the latter improperly calls "rent." It is *rent and rates*.

The Test of Rateability.—The test as to liability to local rates is beneficial occupation. The occupation must also be exclusive. There must exist the absolute right to exclude others. This for example is possessed by a tenant of a house, but not by a lodger. *Beneficial* occupation does not necessarily mean '*profitable*' occupation. Occupation of a house is beneficial to the occupant, though it is not usually a source of financial profit. A moment's thought will reveal the fact that many difficulties must present

themselves in endeavouring to determine the value of the beneficial occupation in the numerous instances of properties that are not on rental at all. Works, railways, etc. have to be rated, but it is not easy to state what the actual value is. However, the Courts have laid down the rule that it is necessary to imagine a tenant who would be willing to pay a rent for the occupation of the property and approximate the amount he would pay. The task of ascertaining the value of such premises is a specialised one. A few words will, however, be said about this subject presently.

The Value of an Occupation.—The measure of the value of an occupation is ascertained by determining as accurately as possible the profit which might reasonably be expected from the property let from year to year in a free market. This profit means the net amount left to the owner after the payment for such repairs, etc. as are necessary to keep the property in a state to command such rent.

Where the landlord pays the rates he includes this amount in the charge to the tenant. Thus in arriving at the assessment for rating purposes the "rent" which an average tenant would pay must be the figure after such rates or other tenant's charges (paid for the sake of convenience by the owner) have been deducted. From this (true rent) is deducted the average annual cost of repairs borne by the landlord. Where a tenant undertakes to do repairs no reduction of the amount received by the owner is permissible for the purpose of ascertaining the rating assessment.

The sum allowed as representing the cost of repairs is not, as a rule, ascertained by taking actual figures, but usually consists of a percentage allowance offered by the rating authority. It is evident from the foregoing that the assessment is not necessarily based on the actual rent paid by the particular tenant, but is on the rent which a hypothetical tenant would be prepared to pay. The equity of this is apparent from the fact that whilst one house (or other premises) may be let to a relative or friend at a merely nominal figure, the next premises may be normally rented, while a third may be rented very high because the occupier was prepared to pay an exorbitant figure to get in. It would not be fair to charge greatly differing amounts for rates on these three similar premises.

Method of Assessment.—There are three general methods of ascertaining rateable value :—

- (1) Where the property is let on a rack rent, *i.e.* a normal rent, this forms the basis of assessment.

- (2) In the case of commercial buildings, shops, works, etc., which are seldom let to tenants but occupied by the owners, and frequently are in districts where there are no buildings of a similar character for the purpose of making a comparison, the method adopted is usually to take the capital value of the land plus the structural value of the building (which is not necessarily the same as the cost of erection) and fix the annual value by ascertaining what would be a reasonable rent to charge in order to show a fair return on the outlay, and then reduce the same to an equivalent annual value.
- (3) In the case of large public companies and public utility services it is usually the practice to base the assessment of the undertaking upon the receipts or profits.

The figure upon which the rates are levied by the local authority is known as the *Rateable Value*. The basis upon which this is obtained is the taking of the gross value and deducting therefrom certain items, the result being termed the rateable value or sometimes the *net annual value*. The *gross value* is the annual rent which a tenant might reasonably be expected, taking one year with another, to pay for the property if he undertook to pay all usual tenant's rates and taxes, and tithe rent charge (if any), and if the landlord undertook to bear the cost of the repairs and insurance, and the other expenses (if any) necessary to maintain the property in a state to command that rent.

Where the property comes within one of the following classes the deduction from gross value to arrive at the net value is the percentage shown in Column 2.

Class of Property	Amount of Deduction 0 1
(1) Houses and buildings without land, other than gardens, where the gross value does not exceed £10,	40 per cent, of the gross value.
(2) Houses and buildings without land, other than gardens, where the gross value exceeds £10 but does not exceed £20.	£4, or $33\frac{1}{3}$ per cent, of the gross value, whichever is the greater.
(3) Houses and buildings without land, other than gardens, where the gross value exceeds £20 but does not exceed £40.	£7, or 25 per cent. of the gross value, whichever is the greater.

Class of Property	Amount of Deduction
(4) Houses and buildings without land, other than gardens, where the gross value exceeds £40 but does not exceed £100.	£10, or 20 per cent. of the gross value , whichever is the greater.
(5) Houses and buildings without land, other than gardens, where the gross value exceeds £100.	£20, together with an amount equal to 165 Per cent. of the amount by which the gross value exceeds £100.
(6) Land (other than agricultural land) with buildings valued together therewith as one hereditament,	An amount equal to 10 per cent. of the gross value.
(7) Land (other than agricultural land) without buildings.	An amount equal to 5 per cent. of the gross value.
(8) Agricultural land.	An amount equal to 5 per cent. of the gross value.

In respect of property not included in the foregoing list the rateable value is ascertained by estimating the annual rent which a tenant might reasonably be expected, taking one year with another, to pay for the property if he undertook to pay all usual tenant's rates and taxes and tithe rent charge (if any), the landlord bearing the cost of repairs and insurance and the other expenses (if any) necessary to maintain the property in a state to command that rent. The annual rent as so estimated is the *net annual* or *rateable value*.

In arriving at the valuation of a dwelling-house to which the Increase of Rent, Etc. Act, 1920, applies, the highest gross value that can be assigned is not limited to the "standard" rent plus the highest increase of rent provided for by the Act; in other words that Act does not affect the rateable value of the property to which it applies.

Occupiers of property can be called upon by the rating authority to supply necessary information to enable the valuation to be made. The authority also has power to enter premises (if necessary) for the purposes of making an assessment.

It may not be out of place here to state that liability for rates does not depend upon making a profit. The liability therefore differs fundamentally from a tax on income. It rests purely upon the legal hypothesis that if one occupies premises one would be prepared to pay a rent for such occupation. That rent is, *prima facie*, a measure of the value of the occupation, and it is upon this measure of value that the assessment is based.

The rent and the rateable value of a shop are quite independent of the amount of the shopkeeper's actual gains. The rateable value is the same whether the tenant is a flourishing trader or is carrying on business at a loss.

Rating of Machinery.

The unsatisfactory position with regard to the question of liability to rates in respect of machinery was settled (in principle at least) by the Rating and Valuation Act, 1925. Prior to the coming into effect of this enactment the law was so unsettled that the value of machinery might be taken into account in determining the rateable value of the premises in which it was situate, or alternatively it might just as correctly be omitted, in the discretion of the local rating authorities. Consequently some districts included it to the fullest extent, others made a nominal addition in respect of it, while others ignored it entirely in calculating the value of property for rating purposes.

The law now makes certain classes of machinery rateable and others definitely exempt. The following list shows which machinery or plant is to be taken into account in fixing the annual value. Any machinery or plant not included in the classes named in the list must be ignored and is thus not rateable.

Classes of Machinery and Plant to be deemed Part of the Hereditament for Rating Purposes.—(1) Machinery and plant (together with the shafting, pipes, cables, wires and other appliances and structures accessory thereto) which is used or intended to be used, mainly or exclusively, in connection with any of the following purposes—

- (a) The generation, storage, primary transformation or main transmission of power in or on the hereditament.
- (6) The heating, cooling, ventilating, lighting, draining or supplying of water to the land or buildings of which the hereditament consists or the protecting of the hereditament from fire.

(Provided that, in the case of machinery or plant which is in or on the hereditament for the purpose of manufacturing operations or trade processes, the fact that it is used in connection with those operations or processes for the purpose of heating, cooling, ventilating, lighting, supplying water or protecting from fire shall not cause it to be treated as falling within the classes, of machinery or plant specified in this Schedule.)

- (2) Lifts and elevators mainly or usually used for passengers.

(3) Railway and tramway lines or tracks.

(4) Such part of any plant or any combination of plant and machinery, including gas holders, blast furnaces, coke ovens, tar distilling plant, cupolas, water towers with tanks, as is, or is in the nature of, a building or structure.

Allowances from Rates.

Apart from exemptions from liability to rates certain allowances from the full rate otherwise payable may be made. These consist of—

- (1) *Compounding allowances* made to owners who are rated instead of the occupiers of the premises.
- (2) *Excusals* on the grounds of poverty of the person liable.
- (3) *Excused on other grounds*, such as where the ratepayer proves non-liability.
- (4) *Discount* for prompt payment.

Each of these will now be considered in more detail.

Compounding Allowances (Rating of Owners).—*Compulsory Compounding.*—A rating authority may direct that owners of certain classes of property be rated instead of the occupiers. Such property must be only that type the rents of which are payable more frequently than quarterly, and the rateable value must not exceed £13.

The allowance which may be made to owners provided they pay their rates before the expiration of one-half of the period in respect of which the rate is made (or such later date as agreed upon by the authority) is 10 per cent.

The allowance to owner-occupiers of similar classes of property is one corresponding to the amount, if any, passed on by the rating authority to the occupiers of hereditaments owned by them, and is to be deemed not less than 5 per cent.

Compounding by Agreement.—The owner of any hereditaments the rent of which becomes payable more frequently than quarterly, may, by agreement in writing with the rating authority, undertake either—

- (a) that he will pay the rates in respect of such property whether it is occupied or not; or
- (b) that he will, so long as the property is occupied, pay the rates due for the period of occupation; or
- (c) that he will, on behalf of the authority, collect such rates as become due from the occupier.

In consideration the owner is to be allowed an amount in respect of—

- (a) not exceeding 15 per cent. ;
- (b) not exceeding $7\frac{1}{2}$ per cent. ;
- (c) not exceeding 5 per cent.

An owner cannot receive both " compulsory " and " agreement " compounding allowances.

A new agreement under this section is not required upon change of ownership.

Owners so rated may be required to deliver from time to time to the rating authority lists of occupiers, void periods, arrears, etc., subject to a penalty for refusal to do so or neglect to comply with the request, or delivery of false particulars, of £5 for each offence, with a further £1 for each day during which the offence continues after conviction.

Excusal on Grounds of Poverty.—A rating authority has power to reduce or remit the payment of the general rate on account of poverty of the person liable for the payment of the rate. Justices may not issue a warrant for distraint in consequence of non-payment against any person who proves to their satisfaction that his failure to pay is due to circumstances beyond his control. But where the Justices refuse to issue a warrant of commitment or distraint but do not at the time remit the payment of the rate, the rating authority may subsequently renew the application for a warrant of commitment on the grounds that the circumstances of the person have changed.

Other Grounds of Excusal.—The only other grounds on which deductions or abatements are permitted are—

(1) Where the ratepayer has not been in occupation for the period covered by the rate (here he is entitled to have his liability reduced accordingly).

(2) Where the ratepayer proves that he is not the " occupier " within the meaning of the Rating Statutes (in this case the liability falls on the occupier).

(3) Where the occupier's name is not inserted in the rate when made and subsequently is put in illegally.

Discount for Prompt Payment.—A rating authority (except in London) may, if it thinks fit, allow a discount not exceeding $2\frac{1}{2}$ per cent. for prompt payment of the general rate. The rate of discount allowed must be the same to all persons entitled to it. No discount may be allowed to persons entitled to compounding allowances whether such are compulsory or by agreement.

Assessments on Owners instead of Occupiers.

Though rates are the tenant's liability and consequently are assessed upon the occupiers, there are a few exceptions when the owners may be rated. These are—

- (1) Where there is a compounding agreement between the rating authority and the owner that the latter undertakes to pay the rates. In the case of small properties the rateable value of which does not exceed £13 and in respect of which the rent is payable more frequently than quarterly, the rating authority may direct that the owners shall be liable for the rates instead of the occupiers. If the rates are paid before the expiration of the first half of the period in respect of which the rates are made, an allowance of 10 per cent, of the amount otherwise payable is made.

Similar classes of property may also be compounded for by agreement between the owners and the rating authority (where the latter have not made it obligatory), in which cases allowances ranging from 5 to 15 per cent. may be made to the owners in consideration according to the degree of responsibility they undertake with regard to the payment of the rates on such property.

- (2) Where a building is constructed for use as a dwelling-house and is let out in parts, the building is to be treated as a single hereditament in the occupation of the person receiving the rents, and consequently such person is rateable.
- (3) Owners of tithes are rateable in respect of the tithes received by them (but not in the case of tithe rent charges vested in Queen Anne's Bounty).
- (4) Local authorities are rateable in respect of ownership of allotments.
- (5) Persons permitting the use of advertising stations (or if not traceable the owners thereof) are rateable.
- (6) Theatres are rateable whether occupied or not (provided the furniture and appliances, etc. are left therein) and the liability for rates is on the owner or term lessee.
- (7) Sub-lettings of parts of buildings.—Where a person rents the whole of a building and sub-lets a part or parts thereof but retains control of the front door he is rateable for the whole building.

Electricity (Supply) Acts, 1922-1926.—A local authority may not raise money or give a guarantee for the payment of interest on money borrowed by a joint electricity authority that would involve the Council in an annual liability exceeding (a) where the Council is not an authorised undertaker—the produce of 1d. rate (estimated as the Ministry of Health may determine), or (b) where the Council is an authorised undertaker—the estimated annual amount by which the capital charges of the Council will be relieved by taking a supply in bulk from the joint authority (the estimated amount to be determined by the Electricity Commissioners).

War Memorials (Local Authorities Powers) Act, 1923.—The limit in the case of Parish Councils (and that after approval of the County Council) is 1d. in the pound. In the case of other authorities the only limit is that fixed from time to time by the Ministry of Health.

Public Health Act, 1925.—The contribution towards, or the cost of provision of, concerts and entertainments (except variety, dramatic or cinematograph) in parks may not exceed the produce of 1d. rate or a 2d. rate with consent of the Ministry of Health.

Donations to hospitals providing efficient accommodation for sick inhabitants of the district may not exceed the produce of 1d. rate.

The Land Settlement Facilities Act, 1926.—This provides for the transfer to County and County Borough Councils of the powers of the Minister of Agriculture and Fisheries under Part II of the Land Drainage Act, 1918. The expenses incurred under the Act are to fall upon the County or Borough funds, but must not exceed the sum producible by 1d. rate.

The Local Authorities (Publicity) Act, 1931.—This permits Borough, Urban District and Scottish Town Councils to spend the equivalent of a ½d. rate on making known the amenities of the town.

Indirect Limitations.—Indirectly, the amount which a local authority may raise by rate is limited in various ways, the principal being—

- (a) By the withholding of sanctions to loans by the Minister of Health, or other sanctioning body, and by statutory limitations as to borrowing (though these may lead to the inclusion of the whole of the capital expenditure in the current year).

Statutory Rate Limits.

There are certain statutory limitations on the amounts which may be raised by rates.

Increase in Consequence of De-rating Provisions.—To meet the position created by the reduction of rate produce on account of the de-rating provisions of the Local Government Act, 1929, Section 75 of that Act provides that any statutory limitation of expenditure by reference to rate poundage shall be increased by $33\frac{1}{3}$ per cent. or such higher percentage as the Minister of Health may in a special case allow. All the following limitations are now therefore increased by at least one-third :—

Burial Acts, 1852-1906.—Expenditure in the case of Parish Councils is limited to a rate of 3d. in the pound.

Public Improvement Act, 1860.—Expenditure under this Act is limited in the case of Parish Councils to a 6d. rate.

Museums and Gymnasiums Act, 1891.—The annual expenditure under this Act is limited to the produce of $\frac{1}{2}$ d. rate for museum purposes and $\frac{1}{2}$ d. rate for gymnasium purposes.

Local Government Act, 1894.—Parish Councils and Parish Meetings may not incur expenditure, except under the Adoptive Acts, involving a rate in excess of 3d. in the pound, or with the consent of the Parish Meeting, 6d. in the £.

Small Dwellings Acquisition Acts, 1899-1923.—The rate limits are $\frac{1}{2}$ d. in the case of County Councils and 1d. in the case of other authorities in respect of deficiencies of income over expenditure.

Small Holdings and Allotments Acts, 1908-1926.—The loss arising from the provision of allotments may not exceed the produce of 1d. rate.

Public Libraries Act, 1919.—The only limit now operating is the yearly one where made on resolution specifically declaring the rate for the current year, which in such cases cannot be exceeded for that year.

Education Act, 1921.—The direct expenditure of a Non-county Borough or Urban District Council upon Higher Education may not exceed in any year the produce of 1d. rate.

Health Resorts and Watering Places Act, 1921.—Expenditure on advertising in each year must be limited to a sum not exceeding the produce of 1d. rate. This expenditure may only be paid out of income from recreation grounds, hiring of chairs, tents, sites, bathing stations, admission to parks, gardens, places of interest and entertainment. A rate may not be specially laid for expenditure of this kind.

- (b) By the exercise of the powers of disallowance (where appropriate) in respect of accounts audited by the District Auditor.
- (c) By the amount which it is reasonably possible to extract from the ratepayers.

Are Rates Based on Ability to Pay or According to Benefit of Services Received ?

Whatever one may think as to which is the more equitable basis (ability to pay or benefit of services received), there can be little or no doubt that while the present system contains a proportion of both factors, it is overwhelmingly one that is built up on ability to pay. And the measure of ability which was established more than three hundred years ago and which still remains is the size and value of the establishment a person keeps up. Though this is not an infallible guide it is, in most cases, a good one. For instance, if a man lives in a house of an annual rental value of several hundreds of pounds it is assumed he has the means to maintain it.

Quite apart from the fact that cases which come up in the Bankruptcy Court show that the foregoing test is not always a perfect one, there are other instances of honest persons, while keeping on very small business premises and a small dwelling or none at all, enjoying big incomes, and some whose premises both for business and residence are necessarily large by reason of the character of their trades or occupation and the circumstances of their domestic household who may be making very little net profit- and are perhaps even suffering a loss.

Payment of rates according to ability to pay is generally objected to by those who have much, while the same people favour a system based on benefits received ; and *vice versa*. If a man paid according to benefits received, he who had least to pay with would be called upon to find the most, and the man with the most money would be asked for comparatively little.

A person assessed high, because his rental is £500 per annum, takes very little advantage of the services provided, which, taken all together, involve him in a tremendous liability for rates. He does not send his children to council schools, to public free hospitals, to corporation baths, to the public parks, free libraries, etc. ; nor does his wife use the public wash-houses ; nor do any of his family avail themselves of many of the cheap services provided by the local authority.

A new system of rating could not reduce the call on **the**

public ; it could only reapportion the allocation of the burden. A reduction in expenditure, or less preferably, an increase in the local authority's other-than-rate income, is the only way to meet the citizen's desire in the way of low rates.

Rates and Taxes Compared.

Rates are payable by even the very poorest persons provided they are householders, while income tax is levied only on those more fortunately placed from a financial point of view.

Another important distinction is that as income tax consists of a distribution of part of one's profits to the Government, there can be no levy if there is no profit. Not so, however, with rates. These are payable whether profit is being made or not, even in times of adversity when the trading result of a period is sheer loss.

In one sense, however, there is a slight resemblance. Income tax is levied according to ability to pay. Obviously those making most profits can pay the most tax. Though the basis of charging rates is totally different, a person's liability is determined according to the annual value of the premises he occupies, and thus in the case of rates on residences at least, the measure of charge is to some extent ability to pay. It is logically assumed that a person's private residence is an indication as to his position. But it will readily be seen that the same standard does not apply to business premises. The individual making the greatest income in the town may rent only a small room on a top storey, while the largest ratepayer in the town may be suffering net losses in his business.

AH Rate Expenditure is Not Local.—Though Imperial taxes are raised to meet expenditure which is national, and rates are levied largely to provide the wherewithal to meet public but local requirements, it should never be forgotten that much of the money spent by local authorities is on services more or less national in character. Expenditure in this category can conveniently be regarded as onerous, while the remaining expenditure which is productive of direct benefit may be looked upon as beneficial expenditure. On consideration of the position in this light the natural suggestion is that the money required for the onerous portion should be levied according to ability to pay and that for the other services on a basis of value received. To some extent this is what really happens.

Government Grants in Aid of Local Expenditure*—It is a significant fact that expenditure of local authorities which comes

in the onerous class is that in aid of which subventions from the Imperial Exchequer are made. Obviously, expenditure that is more or less national in character should be met in a greater or less degree out of national funds. Generally the degree to which a service is local or national is the measure of the grant towards it.

Taxpayer and Ratepayer.—Everybody fills the dual rôle of taxpayer and ratepayer, certainly indirectly if not directly. No one can escape the indirect taxation of the Government, nor that of the local authority. The selling price of practically everything is influenced by both in so far as all previous holders have paid their quota either generally or in respect of the specific commodity. Though the indirect effect is not so great or noticeable as taxation or rates borne direct, the apportionment of the cost of onerous services between the State and the local authority has its practical effect on the individual.

Taxpayer or Ratepayer.—The relationship between the two rôles will be seen if one takes a practical illustration. Let it be assumed that a married man with two children has an annual income of £600. He pays an insurance premium of £51 10s. 0d. and has a dependent relative to maintain. The rateable value of his rented residence is £35 and the local rates are 13s. 1d. in the pound.

Liability for Income Tax.

Taxable income, .		£600	0	0
Less allowances—				
Earned income allowance ($\frac{1}{5}$ th of £600)	£120	0		
Married allowance,	150	0		
Children allowance,	90	0		
Dependent relative (widowed mother),	25	0	0	
		385	0	
Assessable income,		£215	0	
Tax payable, £175 at 2s. 3d.,	£19	13	9	
£40 at 4s. 6d.,	9	0	0	
				£28 13 9
Less rebate in respect of life assurance premium of £51 10s. 0d. at $\frac{2}{3}$,				5 15 11
Income tax payable, . . .		£22	17	10

Liability for Local Rates.

Rateable value of residence, .	£35	0	0
Rates at 13s. 1d. in the pound,	22	17	11

From the foregoing figures it will be seen that income tax payable is £22 17s. 10d., while liability for local rates is a similar amount. If the man's income falls his tax liability falls too, though his liability to rates remains stationary. If his income fell to £395 or less he would pay no direct income-tax at all, but his rates would still be £22 17s. 10d.

Generally.—Rates are a direct charge upon industry, taxes are mainly an appropriation of profits. The incidence of the two charges is widely different. If an area is rated beyond its capacity the development of the district is impaired, and its taxable capacity is thus further reduced.

Has the Limit in Rateability Been Reached ?

Ratepayers of all classes from the smallest householder to the largest and most highly assessed occupier of factories and the like, voice the complaint that the limit has been reached. What is meant is presumably that businesses cannot reasonably bear any greater burden of rates if they are to survive in the face of foreign competition, and in the case of mere householders their cry means simply that they do not feel disposed to pay in rates any higher proportion of their earnings than at present.

Reviewed merely as a general statement, the contention is bad. This is because the complaint of even the low-assessed manufacturer occupying small premises in a town of low rate poundage and who has derived the "de-rating" benefits under which he has been assessed at one-quarter only is no less pronounced than in exactly opposite circumstances. The complaint is really one of resentment towards making one's due contribution towards local expenditure. A similar objection is made against Imperial taxes.

If one examines the statement more closely with a view to discovering if there is just cause for the outcry, one must admit at the outset that rates are in many businesses a heavy burden that has to be borne whether profits are being made out of which to pay them or not. On the other hand income tax is only payable out of profits and in proportion to the amount made.

In comparison with pre-war times, the amount of rate a person or business has to pay is no greater in ratio to the increased

cost of labour and materials than it was hitherto. Probably it is less great. One cannot reasonably refuse to admit that a local authority's expenditure consists mainly in the purchase of materials and the hire of labour, and thus higher rates must be levied even if expenditure be restricted to requirements on a pre-war basis.

But unfortunately or fortunately (according to the outlook of the particular individual) there is an ever increasing responsibility being placed by Parliament on local authorities in that they are required to perform additional services some of which are largely national in character. Most of these services, and indeed the majority of services that are of a local kind, are of a public health or public service nature. Thus, in so far as a local authority performs national services and charges the cost on local rates, Imperial taxes are relieved of the burden, and this reflects on the individual *hi* lower income tax. With regard to health services the public benefits direct because better health and more comfort help to increase business and to avoid doctor's bills and so give value of a kind that is difficult to appraise intrinsically.

One cannot afford to lose sight of the fact that if rates rise to a much greater extent, it may mean migration on the part of those who can afford to migrate and subsequent inability to meet obligations on the part of these who are left. Suggestions to meet the wishes of those who desire that rates be not increased further should be such as will not impair efficiency but will be the outcome of pure economy. At this juncture it is perhaps advisable to state that true economy does not consist solely in refraining from spending, but in spending wisely. There is still much to be learnt from the old maxim "penny wise, pound foolish." Suggestions to prevent further increases in local authorities' expenditure and even to ensure reductions at the earliest opportunity must necessarily consist mainly in

- (1) The avoidance of all "luxury" expenditure and that not absolutely necessary.
- (2) The introduction of any or all methods, systems, measures, etc. that will lead to the performance of services at less cost.
- (3) The adoption of one or more of the various expedients such as the charging to revenue account of small items of capital expenditure (though this can at its best only reduce future not present rates) or the definite refusal to sanction capital expenditure except

in such circumstances as are absolutely necessary until there is an improvement in conditions generally.

- (4) A scheme of rationing of rates.
- (5) The exercise of all available practicable and reasonable methods of increasing income from sources other than rates, and in regard to the latter to reduce losses in and costs of collection to a minimum.

Direct Rating,

By this term is meant the rating of occupiers instead of owners. Rates are by statute "tenants' " rates. It is only by agreement, or by compulsion in certain cases, that owners become liable. The latter cases are mainly those which come within compounding provisions, under which the owners are allowed a commission for collecting or becoming responsible for the rates.

The system of direct rating in its entirety is in force in the case of comparatively few local authorities, and in consequence of its apparent failure in many of the towns *in* which it has been tried, the method seems very unlikely to spread. Compulsory compounding provisions apply only to small houses, viz. those with rateable values of £13 and below, and it is inconceivable that in these post-war days houses could be built for such an amount as to let at rents within this limit, and that the rents of many of those dwellings already being compulsorily compounded for will not be raised and taken out of the category when the Rent and Mortgage (Restrictions) Acts lapse.

The main advantages and disadvantages of a scheme of direct rating are as follows :—

Advantages.

(1) Tenants know how much they are contributing towards local government services, and should in consequence take greater interest therein.

(2) The product of Id. rate is greater by reason of no compounding allowances.

(3) Rents remain constant, not being affected by increases or reductions in rates.

(4) Rating of owners has a depreciating effect on rateable values of property.

(5) Rates are a tenant's liability both legally and morally (**it** is he who gets the greater benefit from the local **authority's** **expenditure**) and **thus the charge** is made directly on the ultimate **payer**.

Disadvantages.

(1) There is extra labour in collection, etc., and consequently it is more costly.

(2) There is greater risk of loss in the case of weekly tenants by reason of their leaving and not being traceable.

(3) The difficulty in obtaining money from the lower classes who less appreciate the true import of the charge.

(4) A reduction in certain Government grants where affected by the product of a penny rate, *e.g.* education, housing, etc.

(5) Several towns that have tried direct rating have experienced large deficiencies by reason of their inability to recover the rates.

(6) The expense of Court procedure involved in recovery of rates.

(7) A local authority has not the power to distrain for rates as a landlord has for rent and rates combined, and thus there is less certainty of their being recovered.

(8) The fear of being ejected for non-payment of rent (including rates where payable to the landlord) is a powerful deterrent to the avoidance of payment.

CHAPTER XIII.

MUNICIPAL BANKS.

AT the time of writing, municipal banks in England and Wales exist only in one town, viz. Birmingham, though one or two other towns have recently obtained power in their local Acts to undertake the project. The term "Municipal Banks" without any qualifying explanation is, however, certainly suggestive of more than it is ordinarily intended to cover. The possibility of competition' on equal terms of a bank municipally owned with existing joint-stock banks is very remote, in fact almost non-existent.

There are a few savings banks mainly in Scotland registered as companies whose directors are members of the local town councils. In effect they are municipal savings banks, but in the eyes of the law are entirely separate entities. Further observations on these banks are given later.

It must be realised that the Birmingham bank does not in any way endeavour to compete with the commercial houses. It was started with a two-fold object. Firstly, to inculcate the habit of thrift, and secondly, to provide facilities for persons to become owners of the houses in which they live.

From these facts alone, it will readily be observed that the municipal bank is not on common ground with the commercial banks. The latter do not make special appeal to thrift one of their main functions, but provide facilities for the carrying-on of national and international business; nor do they make the lending of money on the security of house property an important part of their transactions. The joint-stock banks are not desirous of locking up their capital in securities not easily realisable and which is repaid only by instalments over a long term of years. Municipal banks do not give their depositors the advantages of a cheque book nor the privilege of withdrawing unlimited sums on demand. In fact the services performed are more nearly those of a building society, and a place of safety for the care of small savings, than those of a banking company.

In some respects, however, considerable benefit all round can arise from the starting of a corporation savings bank.

Money may be obtained by the local authority at a comparatively low rate of interest and in fairly large total sums, though individual deposits are very small in contrast with ordinary investments on mortgage, etc. The scope of a municipal bank is limited. In the first place its probability of success exists principally in towns where there are no trustee savings banks. Where these are present, the prospects of municipal banks are more doubtful, though it is claimed that many people would invest in a local authority's bank who will not put their money in the other kind of bank. Perhaps this is partly due to the fact that the local authority gives rather more interest, but more probably by reason of greater confidence in the safety of the money. Such a view is probably exaggerated.

Another competitor with which municipal banks would have to contend is the post office savings bank, which, though it gives a low rate of interest, possesses at least two outstanding features that appeal strongly to the small investor. These are stability and convenience. The latter arises in consequence of the very many post offices throughout the Kingdom, each of which is a branch bank available to every depositor (and open more hours daily), as compared with the fewness of the branches of municipal and trustee savings banks. Another point to consider is that nearly all commercial banks now allow both deposit accounts and "home-safe" or savings bank accounts, taking sums of £500 or more per annum, carrying more interest than current accounts, allowing withdrawals of sums up to £5 on demand at *any* branch of the bank, and requiring the giving of only a very few days' notice before withdrawal of larger sums up to the total balance.

Theoretically, though a local authority would probably allow rather higher interest on deposits than would any other bank, such interest would be less than that paid on its mortgage loans, stock, etc., and subject to the greater costs of administration, the difference would be a profit to the corporation in respect of such amount of deposits as it used for capital purposes. But comparatively little of the funds is available for transfer to capital purposes owing to the fact that the money must be available for repayment at call or short notice, and in the event of a heavy run on a bank considerable difficulty may be experienced. The reason is obvious, for the difference between the "overdraft" rates charged to a local authority by its bankers for the accommodation and the rate it was paying its depositors would quite conceivably swamp all profits and turn the balance on its municipal banks to a loss.

It is hardly considered good policy at present to rely upon the availability of a large sum as being applicable for capital purposes.

It was recently stated in the House of Commons in the course of a debate that local authorities with populations of under 50,000 would not be considered eligible to apply for powers to enable them to establish banks, and that where any such institutions are permitted the rate of interest on deposits and the amount of cash balance to be held are matters to be dealt with by Treasury regulations.

Views of the Institute of Municipal Treasurers and Accountants.

—The Council of the Institute of Municipal Treasurers and Accountants (Incorporated) has expressed its views on the subject of municipal savings banks. While admitting that local circumstances must always have an important bearing on the matter and that there may be cases where the establishment of such an undertaking would not be advantageous but even injurious to the town's best interests, the Council considers that one of the most prominent features tending to influence a decision is the extent of existing suitable facilities in the place for the encouragement of thrift.

Where satisfactory non-municipal savings banks are in existence the Institute thinks there should be a co-operation between such banks and the local authorities with a view to the investment of the accumulations of the former with the latter.

An indication of the extent to which this should be carried will be seen from an extract from the Institute Council's conclusions quoted from the annual report of the Council, 1923, as follows :—

" That trustee savings banks should be authorised to invest future accumulations in their ordinary funds with municipalities, as in the case of the special investments department, subject to convenient arrangements being made for repayment on sufficient notice to meet the requirements of the bank.

" That such funds, together with those of the special investments department, be available for financing the schemes of the local authorities, and that there should be given to the local authorities, with reasonable safeguards for the trustee savings bank, a right to call for loans on fair terms up to 50 per cent. of the surplus of deposits over withdrawals in any year provided always that the call should be

made before the savings bank has invested elsewhere, so that securities should not be disturbed.

" That where the operations of any such bank extend over the area of more than one local authority the bank should equitably apportion the amounts available each year to those local authorities asking for loans.

" That the rate of interest at which loans should be made should be settled by agreement between the local authority and the bank, subject to the approval of the National Debt Commissioners ; failing agreement the rate to be fixed by the Commissioners.

" The Council consider that the adoption of these arrangements either in this form or in any other convenient form having the same general effect, would meet the requirements of many towns and thereby obviate the necessity for their considering seriously the establishment of municipal savings banks in competition or in friendly rivalry with existing trustee savings banks."

The Council of the Institute has also indicated its views on the broad principles upon which municipal savings banks should be founded. Quoting from the same report, these are as follows :—

" The establishment of a municipal savings bank should not be regarded as having for its primary object the raising of money for municipal capital expenditure, but rather* the provision of facilities for the exercise of thrift under the best and most remunerative conditions, with the same facilities to the local authority for making such use of a part of the accumulated funds as those suggested herein for trustee savings banks.

" The municipal savings bank should be regarded as entitled to obtain within the range of trustee securities the best possible return on its investments.

" That upon any funds lent to the corporation the bank, as the lender, should receive not less than the rate of interest being paid by the corporation to private lenders.

" That there should be no indirect subsidy given to the bank in the form of free accommodation or service and that all beneficial user of buildings, staff, etc. be costed for inclusion in the working expenses of the bank.

" That while the rate of interest allowed to the depositor need not be restricted to the same rate of interest as that payable by the post office or other savings banks, it should nevertheless be such as will leave a sufficient margin when

deducted from the rate of interest earned by the deposited funds of the bank to pay the working expenses when the bank has become properly established.

" That notwithstanding the fact that the savings bank will have behind it the guarantee of the municipality it will be necessary in investing the funds of the bank to follow the usual practice of other banks and exercise such care and caution in arranging investments as will ensure the bank carrying liquid assets sufficient to meet any emergency such as an unexpected run on the bank.

" It should also be recognised that in towns where a municipal savings bank is established in favourable circumstances it is probable that for the first two or three years the standing charges of the bank will not be covered by the income represented by the difference between the interest paid to depositors and the interest earned by the bank on invested funds.

" Finally, a municipal savings bank should, after a short period for getting into working order, be self-supporting. Any profit should be devoted in the first place to strengthening the financial position of the bank, and when that position is deemed to be sufficiently secure, it should be devoted either to the development of the business or to the improvement of the interest allowed to investors. It should not be devoted to relief of rates."

Quasi-Municipal Banks.—Though the Birmingham bank, already alluded to, is the only truly municipal bank, a form of " municipal " bank on the lines of those in Scotland, referred to later in this chapter, has been established in at least one town in England. That is Walthamstow. The Walthamstow Savings Bank, Ltd., is a private company incorporated under the Companies Acts, and having its registered office at the Town Hall. The share capital is £100 in 2,000 one-shilling shares.

The objects of the bank, which are those usually set out in the Memorandum of Association of a banking company, are stated to be as follows :—

(1) To establish and carry on the business of a bank of deposit and every description of banking and mercantile business and financial operations including the lending of money, the issuing and dealing in bills of exchange, drafts, etc. and the receiving of money, etc. on deposit.

(2) To receive money on deposit or loan from persons, societies, corporations, etc.

(3) To borrow moneys under contract with any person, etc. and to lend money.

(4) To act as agents for the collection of money and to invest money.

(5) To undertake any banking or allied business and to advertise the bank generally.

The Articles of Association provide that —

(1) Shareholders must be members of the Borough Council and no share can be held by *or* allotted to any person not being a member of the Council.

(2) A shareholder ceasing to be a member of the Council must, or his executors must, transfer at par any share or shares to such persons, being members of the Council, as the directors may nominate.

(3) The directors shall be bound to offer any such shares to any other member of the Town Council.

(4) In case of default of transfer of such shares not exceeding 5 in number the directors may appoint a person to make the transfer.

(5) The directors may refuse to register any transfer and must refuse to register a transfer to any person not being a member of the Council.

(6) The banking transactions of the Company are limited to the depositors with the bank and the Town Council.

(7) No dividend shall be paid at any time by the Company.

(8) No invitation to the public to subscribe for shares or debentures may be made.

(9) The directors shall not number fewer than 3 nor more than 12 and the share qualification is one share. No directors' fees may be paid and a director shall vacate his office if he ceases to be a shareholder.

The directors, all being members of the Council, the control is in the hands of councillors, but not as councillors, though whenever there are changes in the Council, they may be reflected in the control and even policy of the bank.

The security which depositors obtain is, with so small a capital, theoretically negligible, but as all the deposits are lent to the Corporation there seems to be reasonable safeguard.

It would appear that the anticipated benefits from the venture are—

(1) That by reason of an offer of greater interest than is obtainable on deposits with the Post Office, or the commercial

banks (savings department), *i.e.* more than 2½ per cent., money will be drawn to it;

(2) That the administrative expenses will be less, or no greater than, the difference between the interest paid on deposits and that charged to the Council.

At the time of writing, the project hardly appears to be an economical one. Money can be borrowed in large amounts at 3 per cent. or less by local authorities, and the margin between this figure and that payable on deposits cannot be more than five shillings per cent., a very small figure for a small organisation.

Report of the Committee Appointed (in September, 1926) to
Consider Whether it is Desirable to Permit a Further
Extension of Municipal Savings Banks.

The Committee was of the opinion that if the establishment of municipal savings banks could be recommended they should be authorised by a general enabling Act in preference to local Acts, as this method would afford an opportunity of reviewing the whole position, of laying down general principles and of establishing the several banks as members of one system.

An analogy to these suggestions is that of the general consolidation of rate provisions under the Rating and Valuation Act, 1925, as compared with the various consolidated rating powers, each differing from the others, if only in some slight degree, obtained by a number of authorities by the promotion of local Acts.

In the course of evidence the advantages and disadvantages usually adduced to a project of this kind were argued and such evidence is set out in the report. The advantages and disadvantages considered and reported on, were :—

Advantages.

- (1) That thrift would be greatly increased.
- (2) That municipal finance would be assisted.
- (3) That citizens would be encouraged to purchase their own houses.

Disadvantages.

- (1) The effect on municipal expenditure.
- (2) The banking risk and its reaction both on the municipality and the general credit system.

(3) The effect on existing methods of saving and particularly the reaction on national finance.

In the course of evidence, differing opinions were expressed on the various matters. Much was said about the Birmingham bank, and while its success was not challenged, it was thought that the circumstances attending that enterprise were wholly exceptional, including the facts that there were no trustee savings banks in that town, and even building societies were less active there than in the rest of the country. The city had always been prosperous and the time when the bank was started was an exceptional time when wages were high and when there were ample opportunities for profitable investment of the bank's funds. Another feature was the rare quality of persistent local patriotism, and another that the bank commenced operations with a considerable volume of deposits collected under special war conditions and thus with many of the indispensable ingredients to success already to hand.

A general conclusion is given in Paragraph 131 which reads :—

"We are much impressed with the great vigour of municipal life in this country, the general efficiency of local government and the immense value of the civic spirit and we fully recognise the importance of enlisting that civic spirit in the service of thrift. At the same time, municipal functions are already many and varied and there is a *prima facie* presumption against adding to them unnecessarily. After very careful consideration of the whole position in all its bearings we have come to the definite conclusion that in view of the present position of national finance the extension of municipal savings banks within the next ten years would not be in the interest of the community as a whole, and that even apart from questions of national finance it is exceedingly doubtful whether the special incentive to thrift provided by such banks is so great as to outweigh the risks involved."

The Committee gives a summary of conclusions in Paragraph 149 as follows :—

"*Summary of Conclusions.*—Our main conclusions may be briefly summarised as follows :—

"(1) Municipal savings banks would provide some additional incentive to thrift, but the proportion of new savings which they, and they alone, would obtain is small in relation to the whole.

- " (2) They might tend to increase municipal expenditure and would involve banking risks which might react unfavourably both on municipal finance and on the general credit system.
- " (3) We think that the general establishment of such banks within the next ten years would cause serious embarrassment to national finance during what is likely to be a very difficult period.
- " (4) We make certain suggestions regarding the Birmingham bank, but no definite recommendations.
- " (5) Consideration should be given to the possibility of making certain improvements of the existing savings banks."

Municipal Banks in Scotland.

In Scotland several local authorities have sought and obtained powers of municipal banking in an indirect way by floating a limited liability company with members and officials of the Council as its proprietors, directors and managers. By this means they have sought to invest the bank's funds with the Corporation.

The afore-mentioned 'Committee in its report referred to the position of Scottish banking companies and made observations as follows :—

" *Municipal Bank Companies.*

" It came to our notice that in certain Scottish towns companies had been formed under the title of municipal banks, which, though formally unofficial, were in fact closely associated with the local authority, for the purpose of receiving deposits and lending the funds to the municipality. We felt that any considerable extension of this expedient would involve in a greatly increased degree all the objections mentioned in the body of our report and many others also. And we thought it desirable to inform the Treasury at once that, in our opinion, the first opportunity should be taken to prohibit the use in the title of any banking company of the term 'municipal' or any other term which might suggest connection with a local authority."

It should not be overlooked that local authorities when seeking powers to establish municipal banks really have in mind as their foremost object the obtaining of advantages for themselves,

though as a rule they contend that their main ideas are to help the citizens to acquire houses and to induce thrift. That the latter suggestion is without much weight is evident from the fact that there are ample facilities everywhere available to the public for the saving on advantageous terms of small sums of money, which may be used in the acquisition of a residence or aa otherwise desired. The existing facilities include :—

- (1) The post office savings bank (with branches everywhere and open longer hours than would be municipal banks).
- (2) National Savings Certificates.
- (3) Building societies.
- (4) Deposit, savings bank and home-safe departments of the great commercial banks.
- (5) The acceptance on loan by local authorities of small sums on mortgage or as corporation bonds, etc.
- (6) Short-term endowment assurances, yielding excellent dividends as investments.

There are a number of so-called municipal banks in Scotland, the oldest of which is that at Kirkintilloch. Owing to the improbability of being able to obtain Parliamentary sanction to set up a municipal bank in the area of a small authority, the idea of running a bank as a limited company arose and was put into practice. The Kirkintilloch Municipal Bank, Ltd., was established in 1920 with an authorised capital of 2,000 shares of 1s. each. .Directorship of the bank is limited to members of the Council, and directors are required to find only a nominal capital and receive no remuneration for their services. The money received from depositors is transferred to the Town Council's funds, except for a small sum retained to meet withdrawals, and the result has been a reduction in the rate of interest paid by the Council on its borrowings.

The municipal banks in Scotland have been successful, but as already stated they are not, strictly speaking, *municipal* banks, though they are managed by directors who are members of the Town Council. If a director ceases to be a member of the Council he must resign his directorship of the bank, and a new director be appointed from among the councillors. The rate of interest charged to the Town Council for loans is the same as that allowed by the bank on deposits, plus a small figure to cover the expenses of operating the bank. In addition to the bank at Kirkintilloch others of a similar nature have been set up in the Burghs of Irvine and Motherwell, and in Wishaw.

Legislation Affecting Municipal Banking in England (with Special Reference to the First Municipal Bank).

Municipal banking was first authorised in England by war-time legislation. The Municipal Savings Bank (War Loan Investments) Act, 1916, was passed to facilitate the investment of savings in securities for the purposes of the war. The main provisions of the Act were :—

(1) The Councils authorised to create banks were those of Municipal Boroughs in England, or Royal, Parliamentary and Police Burghs in Scotland, having a population of not less than 250,000.

(2) Interest and repayment of deposits guaranteed as a charge upon any rate or fund of the authority.

(3) Depositors required to be employed persons and the total amount standing to individual credit limited to £200.

(4) All deposits, other than those required to meet current liabilities, to be invested through the National Debt Commissioners in prescribed securities and to bear interest at a rate determined by the Treasury.

(5) The accounts of the bank required to be kept separate from other accounts of the Council.

(6) Rate of interest on deposits subject to the approval of the Treasury, and seven days' notice required for withdrawal of sums exceeding £1.

(7) Except for winding up, the bank was not to be carried on for a longer period than three months after the termination of the war.

The only authority in England which adopted this Act was Birmingham. The bank created thereunder was wound up on 17th November, 1919.

It had been so successful that power to continue was sought. And so a local Act was successfully promoted in 1919 providing for the establishment and maintenance of a municipal bank. Certain regulations were made and revised in 1925. The main features are—

(1) Deposits are limited to £500 in any one year.

(2) Investments of funds (except such as are required to meet current liabilities of the bank) have to be made according to the terms of the Act, or **if** the Corporation thinks fit it may invest the money on deposit with the Corporation at call, or investments may be made in such securities as the Corporation, with the consent of the Treasury, may determine.

(3) Audit of the accounts of the bank is undertaken by professional auditors.

(4) House purchase provision—Advances to depositors are made on property which is mortgaged to the bank until repaid. Interest is payable at a rate prescribed by the committee of management. The principal is repayable by monthly instalments. If any depositor becomes three months in arrear with his repayments the Corporation has power to take possession of the property.

There is a system in operation whereby rates can be paid through the depositor's personal account at the bank.

Local Authorities and a Commercial Banking Scheme.

If a local authority attempted the functions of a commercial bank it would be necessary to comply with the following fundamental points :—

- (1) To retain a sufficient percentage of available cash.
- (2) To provide adequate reserves and investments.
- (3) To earn, by way of interest on investments and advances on loan, sufficient funds to meet its working expenses and to provide a margin for reserves.
- (4) To gain admittance to the clearing house on equal terms with other bankers, or to appoint one of the clearing banks as its agent at the clearing house.

A local authority would probably find it difficult to meet a sudden call to redeem deposits on a large scale. Though it may possess considerable surplus assets they would be of little use from a banking standpoint, as they would be principally in an unrealisable form and could not be made immediately available to meet an emergency call. The requisite reserves and cash margin would have to be reserved from the bank's own financial resources. These difficulties could hardly inspire the confidence of the commercial community necessary for successful banking operations.

In leaving this subject it should perhaps be stated that fifty per cent. of the proceeds of National Savings Certificates are available for loans to local authorities. The Council of the Institute of Municipal Treasurers and Accountants recommended that a similar proportion of the funds of trustee savings banks be so available. It will thus be observed that even where a municipal savings bank be not founded the local authority should

be in a position to obtain a fair share of the savings of small investors.

In co-operating with the local branch of the National Savings Movement local authorities have an alternative to a municipal savings bank scheme, which may be preferable for the following reasons :—

(1) The local authority incurs no expense of propaganda.

(2) The rate of interest obtained by the investor in Savings Certificates is higher than that which a municipal savings bank is likely to be able to offer.

(3) The proportion of the proceeds of Savings Certificates available as loans to local authorities is applicable for long-term loans, an advantage in the case of smaller authorities not probable under a municipal savings bank scheme.

CHAPTER XIV.

**LONDON LOCAL GOVERNMENT FINANCE AND HOW IT
DIFFERS FROM THAT IN THE PROVINCES,**

LOCAL government in the Metropolitan area is different from that in the provinces of England, Wales and Northern Ireland in at least two respects—allocation and procedure, in that the applicable statutes prescribe procedure peculiar to the district.

In regard to allocation of local government administration the basis is largely one of centralisation of services. A special body deals with water services ; police is under the direct control of the Home Office ; trams which until quite recently operated as a department of the London County Council and other municipal bodies are now outside the control of a local authority and are merged, with what were really privately owned transport undertakings (the London General Omnibus Company, the Underground Railway Companies and others) under the control of the London Passenger Transport Board ; and so on. Certain other services are performed wholly by one or by a few authorities for the whole area, *e.g.* education and public assistance, while gas supply is entirely in private hands.

Unless " volume " can be regarded as equalling " variety," it is a definite fact that no local government administrative authority in the whole of the Metropolis is as important as the average provincial Borough Council. The differences in statutory procedure will be indicated in some detail in the following pages.

In the earlier chapters of this book certain differences in procedure in the Metropolis as compared with the provinces have been indicated. To some extent where the Metropolis is subject to statutes different from those governing the rest of the country " London " has been treated under separate subject-headings in order that ready comparisons could be made.

The London Government Act, 1899, is one of the main statutes relating to the Metropolis. A perusal of it will reveal to what extent provisions of other Acts have been incorporated, sometimes in entirety and sometimes subject to modifications. It incorporated certain sections of the Local Government Acts, 1888

and 1894, the Municipal Corporations Act, 1882, the Public Health Act, 1875, and the Borough Funds Act, 1872. The provisions of the Education Act, 1921, the Housing and Town Planning Acts and the Local Government Act, 1929, apply to London, but the Local Government Act, 1933 (with the exception of the provisions relative to audit, and to local financial returns) does not, and the Rating and Valuation Act, 1925, was a measure for the provinces only. But some local authority Acts apply to London equally as elsewhere.

No local governing body in London is vested with as wide a range of powers and duties as devolve upon provincial County Borough Councils.

Local government finance in the Metropolis will now be considered in some detail.

Local Government Authorities in London.

A concise statement of the various local governing bodies having jurisdiction for certain purposes, together with their powers, duties and outstanding features will first be given.

The term "London" so far as local government is concerned has three meanings. These are :—

(1) The City of **London** (about one square mile, where local government is unique).

(2) The Area of the **Administrative County of London** (the largest area which can rightly be termed "London" and which is about 117 square miles in extent).

(3) Greater **London** (*i.e.* No. 2 together with certain other contiguous towns, Urban Districts, etc., extending to nearly 700 square miles, and being, except for a few matters, ordinary provincial areas only concerned in the statutes, orders, procedure, etc., relating to provincial local government bodies. It is probably because a Metropolitan body provides one or two services for these outside authorities that these Non-Metropolitan Councils are, for statistical purposes, claimed as part of London. It is here suggested that this fact be borne in mind when comparing figures of various towns with one another.

The authorities that operate in "outside" London as well as over the whole administrative County's area are :—

- (a) The Metropolitan Water Board.
- (b) The Metropolitan Police Force,
- (c) The Metropolitan and Home Counties Electricity Commission.

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Each of the local government authorities will now be reviewed. A list of such bodies showing their areas is as follows :—

AUTHORITY	AREA or JURISDICTION
(1) The City of London Corporation.	The square mile in the heart of London. Also maintains certain services outside, e.g. in West Ham, Epping Forest, etc.
(2) The London County Council.	The whole administrative County for some purposes ; a lesser portion for other purposes; and for still others it extends outside the County, e.g. main drainage.
(3) Metropolitan Borough Councils (28).	The whole administrative County (except the area of the City Corporation) is divided into 28 Metropolitan Boroughs.
(4) Metropolitan Water Board.	" Greater London."
(5) Metropolitan Police Force.	The whole of the administrative County (except the City Corporation), together with three County Boroughs, four Municipal Boroughs and several Urban and Rural Districts (approximately the area within a radius of 15 miles from Charing Cross).
(6) Metropolitan and Home Counties Electricity Com-	The whole administrative County and a large portion of the counties immediately surrounding it (approximately the area within a radius of 25 miles from Charing Cross).
(7) Assessment Committees.	The whole of London ; one for the City and one for each Metropolitan Borough.
(8) Port of London Authority.	The area of the Port of London.
(9) The Thames Conservancy Board.	The river and harbour authority of the river Thames from the estuary to its source in Gloucestershire.
(10) The Lea Conservancy Board.	The river authority for the river Lea, which is navigable for 29 miles.

(1) *The City of London Corporation.*

This is the most ancient of all English City Corporations and is the governing authority for the area (about one square mile) in the heart of London. When compared with Metropolitan procedure outside the city, and with provincial **procedure**, the functions and status of this geographically small body are unique and peculiar. They are relics of bygone days rather than the embodiment of advanced modern ideas.

In the City exists the only surviving instance in England of a municipal second chamber. There is the—

Court of Aldermen, consisting of the Lord Mayor and the 26 Aldermen ; and the

Court of Common Council, consisting of the Lord Mayor, the 26 Aldermen and the 206 Common Councillors.

The City Corporation is a legislative assembly as well as an executive body and to some extent has power to re-model its own constitution.

There are a number of Standing Committees which deal with business of a particular nature, such as lands, streets, improvements, sanitation, libraries, markets, schools of music, accounts, asylums, police, law and city courts, etc.

Powers and Duties.—The general powers and duties applicable to Metropolitan Borough Councils to a large extent apply to the City Corporation so far as its area is concerned. In addition

- (1) It is the sole sanitary authority for the Port of London.
- (2) It has jurisdiction over all markets within 7 miles of its boundary.
- (3) It has a police force of its own.
- (4) It has the Lord Mayor's Court and the City of London Court for civil purposes, and administers criminal jurisdiction in its police courts.
- (5) It maintains properties and services outside its area, *e.g.* bridges, West Ham Park, Epping Forest, Burnham Beeches.
- (6) It provides its own lunatic asylums.
- (7) It administers extensive trust funds.
- (8) The coroner holds fire inquests.
- (9) It is a legislative body for its own area.
- (10) It levies a poor rate as well as a general rate.

Special Features.—In addition to the special features named above, under the heading of powers and duties, certain other interesting matters are as follows :—

- (1) Only one-quarter of the cost of the City police force is defrayed out of National funds.
- (2) Certain special schools are maintained solely by the Council, *e.g.* the Guildhall School of Music and the City of London Schools for boys and girls receive no grants from Imperial sources.
- (3) The Common Council acts as rating authority and assesses, makes, levies and collects the general rate. It also collects the poor rate, which must be made

separately from the general rate, though it may be recorded in the same book and must so far as practicable be levied on the same demand note, which document is subject to the same conditions as to its form as apply to the demand note of a Metropolitan Borough Council.

- (4) It owns very large markets.
- (5) It possesses very valuable corporate estates, and these, with certain exceptions, are managed by the City Lands Committee, the premier committee whose Chairman holds the courtesy title of Chief Commoner.
- (6) Another important committee is the Bridge House Estates Committee, which manages certain valuable estates situate in adjoining counties, from the income of which several of the bridges were built.
- (7) Amongst the valued possessions of its citizens are important open spaces outside its area, such as Epping Forest and Burnham Beeches.
- (8) The wealthy corporate trusts have provided funds for very exceptional facilities in higher education. It is not, however, the elementary education authority.
- (9) There are no limitations placed upon its borrowing powers and it may redeem loans how and when it chooses.
- (10) The total assessable value of the City exceeds six million pounds, which indicates the enormous responsibilities in rating, valuation and assessment.

(2) *The London Vounty Council.*

The London County Council was constituted under provisions of the Local Government Act, 1888. It replaced and took over the powers of the Metropolitan Board of Works, which body had in 1855 taken over the duties of the Metropolitan Commissioners of Sewers.

Powers and Duties.—To a considerable extent the provisions of the Local Government Acts of 1888 and 1929 relating to the powers, duties and liabilities of County Councils apply, *i.e.* where there are no special circumstances to the contrary.

- (1) It must appoint a Finance Committee,
- (2) It is the sole authority for—
 - (i) Higher and elementary education in the area of the administrative County (including the City Corporation).

- (ii) Main drainage and sewage disposal in the whole County and beyond,
 - (iii) Fire brigade services in the whole County,
 - (iv) Maintenance and repair of bridges, tunnels and ferries, except the bridges leading from the City.
 - (v) Provision and maintenance of lunatic asylums for dangerous lunatics (not imbeciles and feeble-minded persons) for the County, except the City,
 - (vi) Granting assistance to private enterprise under the Housing, Etc. Acts in the County area (excluding the City),
 - (vii) Administering the functions of public assistance in the administrative County (except the City),
 - (viii) Issuing housing bonds and stock in the administrative County,
 - (ix) Sanctioning loans of the Metropolitan Borough Councils for some purposes.
- (3) It maintains the larger commons, parks and open spaces.
 - (4) It is responsible for the maintenance and lighting of the Thames Embankment.
 - (5) It may make and improve roads in the County area and may contribute to similar works executed by Metropolitan Borough Councils.
 - (6) It may act in the place of any defaulting Metropolitan Borough Council in respect of any public health service.
 - (7) It is a housing authority.
 - (8) It is the highways authority for the purpose of Part II of the Development and Road Improvement Act, 1909, for the administrative County.
 - (9) It may acquire by purchase buildings of historical, etc., interest.
 - (10) It licenses and controls common lodging houses, slaughter houses and theatres in the County area.
 - (11) It obtains its borrowing powers each year from Parliament direct under its Money Act ; the Treasury takes the place of the Ministry of Health so far as regulating and controlling loans are concerned.
 - (12) It may make a grant (not exceeding £3 per year **per** house) to Metropolitan Borough Councils for 20 years

of one-half the deficit in excess of £6 per house under the Housing, Etc. Act, 1923.

- (13) It levies a county rate (under the County Rates Acts, 1852-1856) on each rating authority within the County, based upon the assessable value in force on the 6th April each year. The precept is issued direct to the Metropolitan Borough Councils and on the overseers in the City. The rate is divided between general and special county purposes.
- (14) The accounts are audited by district auditors of the Ministry of Health.
- (15) Contracts of the value of £10 and above must be under seal.
- (16) It can lend money to Metropolitan Borough Councils and other public bodies in the Metropolis.
- (17) It can borrow for all authorised purposes.
- (18) It must make a return on the prescribed form on or before 1st June each year to be laid before both Houses of Parliament, showing to the preceding 25th March :—
 - (i) The amounts of stock created.
 - (ii) The application of money so raised.
 - (iii) Particulars of the consolidated loans fund.
 - (iv) Particulars of other loans transactions.
 - (v) Such estimate of its expenditure for that **year** as the Treasury may require,
- (19) It must make an annual return to the Treasury showing the money raised by the Council, and so **far** as relates to every local authority that has had a loan from the County Council, the annual rateable **value** and the outstanding debt.
- (20) It is the authority for the County area in respect of the enforcement of the provisions of the Employment of Children Act, the Motor Cars Acts, the Shop Hours Acts, the Overhead Wires Act, the Midwives Acts, the Infant Life Protection Act, and a few other Acts.
- (21) It is the authority for the County area for inspection of water, examination of gas, inspection of weights and measures, regulation of traffic, appointment of a coroner.
- (22) It is the authority for the administration **of public** assistance functions throughout the County **except** in the City area.

(23) It now administers the functions of the late Metropolitan Asylums Board, which consist mainly of the following :—

- (i) The maintenance of isolation hospitals for both pauper and non-pauper cases, and of sanatoria and hospitals for tuberculous patients, and convalescent homes.
- (ii) The maintenance of asylums for imbeciles and mentally defective persons (other than dangerous lunatics).
- (iii) The maintenance of an epileptic colony.
- (iv) The maintenance of a training ship " Exmouth " in the Thames for boys for sea service.
- (v) The maintenance of institutions for certain diseases.
- (vi) The control of the casual wards in London.
- (vii) The provision of an ambulance for the removal of patients.

Persons other than paupers are admitted to the institutions, and patients from outside the Metropolitan area are received in certain circumstances.

Special Features.—The London County Council has no jurisdiction over :—

- (1) Maintenance of roads in the County (the Metropolitan Borough Councils and the City Corporation being the authorities).
- (2) Police.
- (3) Waterworks.
- (4) Electricity supply.
- (5) Gasworks.
- (6) Passenger transport services.

The Metropolitan police force is under the control of the Standing Committee of County Councils and Justices and subject to the supervision of the Home Office. Its accounts are in the hands of the " Receiver of the Metropolitan Police " who submits **his** budget to the **Home** Secretary and precepts for his requirements upon the Metropolitan Borough Councils. Sanction to **borrow** is obtained by **him** from the Home Office. The accounts of the Receiver are subject to the audit of the Comptroller **and Auditor General**.

(3) *Metropolitan Borough Councils.*

These authorities were created under provisions of the London Government Act, 1899, to supersede a number of district boards, vestries, etc. A Metropolitan Borough Council is not exactly a Municipal Borough so far as the official definition of that term is concerned as it is not governed by the Municipal Corporations Act, 1882, or the Local Government Act, 1933.

Of the 28 Metropolitan Boroughs every one has a population in excess of 50,000, while some of them exceed 300,000, from which one might assume that the Councils possess County Borough powers. They do not, however, rank in this category and are, in general, possessed of less authority than many of the Non-county Borough and Urban District Councils in the provinces.

Probably the only matters in respect of which there has been a partial advance on the general provincial system concern rating and valuation and the statutory Finance Committee. The Metropolis has had consolidated rating and recognised periodical revisions of the valuation lists since 1899, while provincial local authorities desiring such powers had, prior to the coming into operation of the Rating and Valuation Act, 1925, to seek them by means of local Acts. There is only one rate, termed the "General Rate," and this covers the requirements for *all* purposes of all bodies drawing revenues from rates within the administrative County except in the area of the City Corporation. Precepts are issued on the Metropolitan Borough Councils, who, together with their own requirements, include the amounts requested in the general rate which is made, levied and collected by their own officers. A standard form of rate demand note has been prescribed for Metropolitan Borough Councils showing a fairly detailed analysis of the amounts raised for purposes over which the Council has no control, and those for the Borough.

A Metropolitan Borough Council has a mayor.

Statutory rules and orders have been made prescribing a form of financial statement.

Copies of all contracts entered into must be kept.

Principal Powers and Duties.—These for a Metropolitan Borough Council are as follows:—

- (1) To appoint a Finance Committee to regulate **and** control the finances of the Council. All orders for payment (out of either capital or rate account) **must**

be in pursuance of a resolution passed by the Council on the recommendation of the Finance Committee. No costs, debt or liability, except payments to another authority in pursuance of a precept, exceeding £50 may be incurred except upon a resolution of the Council passed on an estimate submitted by the Finance Committee.

- (2) It is the sole rating authority for all purposes.
- (3) It is the assessment authority.
- (4) It is the local sanitary authority for its area.
- (5) A Metropolitan Borough Council is the authority for—
 - (i) Maintenance and repair of roads,
 - (ii) Scavenging,
 - (iii) Sewerage and drainage (other than main drainage),
 - (iv) Baths and wash-houses.
 - (v) Public libraries.
 - (vi) Burial grounds and cemeteries,
 - (vii) Electric lighting,
 - (viii) Housing of the working classes.
 - (ix) Museums and gymnasiums,
 - (x) Parks and recreation grounds to some extent.
- (6) It is the authority for the enforcement of by-laws relating to slaughter-houses, etc., sanitary provisions of the Factory and Workshops Acts, Acts relating to adulteration and sale of unwholesome food, notification of births, the Midwives Act, 1902 (if London County Council directs).
- (7) Money may be borrowed (where authorised by statute) by mortgage on the security of the general rate. A mortgage must be under seal of the Council.
- (8) A register of mortgages must be kept in which are recorded particulars of any mortgage within 14 days of the date of it.
- (9) In the absence of terms agreed upon as to redemption of debt, a sinking fund must be created by setting aside and investing each year a sum of not less than two per cent, on the loans outstanding.
- (10) Borrowings may be effected from the Public Works Loans Commissioners, from the London County Council or in the open market, as in the case of other local authorities.

The sanctioning authorities for the raising of loans by Metropolitan Borough Councils are as follows :—

(a) *The London County Council.*

- (i) For purposes under the Metropolis Management Acts, 1855 and 1862 (including street improvements).
- (ii) For open spaces (Open Spaces Act, 1900).
- (iii) For providing shelters for retail street vendors (London County Council (General Powers) Act, 1903).
- (iv) For certain powers as a sanitary authority (under Public Health (London) Act, 1891).
- (v) For certain purposes under the Housing of the Working Classes Act, 1890, etc.

(b) *The Ministry of Health.*

- (i) For certain of the sanitary powers under the Public Health (London) Act, 1891.
- (ii) For expenditure under the Public Libraries Acts.
- (iii) For expenditure under the Baths and Wash-houses Acts.
- (iv) For burial grounds and cemetery purposes.
- (v) For lodging houses under the Housing of the Working Classes Act, 1890.
- (vi) For housing under the later Housing Acts.
- (vii) For the purpose of defraying the cost of the quinquennial valuation list in cases where the Borough Council has appointed the assessment committee.

(c) *The Electricity Commissioners* (for electricity purposes).

The provisions of the Local Authorities (Financial Provisions) Act, 1921, apply to Metropolitan Borough Councils. Power is given by this statute to authorities levying precepts on the Councils to appoint a Receiver where a Council fails to meet the precept*

Special Features.

- (1) The Chief Financial Officer is, as in the provinces, termed the Borough Treasurer, though in some cases he is styled the Borough Accountant, the Treasurer in such cases, being the manager of the bank at which the Council keeps its banking accounts.
- (2) A Metropolitan Borough Council has no power to issue stock or housing bonds.
- (3) There is one rate, the "General Rate."
- (4) The London County Council is the sanctioning authority for the raising of loans for certain purposes ; the Electricity Commission sanctions borrowings for electricity purposes ; while other purposes require the sanction of the Ministry of Health.
- (5) There is no power with the Boroughs in regard to
 - (i) Education,
 - (ii) Police.
 - (iii) Asylums.
 - (iv) Tramways.
 - (v) Waterworks.
 - (vi) Administration of justice (but the Mayors are county magistrates),
 - (vii) The granting of assistance to private enterprise under the Housing Act, 1923.
 - (viii) The administration of public assistance.
- (6) There are no gas undertakings in municipal hands in London.
- (7) Only about one-half of the Borough Councils own electricity undertakings.
- (8) For the purpose of rating, all properties are re-valued every five years, while a supplemental valuation list is made (if necessary) in each of the first four years of such period,
- (9) No Metropolitan Borough has County Borough powers.
- (10) The Public Health Act, 1875, does not apply except in so far as it is expressly provided that it shall do so. The Public Health (London) Act. 1891, operates.

(4) Metropolitan Water Board.

The Metropolitan Water Board is the authority for the supply **of water** over an area of about 530 square miles covering the **whole** of the County of London, together with towns in portions

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of the counties of Kent, Surrey, Essex, **Hertford** and **Middlesex**. The Board was constituted in 1902 and took over the **water** undertakings of several local authorities and companies. It is composed of representatives of the various Councils within its area of supply, together with conservators of the rivers **Thames** and **Lea**.

Powers and Duties.—The powers and duties of the Metropolitan Water Board are—

- (1) To supply water to the various persons and authorities in its area of supply.
- (2) To acquire such land and buildings as are necessary.
- (3) To manage, alienate, etc. such land and buildings, including those properties transferred to it at the time of its constitution.
- (4) To promote Bills in Parliament (where necessary).
- (5) To prosecute or defend legal proceedings.
- (6) To make an annual return to the Ministry of Health of its proceedings, and to submit such other returns as the Ministry may require.

Income of the Board.—This consists of :—

- (1) Charges for water.
- (2) Deficiency charges (where there is a deficiency on the water fund) raised by precepting the local authorities in the area of supply having representation **on the** Board on the basis of rateable value of the hereditaments of each authority supplied with water by **the** Board.

In the case of a few of the smaller parishes in the water area not having representation on the Board, no contribution is made by them towards any deficiency.

(5) *Metropolitan Police Force.*

The police force in the Metropolitan area is under the direct control of the Home Office and is commanded by a Commissioner **who** is an officer of the Crown. Its area of jurisdiction is as previously stated. The local Councils in this area have **no** jurisdiction whatever over the police. In this respect the practice is different from that obtaining in the provinces.

Income.—The Imperial Exchequer contributes **£150,000** a year towards the cost of the police. **Half the net cost is borne**

by the Government, the other half being borne by the Metropolitan Borough Councils and the other authorities within the police district on the Commissioner of Police levying precepts on them.

(6) *Metropolitan and Home Counties Electricity Commission.*

The area comprising the electricity district has already been stated. The Commission is not like the Water Board, supplying water exclusively in its own area. Electricity is made and sold by Metropolitan Borough Councils and by companies, both of which classes of bodies have to defray the expenses of the Electricity Commission in proportion to the number of units sold each year.

(7) *Assessment Committees.*

Assessment Committees are appointed by the Metropolitan Borough Councils.

Duties.—The duties of the Assessment Committees are :—

- (1) To revise the valuation list.
- (2) To serve notice on railway companies, etc. in regard to assessments where required.
- (3) To hear and decide objections to the list.

(8) *Port of London Authority.*

The Port of London Authority was constituted by the Port of London Act, 1908, for the purpose of administering, preserving and improving the Port of London. It has a chairman, vice-chairman, and elected members, and is a body corporate with a seal. It has power to acquire and hold land.

Powers and Duties.—The powers and duties of the Authority are those necessary for the administration, preservation and improvement of the Port. To the body were transferred all the powers, duties and liabilities associated with the London and India Docks Company, the Surrey Commercial Dock Company, and the Millwall Dock Company.

(9) *The Thames Conservancy Board.*

This body is composed of delegates appointed by the Admiralty, Board of Trade, Trinity House, City of London

Corporation, Councils of various Counties and County **Boroughs**, owners of docks, ships, barges, etc. and wharfingers. It is **the** river and harbour authority of the river Thames from the estuary to its source in Gloucestershire. Its powers concern the regulation of navigation, order and fishing, registration of shipping and the preservation of the flow of the water in the river. The income of the Board consists of tolls, fees, rents, dues, licences and receipts from water and canal companies, etc.

(10) *The Lea Conservancy Board.*

This body consists of delegates nominated by the local authorities concerned. It is the river authority for the river **Lea**. The Metropolitan Water Board takes water from this river.

CHAPTER XV.

LOCAL GOVERNMENT FINANCE IN SCOTLAND,

THERE are many respects in which local government finance in Scotland differs from the English equivalent. Some of these are only trivial, while others are more marked. A full treatment of Scottish procedure could not be attempted in a single chapter ; indeed, seldom is any reference at all made to this phase of municipal law or finance in any hut text-books devoted solely to the purpose. It is intended here to indicate only the main points of difference. Those interested in the subject can pursue it further by a perusal of the appropriate book named in the Bibliography (or otherwise).

Classes of Authorities.—There are not now so many different classes of authorities as existed prior to the coming into force of the Local Government (Scotland) Act, 1929. There are now County Councils, Town Councils and District Councils, the last-named being a creation of the Act named.

County Councils and District Councils are not unlike their English counterparts. Town Councils are of three kinds, termed Royal, Parliamentary and Police Burghs, respectively, those with a population of 20,000 or more being regarded as " large/* the others as " small," burghs. Joint Boards or Committees still exist.

The basis of administration is—wide areas for main services (Counties and large Burghs) and purely local or parochial functions for the minor authorities, such being entitled to be represented on County Councils in respect of services maintained in their areas by the latter.

Wide powers of delegation are, however, afforded to County Councils. Where considered advisable, the administration of any service except education or police may be delegated to any Council of a small Burgh, or District Council, or to a joint committee. The option to delegate is wholly with the County Council, the Burgh or District Council having no power to claim the service.

Powers and Duties*—The powers and duties of **County Councils** are mainly as follows :—

- (1) Those exercisable in the *landward* part of the County and in small Burghs :—
 - (i) Education (also in large Burghs).
 - (ii) Police (also in large Burghs of less than 50,000 population which do not at present maintain a police force),
 - (iii) Public Assistance.
 - (iv) Lunacy and Mental Deficiency,
 - (v) Classified Roads.
 - (vi) Major Health Services, including Tuberculosis, Infectious Diseases, Maternity and Child Welfare, Milk and Dairies, Diseases of Animals, etc.. Blind Persons,
 - (vii) Other services, *e.g.* Valuation of Lands, Registration of Births, etc., Town Planning, etc.
- (2) Those exercisable only in *landward* part of County :—
 - (i) Burial Grounds.
 - (ii) Minor Health Services, including General Sanitation, Smoke Abatement, Factories and Workshops,
 - (iii) Weights and Measures,
 - (iv) Fire Brigade,
 - (v) Water Supply,
 - (vi) Drainage,
 - (vii) Lighting,
 - (viii) Scavenging,
 - (ix) Trading Services,
 - (x) Housing,
 - (xi) Allotments,
 - (xii) Minor Services.

The powers and duties of **Large Burgh Councils** are as follows :—They have all the powers of County Councils and in addition they are responsible for :—

- (i) Unclassified Roads and Streets,
- (ii) Public Parks.
- (iii) Public Libraries (by special committee) and other minor services of an Urban nature, *e.g.* theatre licences, etc.
- (iv) Common Good (some **Burghs** only),
- (v) **Trading** Services.

Small Burgh Councils exercise in their areas all the services administered by the County Council in the landward portion of the County, and in addition have those powers of large Burgh Councils not possessed by County Councils, *i.e.* small Burghs carry on minor services only.

District Councils deal with local services only, *e.g.* Parish Buildings, Recreation Grounds, Rights of Way, Allotments, Parish Trusts, etc., but, where the County Council exercises its power of delegation, more important duties fall on these Councils.

Rates.—County and District Council expenditure falls on owners and occupiers equally. In some Burghs this also obtains, but there are important exceptions, *viz.* the cost of Police, Cleansing, Lighting, Fire, Weights and Measures Administration, Public Libraries, and some minor services, falls on occupiers only, while one or two unimportant services have to be financed by owners only. The broad effect is that owners pay about one-third (or more) of the rates in Burghs, as compared with one-half in Counties and nothing in England and Wales.

Rating authorities (which comprise only County and Town Councils) may collect and recover rates by instalments (not more than four in number). They have no power to allow discount for prompt payment.

Services administered by County Councils in the areas of Town Councils are rated for by the Town Councils on requisition from the County Councils.

Compounding for rates is permissible.

The cost of levying, collecting and recovering rates falls wholly upon the rating authority and is divisible in equal proportions between owners and occupiers of the rated properties.

De-rating provisions apply as in England and Wales.

Loans and Borrowing Powers.—The general principles are much the same as those applicable in England and Wales. Government sanction is generally required for borrowings, though for some purposes it is not.

Powers relating to temporary borrowings are possessed by County and Town Councils to meet current expenses and by Town Councils temporarily also to finance capital expenditure.

Grants.—Imperial subventions generally are similar to those applicable to England and Wales. In Burghs the grants received **are** applicable proportionately towards expenditure falling on (a) owners, (b) occupiers and (c) half-owners, half-occupiers. In **Counties** the apportionment is not so simple and is in accordance with a formula.

Audit.—The accounts of both County and Town Councils are subject to audit by professional accountants. Power of surcharge is possessed by the Secretary for State (on report by the auditor) and not by the auditors. There are no Mayor's or elective auditors. The professional auditors are appointed by the Central Authority but are not Government officials as are district auditors in England. The Scottish Education Department, however, examines the accounts relating to education expenditure.

Miscellaneous Points.—Rate limitations have been abolished and in their place exist some limitations on expenditure ascertained by reference to the product of the old rate limit multiplied by the gross valuation of the rating authority.

" **Common Good.**"—This is a fund (of ancient origin) possessed by some Burghs. It is not subject to any restrictions as to its application provided the general intention of "common good" is observed.

Police expenditure in Counties is borne by owners and occupiers of rated property in equal proportions, while in Burghs maintaining their own police forces the whole cost falls on occupiers.

UNEMPLOYMENT ACT, 1934.

DURING the printing of the present volume the Unemployment Act, 1934, has been put on the Statute Book, and though it is almost entirely a measure the administration of which affects Central Government Authorities, and thus not within the purview of this book, there are a few matters which do concern the finance of Local Government Authorities, and so a summary of them is here given.

Part I. Unemployment Insurance.

(1) The minimum age for entering into unemployment insurance is that when a person attains the minimum school leaving age (but not under 14), instead of 16 as hitherto, and the rates of contribution in respect of employed persons under 16 is twopence by the employer and a like amount by the employee.

(2) Power is given to the Minister of Labour to enlarge or restrict excepted employments.

Part II. Unemployment Assistance.

(3) A Board, termed the Unemployment Assistance Board, is to be set up, its functions being to assist persons in need of work and the promotion of their welfare and improvement to a state of fitness for regular employment.

(4) There shall be established a fund called the Unemployment Assistance Fund under the control and management of the Board.

(5) To the Unemployment Assistance Board shall be paid by the Council of every County and County Borough an annual contribution which, in respect of the three years from 1st April, 1934, to 31st March, 1937, shall be three-fifths of the sum of the two following amounts :—

- (a) The estimated cost of expenditure (including cost of administration) by the Council in the year ended 31st March, 1933, on provision of relief which would not have been provided if Part (2) of the Unemployment Act, 1934, had been in operation; and
- (6) The difference between the estimated cost to the Council in that year of administration of relief and the figure which would have been incurred if the 1934 Act had been in operation:

provided that, where, in the year ended 31st March, 1934, any such Council received a special grant as a distressed area the annual contribution to the Board shall be calculated as before but shall be reduced by an amount equal to the special grant.

The contributions to the Board in subsequent years shall be calculated in such manner as may be determined by Parliament.

(6) Documents of the Public Assistance Authority shall be open to the inspection (and the making of copies) of officers of the Unemployment Assistance Board, and *vice versa*.

(7) Local government officers who obtain appointments under the Unemployment Assistance Board retain superannuation rights in respect of service with the local authorities and the pension in respect of such service shall be paid by the local authority direct when the person retires, his later service being pensionable as a Civil Servant.

Part III. Supplementary and Schedules.

(8) The Unemployment Assistance Board shall pay to any Public Assistance Authority the cost of relief given by the latter *in* a case where a decision is pending as to whether the case concerns a person to whom the 1934 Act applies, but only to the extent to which relief would have been granted under that Act.

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