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LOCAL FINANCE IN SCOTLAND ¹

MR. BALFOUR in the eloquent speech he delivered some months ago in the McEwan Hall laid stress on the tendency of our times to have more and more Government, as he called it, in every department of the state. There is no direction in which this development has been more apparent than in the vast increase in the importance of decentralised governments, of the free local bodies which administer our counties, parishes and towns. It has become a familiar idea to us now to hear imperial and local matters discussed as of equal moment, and one of our statesmen, who has recently acquired a peculiar standing as an instructor of the public, defined as the minimum of service due from a British citizen "that he should keep a close and vigilant eye on public and municipal affairs."² That public and municipal should be coordinated, and coordinated at a time when the country was trembling on the brink of a war with France, is surely full of significance. It would have been an empty phrase not many years ago. I think that the secret of this change lies in the endowment of local bodies with financial powers. When a political body acquires the power to impose taxes, a change takes place like that produced in the life of a state by a victorious war or an able policy which raise it to the rank of a great power. Local bodies are no longer mere pawns on the political chess board, which call forth the praise of constitutional writers by their ability to safeguard our freedom, they are now in a position to directly and immediately affect the welfare of the realm, a position which brings with it a public responsibility and a public importance which are new.

Until quite recently it was not even considered necessary to have a complete record of the figures of local finance, and Scotland has been especially behindhand in this respect. The first attempt

¹ Read before the Scottish Society of Economists on 14 Feb., 1899.

² Lord Rosebery, 26 Oct. 1898.

we possess in this direction is Mr. Goschen's Report of 1870, which places the total expenditure of all the local bodies in Scotland at £3,000,000. At present the total exceeds £11,000,000,¹ and although certain adjustments have to be made on this figure, it represents the aggregate spending capacity of these authorities, and we may judge its significance by considering that Scotland's contribution to the central expenditure of the United Kingdom amounts to about £11,000,000 also.²

We realize still further how recent this rise to importance of local finance has been if we glance back at the conditions existing at the time of Her Majesty's accession. The counties were administered by Commissioners of Supply nominated by Parliament, whose chief duty it was to levy the "rogue money," an old assessment for defraying the charges of the police, and the rate was imposed according to valuations settled two hundred years ago. The management of roads and bridges was for the most part in the hands of trustees, but provisions for statute labour were still in existence, and tenants and their servants were liable to be called out "with horses, carts, sleds, spades, shovels, piks, mattocks, and other instruments" to repair the highways, which were to be "so repaired that horses and carts might travel, summer and winter, thereupon."³ In parishes the relief of the poor was still met by voluntary contributions, and for burghs no general Police Act had been passed, the chief source of supply for the public expenditure being the revenue derived from the common good of the towns. It is hardly necessary to trace in detail the subsequent development of local finance, but two leading features may be dwelt on which show how little forethought has hitherto been exercised in this matter.

In the first place the financial power which has been given seems in many cases to be unreasonably wide. Many local rates have no limit imposed on their amounts, but for others a maximum rate per £ is fixed, which has been steadily increased by successive Acts of Parliament. In burghs, for instance, the assessments for police, general improvements, and public health are together restricted to 5/3 per £ of rental, while the rates for drainage and roads and streets are unlimited. But in reality the rates for all purposes whatever in no burghs in Scotland exceed 3/9 per £, while the average rate for the country is very much lower, being about 2/8 per £. I am not prepared to say that to fix a limit for local rates is a wise ex-

¹ Both sums include capital expenditure.

² Edinburgh Chamber of Commerce: *Report on Financial Relations of England, Scotland and Ireland*, 1898.

³ Abolished 8 and 9 Vict. cap 41.

pedient ; what causes my astonishment is the continued increase of a limit which is already in excess of apparent needs. Considering the earnest debates that take place over every halfpenny of adjustment on the imperial taxes, it surely shows a want of appreciation by the legislature of the powers they are conferring on local authorities. In regard to public borrowing also we find that the extent of statutory authority has been made very extensive, although it is only in towns that the manner of using it gives cause for alarm. The great defect is the absence of any effectual restriction on the purposes for which borrowing may take place. According to Police Acts loans may be raised to defray "any of the purposes" of burghal expenditure, and in the case of drainage, the clauses have been framed with such amplitude that expense of maintenance is enumerated among the purposes for which debt may be incurred. It ought to have been apparent that power such as this would lead to disastrous results in the hands of any but a most long-sighted government. This question of loans is one I shall have to come back upon later in some detail.

The second remarkable feature in this growth of the taxing powers of local bodies is the very inadequate provision made for supervising their management—or let me use a short well-known phrase, for their audit. It is another proof of the hasty manner in which the legislature has proceeded in the domain of local finance that no steps have been taken to insure, in the interests of the various classes of ratepayers, that the exceedingly complicated provisions of the statutes are being complied with. Parish accounts, for instance, were until three years ago subjected to no compulsory general audit, while in counties there has only been a thorough audit since the establishment of County Councils. Regarding the old Commissioners of Supply an Act of 1868 contains a provision which is highly characteristic. Their accounts were to be audited "in such manner as the Commissioners may direct." The audit of burgh accounts is still in a most unsatisfactory condition. Five of the larger burghs elect their own auditor under private acts of parliament, for the others the auditor is appointed by the Sheriff of the district, and the imperfect conception of the importance of the matter which has left its impress on local finance in general is evident also in the choice of burgh auditors. The duties are in common opinion held to be simple enough, and there is every reason for believing that the present system guarantees little more than arithmetical accuracy. Certainly the position taken up by the legislature is not calculated to impress the public with the real

intricacy of the subject. Old Police Acts provided for the appointment of a "professional auditor" who was given a power of surcharge. Later this was changed to "competent auditor," and finally in the act of 1892 we have simply "auditor," and the power of surcharge has been taken away.

Let us now turn to statistics and examine as carefully as possible the manner in which local bodies have administered their powers. Unfortunately in Scotland we are poorly supplied with information. Mr. Goschen's report of 1870 is nothing more really than an estimate, and it was not till ten years later that full annual returns of receipts and expenditure were demanded from local bodies. The first two of these returns are very incomplete, and especially for the purpose of comparison trustworthy statistics date back no further than the financial year 1883-4. The latest return issued is for 1895-6, giving us a period for survey of thirteen years. The important question must next be decided: shall so-called capital expenditure, that is to say expenditure defrayed by loans, be included or not? For two reasons I have decided to include it. The idea that loans are extraordinary receipts is taken from national finance, and seems inapplicable to local bodies. National loans are incurred at periods of unusual pressure, and may well be regarded as extraordinary items in the budget. Local loans, on the other hand, are resorted to in the course of ordinary business. The nature of local revenues, which are confined to an assessment on one class of property, would make an extraordinary increase in any one year an unsupportable hardship, and further, a legitimate occasion for borrowing is constantly occurring in the demand for expenditure on public works which ought not in justice to fall a burden on a single year. Loans are therefore as regular an item of receipts as any other. For the last three years, for instance, the sums borrowed have been £2,061,000, £2,034,000, and £1,900,000. For this reason alone, it seems erroneous to eliminate capital expenditure, but secondly we find that the only way of doing so is to resort to a complicated estimate. The expenditure out of loans and out of revenue has not been separated in the returns until three years ago, and to arrive at revenue expenditure by itself, as was done, for instance, in Sir John Skelton's Report of 1895 on Local Taxation in Scotland, we should have to make the assumption that the expenditure out of loans for any year is equal to the loans raised during that period, and deduct this amount from total expenditure. In this method, however, no allowance is made for the fact that in all the early returns the sum entered as "money borrowed during the year"

included sums raised for the purpose of repaying existing loans and converting them to a lower rate of interest. The figures of the report are therefore falsified to this extent, and if we were to adopt this idea of separating capital expenditure in our survey we should have, in the first place, to estimate the amount of actually new loans raised and then assume that this sum represented all capital expenditure, a double estimate which would introduce too much uncertainty into our figures.

For these reasons it appears imperative to include capital expenditure,¹ and I now proceed to a short review of the accounts of the three groups of local bodies in their order. To form our conclusions we must ascertain two things: (1) what increase has taken place in annual expenditure, and to what causes can it be traced? (2) what sources of revenue have been drawn upon to meet the outlay?

In 1888 the counties were administered by the old Commissioners of Supply at a total cost of £206,000, while the present administration returns an expenditure of considerably over a million.² On closer scrutiny, however, we find that the duties of the old Board did not cover the management of roads and bridges or of public health, so that it is misleading to state the figures in this way. Let me, for sake of comparison, exclude these two purposes and consider them later by themselves. We find then that the £206,000 of 1883 has become £313,000, showing a growth of £107,000, and the increase arises as follows. The greater part is the result of new legislation: the Local Government Act of 1889, the Small Holdings Act 1892, the Local Government Act of 1894, the Western Highlands Works Act, technical education, and the new elections all call for an increase of expenditure and account for £61,000. Next to this entirely new expenditure the already existing purposes of county police have been extended at the cost of an increase of £41,000. The expenses of administration proper, such as Registration, Valuation, Weights and Measures, Contagious Diseases of Animals, &c., have not altered much, and the increase is only £5,000. These three items make up the sum of £107,000, by which the whole county expenditure has been in-

¹ As a statement of *true* expenditure for the year this method gives false results, in so far as it includes both expenditure out of loans and repayment of loans by instalments. The figures must be taken not as representing true expenditure, but capital expenditure *plus* revenue expenditure; to have made adjustments would have introduced more complexity than is desirable in a short treatment of the subject, and as the same method has been adopted throughout, the comparison is true.

² The rise in expenditure has been so regular as to justify a comparison of the first and last years of the period without referring to intermediate dates.

creased. The corresponding revenue has come chiefly from parliamentary grants. Not only have the old grants been raised but new ones to the extent of £80,000 have been added, so that the burden of these new duties on the rates is slight. The debt charges are almost the same as before, and arise on the small loans against county buildings and court houses.

Turning now to the two items we excluded before, roads and bridges and public health, we find that the management of roads and bridges has become considerably more expensive. In 1883-4 it called for £390,000, now it absorbs £489,000, just about £100,000 more. The increase is not due to new construction nor to a growth of the debt, for county roads occupy the unique position of having diminished the cost of their debt service, the outlay arises almost entirely on the heading "Maintenance and Repairs." The revenue for the purpose of roads is raised almost entirely by rates. Government grants amount to less than £30,000, and money borrowed is just about sufficient to defray the small cost of new constructions.

Examining next the expenditure on public health, we may gather of how recent a growth it is when we find that in 1883-4 it was a parochial affair. The total outlay in that year was under £70,000, in 1895-6 it has become £350,000. The two sums can hardly be compared, but I shall give a short analysis of the present expenditure, for it is necessary to see how far loans have been made use of. The purpose of water supply must be separated, for the system followed is to state the gross amount of both receipts and payments. Doing this, we find that after meeting all charges for interest and repayment of loans there is a balance of payments for the year of £5,000. Outlay met out of loans has been £108,000. Public health expenditure, apart from water supply, has been £83,000 for current purposes, and loan expenditure £85,000. This is a considerable sum of expenditure out of borrowed money, but we must note two things. The purposes of the loans are drainage and the erection of hospitals, that is to say objects usually considered a legitimate subject for borrowing, and secondly the debt service of the counties is in the meantime a very moderate one. County loans of all descriptions, including water loans, amount only to one eleventh part of the rateable value, and although public health is the one purpose for which active borrowing takes place, the annual charges for interest and repayment amount to only 14 per cent. of revenue expenditure. To defray outlay on public health the government contributes a grant of £10,000, the rest is a burden on the rates.

Summarizing this analysis of the condition of county finances we may conclude as follows: Legislation passed during the period under review has imposed a number of entirely new duties, and has further caused an increase in the expense of the police force. But parliamentary grants have been given which make the burden on the rates much the same as it was before. Loans have not been made much use of. The debt service for the old purposes remains nearly stationary. Two new services have been transferred to county management, roads and bridges and public health. The expenditure under these heads has greatly increased, and here the additional outlay is met almost entirely by assessments. The permanent works connected with these services have given rise to an appreciable sum of debt, but the cost of the debt service bears a low proportion to total expenditure, and the debt itself is in the meantime within very safe limits.

The total expenditure of parochial authorities has risen from £956,000 to £1,124,000, an increase of £168,000. About £28,000 of this increase is due to new duties laid on parish councils chiefly by the Local Government Act of 1894, and a slight all round increase in expenses of administration accounts for a few thousands more. By far the largest portion of the increase, viz. £119,000, falls to the account of poor relief. Although this is an appreciable sum and shows a lamentable increase in an item of expenditure which we would gladly see diminishing, still relatively to the growth of population and of wealth which has taken place in the same period the increase appears far less striking. In 1883-4 the expenditure on account of poor relief imposed a burden of $9d.$ per £ of rental and $4s. 2\frac{3}{4}d.$ per head of population. In 1896 these average rates have risen to $9\frac{1}{2}d.$ and $4s. 7\frac{1}{4}d.$ that is to say an increase of $\frac{1}{2}d.$ per £ of rental and of $4\frac{1}{2}d.$ per head of population. The revenue to meet the expenditure has been secured as follows. Parliamentary grants have covered by far the greater portion. They have risen from £100,000 to £189,000. A further considerable increase has been secured from miscellaneous sources, especially from the payments collected from relatives of paupers which, as far as it goes, must be welcomed as a sign of improved management. Altogether the additional burden thrown on the rates is very slight. The increase absolutely is only £10,000 or 1·3 per cent., while relatively to growth of valuation there has been a slight decrease. Had it been possible to bring our figures down to 1897-8, this decrease would have been more marked, for the Agricultural Rating Act has further increased the government grants.

The expenditure of parishes has been stated exclusive of the amounts they collect for school boards, and pay over to these authorities. The burden of the cost of education has grown enormously since 1883, and the increase is due to two causes. In the first place expenditure has very nearly doubled, and secondly, the receipts from school fees have been practically done away with, so that the expense is thrown almost entirely on public taxes. Every one is so familiar with the fact of this increase, and with the two causes which have brought it about, that it is unnecessary to dwell in detail on the accounts of receipts and expenditure. Briefly it may be said that the expenditure has risen in the thirteen years under review from £1,200,000 to £2,150,000. Receipts have grown in the same proportion of course. Grants from the imperial exchequer amount to nearly one-half of the whole, viz., £982,000. Local rates come next with a total of £770,000, and school fees and the sale of books bring in only £45,000. Loans have been largely resorted to, so that the debt of the school boards now stands at £4,140,000, and the annual burden of the debt service which in 1883-4 was £155,000 has become £290,000.

Summarising, the state of affairs in parishes may be briefly described : there has been an undoubted and considerable increase in the expenditure on the relief of the poor and also a small expenditure of a new nature imposed by the Local Government Act of 1894, but the parliamentary grants have increased so considerably that this additional outlay falls lightly on the rates. Borrowing occupies a very subordinate position in parochial finance. The loans outstanding at the close of 1895-6 have chiefly been raised for the erection of poorhouses, and altogether amount to less than £380,000, or about one seventieth of the rateable value of the assessed parishes. The cost of education has been placed on an entirely new footing and in spite of the large grants from government has considerably increased parochial rates. The loans incurred are large, and are about three times greater than the debt outstanding for any other single purpose administered by local bodies, if we exclude harbours and ports. They amount to $\frac{1}{3}$ th of total valuation of the parishes.

Lastly we come to the third group of local bodies, the Burghs. We have already seen that the powers of assessment and of borrowing conferred on urban authorities have been very extensive, and that little or no external supervision is exercised over their administration, so that the results of their methods of financing ought to be particularly interesting. We find that the total expenditure as given in the returns has risen from £2,262,000

to £5,519,000. The increase stated in this manner however is misleading. A large extension has taken place in undertakings of a commercial nature and the total outgoings are included in expenditures, swelling it by nearly £2,000,000. As these outgoings are calculated on balance to yield a revenue, and as a matter of fact show a considerable surplus for the year, they should be excluded before a comparison is made and examined separately later on. I have done so, and the purposes thus dealt with are gas works, electric lighting works and tramways. To eliminate the figures relating to water supply, seems undesirable for various reasons. For one thing all returns are not very clear on the point and to adopt the amounts as they stand would introduce a considerable degree of uncertainty which can be avoided by including them in the total. Further the receipts on account of water supply are raised chiefly by assessments, and these rates have become to be so inseparably regarded as part of ordinary taxation that it would seem an artificial proceeding to exclude them. Taking therefore burgh expenditure exclusive of gas and electric light works and tramways we have the following figures for the two years respectively: £2,262,000 and £3,861,000, an increase of £1,600,000, or stated as a percentage, a growth of 69 per cent.

In the instances of counties and parishes we have been able to deal in detail with the various purposes on which increased expenditure has arisen, but I am afraid that in the case of burghs it is impossible to do so. The burgh returns have always been a source of trouble to the statistical department of the Local Government Board, and it is only quite recently that a determined effort has been made to overcome the difficulties they present. The whole form of tabulation has been radically changed, introducing enormous improvements in our information regarding the present state of affairs, but cutting off all possibility of tracing the development of any one branch by a comparison with previous years. The total expenditure has, of course, remained unaffected, but although I have taken great pains in attempting to prepare a comparison, I have had to come to the conclusion that any figures will be subject to so many reservations that it is unavoidable to state the increase of the expenditure as a whole, viz., £1,600,000.

Let us now turn to revenue and see where the corresponding increase has come from. The two principal sources of receipts are assessments and loans which together form 70 per cent. of the total, but take first the less striking items. The revenue from common good has increased by £50,000, sales of property by

£21,000, imperial subventions by £120,000, fines, dues and all miscellaneous receipts by £368,000, while the surplus receipts of commercial ventures account for £72,000. Now, although these items together make up a substantial increase, none of them, with the exception of imperial subventions and receipts from commercial ventures, form true sources of revenue from which to defray growing expenditure. The growth of the sum yielded by common good is not all genuine, but is caused by the Local Government Board insisting on complete returns from many burghs which did not before give information regarding their common good. Sales of property cannot be regarded as income and are probably due to reselling land acquired for improvements. Dues, fines, and miscellaneous receipts have largely increased, but not because any new source of revenue has been opened up, for the increase is due chiefly to the extension of such works as public baths, wash-houses, markets, slaughter-houses, etc., and it should be noted that the charges made are not sufficient to cover expenditure. The increase shown on these heads is, therefore, not truly revenue, but rather a receipt which falls to be deducted from gross expenditure.

We come now to the other two items, assessments and loans. Assessments yield an increase of £328,000, loans have grown by £503,000, about half a million. This increase is full of significance. It is true assessments yield a larger sum, but relatively, as well as absolutely, the sums annually raised from borrowed money have increased. The rate of the growth of the assessments is 24·2 per cent., that of loans 100·7. In fact, regarded in relation to rental the assessments have not been raised at all, and the increase is due entirely to the rising valuation of the towns. The rates per £ imposed thirteen years ago are the same as those imposed now, within a fraction of a farthing. Further, it must be taken into account that if the extension of the towns has brought in increased assessments, it has also called for a corresponding rise in expenditure. Professor Adams has pointed out that urban expenditure follows the law of decreasing return, and with an increase in the size of a town we get a proportionately larger outlay, so that the gain is by no means a net increase. On the other hand, loans have been so freely resorted to that urban debts are rapidly accumulating, and in thirteen years have risen from £9,800,000 to £16,600,000 exclusive of the new debt incurred for purposes of gas supply, electric lighting, and tramways which amounts to £5,500,000 more.

Attention has often been drawn to this rapid increase of loans
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as indicating a recklessness in spending which may cause grave difficulties in the future. But when we find this extensive borrowing going on hand in hand with a very small increase only in the annual revenue, the state of affairs arouses even more alarming apprehensions.

Large capital outlay entails an annual revenue expenditure on upkeep and repairs, interest on debt and instalments repayable, and side by side with this growth of urban debts we should expect to find a rising revenue. That such is the case only to a small degree, and at a time too, when expenditure is increasing in other departments as well as those for which loans are commonly raised, suggests the question whether burghs are charging revenue with the full expenditure applicable to it. This question is of such importance that it should be examined in more detail. Two methods suggest themselves by which burghs may be relieving revenue of the full burden it ought to bear. (1). By charging expenditure on maintenance and repair of public works to capital account and defraying the cost by a loan, and (2) by evading the statutory enactments regarding regular repayments of loans. I shall deal with these in their order.

As regards charging expenses of upkeep to capital, it is by no means an improbable assumption that such should be the case. In actual affairs it is a matter of frequent occurrence. Any one who has known a case where the interests of capital and revenue conflict is aware how fatally difficult it seems to make an equitable distribution of these charges; how invariably it occurs that the representatives of the interests of revenue are too willing to place maintenance charges against capital. It would not be in any way astonishing if bodies whose accounts are imperfectly audited, and who, above all, have statutory borrowing powers of the most ample description, should make a financial blunder of this sort. The only absolutely conclusive method of proving the existence of such a practice would be to call in the ledgers of all burghs and examine the capital accounts, but a very convincing proof can be brought by a careful examination of such information as is available.

In the first instance we may contrast the increase of annual revenue with the probable increase of annual expenditure. The annual revenue, we have seen, has increased by about £520,000,¹ excluding loans and sales of property. Now as regards probable expenditure. In the first place there will be the increased

¹ As above:—Assessments £328,000, Imperial Subventions £126,000, Surplus receipts from industrial ventures £72,000.

debt charges. The new loans contracted during the period amount to a balance outstanding of £6,800,000 and the charges for interest and annual repayment at the average statutory rates will absorb considerably over £350,000 annually.¹ Then there is the increased expenditure on police, which is another of the few items which admit of comparison over the period. The increase amounts to £100,000. Besides police, there are the services which cannot be separately traced, but may be indicated. There are roads, streets and bridges, and sanitation, which in counties call for large additional expenditure and presumably do the same in towns. Besides these there are the peculiarly urban charges of artisans dwellings, public parks, public libraries, &c., &c. Is it in the least likely that £520,000 will cover the entire burden of the new duties burghs have taken up since 1883-84?

The point may be illustrated in another way. It was necessary in order to make any comparison between burgh finances now and thirteen years ago to state the expenditure in a lump sum and give up the attempt to trace details or to exclude capital expenditure, but let us now leave this comparison and turn to the carefully prepared accounts of 1895-96. The net receipts of every description, excluding only loans and sales of property, amount to £2,100,000. This is the revenue available for the purposes of the year. Now let us go over to expenditure and see how far this sum ought to be sufficient. In the first place, there will be the purposes applicable entirely to revenue, unconnected with permanent works, as police, cleaning and lighting of streets, removal of nuisances, and general sanitary operations, registration, valuation, interest on debt, and so on, including salaries applicable to these departments. These heads appropriated together a sum of £1,450,000, which leaves £650,000 still available. The services which have still to be provided for are roads and streets, drainage, artisans' dwellings, and all town property, and it is apparent that £650,000 will not cover the proper revenue expenses. These expenses comprise in the first place the annual charge for the repayment of the debt, which itself absorbs about £300,000,² leaving a balance of

¹ Thus:—Interest on £6,800,000 at say $3\frac{1}{2}$ per cent., £238,000; repayment after deducting the irredeemable debt of about £2,000,000 at say 3 per cent. per annum £144,000, together £382,000. This is a very low estimate as will be seen later on when repayment of loans is dealt with. Note that debt on account of gas, electric light and tramways is not included.

² Thus:—Total debt charges per taxation return, £521,831. Deduct on account of water and gas supply, tramways, &c., per return £129,792, and further £100,000 being overstatement of repayments as explained later on, making £292,039.

£350,000. This paltry sum is all the revenue the burghs provide to meet the outlay connected with three important and expensive services, viz., roads and streets, drainage, and town property of all descriptions. The expenditure actually entered for these purposes is £408,000, leaving a deficit for the year, while in addition we have expenditure out of losses, classed as capital expenditure, amounting to £623,000, and for the two years previous to £546,000 and £576,000 respectively.

A comparison of burgh and county accounts throws further light on this point. The cost of maintenance of county roads charged to revenue in 1895-6 is £435,000 and the road debt outstanding is £288,000, or 66 per cent. of annual revenue expenditure. The corresponding figures in burghs are maintenance paid out of revenue £215,000, loans outstanding £725,000, or 337 per cent. of annual revenue expenditure. To some extent these proportions may be explained by the fact that town roads are more expensive to lay out and require less repair than county roads, but even after making every possible allowance the figures are exceedingly striking.¹

The second method by which burghs may be relieving revenue from the true burden of the duties they are taking over is by evading the statutory requirements for the repayment of loans. The rates of repayment which are prescribed by acts authorising loans vary considerably. Money raised under the police acts had until recently to be repaid within 20 years, but by the new police act the period has been extended to 30 years, and this affects sums raised during the last three years for which we have returns. Under the public health acts the period is 30 years, under the roads and bridges acts 50 years. Generally speaking therefore, and taking into consideration the relative amounts of the loans under each head, 4% annually would represent a fair average of the statutory rate of repayment.

The difficulty which arises at this point is this. The annual percentage repayable has to be calculated on the full amount of the loan and the returns only give the balance outstanding at the

¹ The differences between town and county roads as regards initial cost and cost of maintenance must not be exaggerated. For one thing, if county roads require more constant repairs, they are also more cheaply repaired; and further, as regards initial cost, county roads have to overcome natural obstacles which, especially in a hilly country like Scotland, greatly increase their expense. Some allowance may also have to be made for the fact that county roads had to repudiate a large amount of their debt when tolls were abolished, but then if burghs were managing their debt properly they ought by this time to have repaid most of the loans which were co-temporary with the old county road debt. Looked at from every point of view, these figures are well worthy of consideration.

close of each year. A concrete case will bring this point out clearly. A loan of £100 has been contracted and is being repaid at the rate of 4%, so that now the balance outstanding is £25. If we were to make a calculation based on the annual repayment and the loan outstanding, we should come to the conclusion that this loan was being cleared off at the rate of 16% instead of 4%. Evidently, therefore, the statistical information must be used with extreme care, and the best way of establishing our conclusion is to deal in the first place with individual cases in which borrowing has been so recent as to admit of a complete examination of all loan transactions.

Taking the accounts of separate towns, which lend themselves to such an analysis, we find the returns of an important burgh in Ayrshire, which within the last ten years has borrowed £41,000, while it is repaying annually no more than £400, except in the last year in question when it cleared off £970. Going further we find in the same county a burgh with a debt which since 1880 has increased from £13,000 to £251,000. About two-thirds of this money is repayable at 5% per annum, but during the last three years the total reductions amount to only £5,524. Nor is it only the large burghs with heavy debts which are evading their duty to repay them at the statutory rates. Small burghs are equally neglectful. We find, for instance, the returns of a small town which has borrowed £3,400, and although it began its operations in 1891, it has only made a single repayment of £100. Another townlet has borrowed £7,000, and in the course of ten years has reduced its debt by a total amount of £320—an amount which is not only insufficient, but has been accumulated quite irregularly, this provision having been made in two years. Any one who is curious enough can abstract many more instances from the published returns; but I shall quote one more, the case of a little burgh in Fife which has borrowed £4,000, and for the last three years has done nothing to pay this off, resting content with the achievement of the year before, when, in a moment of zeal, it appropriated to this purpose the sum of £18.

When we turn to the body of burghs as a whole and endeavour to ascertain how far the same state of affairs holds good in the general case, we are met by the obstacle of knowing only the balance of debt outstanding. In an article which appeared in the *Accountants' Magazine* I dealt with the question fully, but just now I shall adopt a briefer method of examining the figures. We know that the accounts of counties and parishes are supervised by professional accountants, and a comparison of

the repayments by these bodies with those of burghs will throw light on the management of urban debt. The annual statutory repayments for counties and parishes average about 3 per cent., which, it should be noted, is a lower rate than that for towns. In the following calculations I shall make use of the term percentage, but it must be clearly understood that this is not the real amount repaid per cent. per annum, but the proportion expressed as a percentage which the yearly repayments bear to the balance of debt outstanding. This result should be higher than the statutory rate of repayment owing to loans which are standing at a reduced amount. Further I shall exclude the debt outstanding for purposes of a commercial nature. This gets rid of the large amount of irredeemable debt on account of Water and Gas Supply, and also otherwise simplifies matters owing to the very different principles on which such understandings are managed.

The results then are these: County repayments give an average percentage over all purposes of 5 per cent., burghs of 3·6 per cent. County drainage debt gives a percentage of 3·6 per cent., burgh drainage 2·4 per cent. That is to say that although the percentage ought to be higher in burghs, it is really lower. The debt for roads and bridges is repaid at the same statutory rate in both counties and burghs—namely 2 per cent. Working out the percentage on balance of debt we get for counties 5·2, for burghs 3·9, the same story. There is no department of burghal administration which forms a counterpart to parochial loans for poorhouses, but it is interesting to note that this debt, which has always been under the supervision of the Local Government Board, gives a percentage of repayments of 8·2 per cent.

This proves as clearly as can be done that the unsatisfactory state which plainly exists in some individual cases is sufficiently prevalent to materially affect the rate at which urban debts are being repaid. But this is not all. The repayments appearing in the burgh returns are greatly overstated. In many cases they include in the annual repayments out of revenue amounts which are really paid out of sinking fund or some other accumulated moneys. Let me take a glaring instance. In the course of an examination of some details of the returns, I noticed that the 1895–96 repayments of a town in Renfrewshire were about five or six times larger than those of previous years, while there was a deficit for the year in the accounts of over £100,000. After entering into correspondence with the Local Government Board, where my inquiries were answered with the greatest courtesy by the Head of the Statistical Department, I found the point had

come to their notice, and that, as a matter of fact, the figures relating to this burgh were exceedingly unsatisfactory. The repayments for the year must be taken as overstated by about £100,000. I have made the necessary adjustment in regard to this case before calculating the percentages of repayment, but there are many other cases in which similar inaccuracies have occurred, although to a much smaller extent. It is clear that the figures I have given, significant as they are, by no means reflect the full laxity which exists in repaying loans.

Summarising this inquiry into burgh finances we draw the following conclusions:—Public demands of the most varied kind have induced municipal authorities to increase their expenditure to a very considerable extent. We have noticed the same tendency in the accounts of counties and parishes, but a fundamental difference arises in the manner of defraying the expenditure. We saw that in both counties and parishes large imperial grants are received, sufficient to take off the rates the entire burden of many new duties, and that in addition to these grants, assessments have been very considerably raised. In burghs, on the other hand, the increase of revenue has been small. A certain supply has, so to speak, provided itself. Imperial subventions have grown, although in burghs they make up a comparatively small proportion of revenue; industrial ventures have yielded surplus receipts, and the extension of the area of the towns has brought in an increased sum of taxation which as far as it goes must be placed against payments. But these sources of supply have not been sufficient, and when it came to the point of either adding to the rates or adding to the debt, the latter method has been resorted to. In this way burghs have succeeded in going through thirteen years of growing activity in all spending departments without raising their rates one farthing, but as a consequence their debt has grown considerably. County debts amount to one-fourth of valuation, parish debts to one-seventieth, school-board debts to one-fifth, while the debts of burghs exceed the valuation by 60 per cent., and of the total £8,000,000 is a direct burden on the rates.

This survey of the progress of local finance explains the rapid rise to public importance of the question of decentralised government, and it indicates some of the problems which will come up for solution in a not very distant future.

An essential difference exists in the management of imperial and local finance. The one is guided and watched over by men of careful training, who are imbued with the traditions of sound

policy, while local bodies can command no such services, so that intelligent criticism may be said, in the words of an eminent authority,¹ to be almost wholly wanting. It is a matter for congratulation that public interest in these questions is being roused. But under present conditions, if we wish to criticise, what have we to go on? In the most important department, that of urban management, the statistics are incomplete and unsatisfactory. Our conclusions, where they ought to be precise, are vague, while in many points intelligence is simply not to be had. The questions about which we desire particulars are numerous and of growing importance. The whole group of problems connected with the incidence of local taxation have been left unreferred to, as our present information will probably be superseded when the evidence taken before the Royal Commission is published. But there are wide questions of policy which call for attention. Let me indicate one only. Urban authorities are adopting every means in their power to avoid an increase in their rates of assessment, and none of the methods raises graver apprehensions than the desire to take over the management of profit-yielding enterprises. On this point we have, however, as good as no information. It may be the destiny of this country to proceed in the direction of municipal communism, but whatever happens, let us not permit such a development to be hastened by efforts to evade the consequences of reckless mismanagement.

Before the problems of local taxation can be studied with the minuteness they demand, a radical improvement must take place in the tabulation of the statistics. After what has been said it must appear that to make this possible an efficient audit is unquestionably necessary. The only debatable point is whether the supervision ought to be private or official. At present counties and parishes are audited by a number of private practising accountants, but recently it has been suggested to create a public department for the purpose of auditing the accounts of all local bodies. The proposal created considerable discussion at the time, and the one important argument brought against it was the impossibility of completing the work within a short time of the date of closing the accounts. The work would have to be spread over the year, otherwise the department would lie idle for part of the time. This is a strong argument, but all the same I think that a satisfactory result can be obtained in no other way than by a central, that is to say an official audit. Local accounts differ in essential respects from ordinary accounting matters. In trading companies the important

¹ Bastable, *Public Finance*.

point is to put the accounts into final shape without loss of time and determine the profit for the year. In Local Government accounts no such imperative necessity exists, and the important point is to collect all these accounts into one carefully prepared return so that we may have information regarding the tendencies of local taxation.

Such information can be best secured by a central audit on account of the special nature of the result we desire to obtain. In the first place absolute uniformity of accounts is necessary if a reliable summary is to be produced; uniformity not only of book-keeping, but of the methods of treating each group of transactions, and above all things consistency of practise in one year with another. There can be no question that this result can be more completely attained by a central audit. Secondly, accuracy, that is to say compliance with the statutory provisions, will be more authoritatively guaranteed if the supervision is official. The legislative enactments regulating local finance are complicated in the extreme, and for proper control a centralised staff which is engaged in this class of work all the year round must be superior to innumerable private practitioners who meet with this highly technical matter only once a year. On this point we are not confined to general suppositions, we can be guided to some extent by experience. Parochial accounts are at present privately audited, but although the statutory regulations are comparatively simple, the results are not quite satisfactory. Let me take an instance. Parochial rates are imposed, not on gross rental, but on the rental after deducting an allowance for taxes and repairs, and the Poor Law Act gives directions that this abatement shall take into consideration the different sums demanded for this purpose by various kinds of property. One can well imagine what a vast amount of trouble would be entailed in carrying out such a direction. The worthy man who holds the office of parish clerk feels a very natural disinclination to calculate a few thousand proportion sums, so the practice has crept in of deducting a uniform percentage from all rents, and I believe 10 per cent., which can be computed mentally, is a special favourite. But it is obvious that to deduct a uniform percentage from all rents leaves matters the same as before, and completely alters the contemplated incidence of taxation. Still I have never heard of a parish clerk having been bothered by his auditor on this account.

It is also probable that an official audit would insist more effectively and more strictly on compliance with statutory regulations. Let me again take an instance from parochial finance.

Parochial rates are levied on owners and occupiers not at equal rates per £, but at such rates as will realise the same total of taxation from both classes. This introduces great complications and would involve endless trouble if it were carried out. We find from the returns that out of 877 parishes, 839 levy rates, which are equal for owners and occupiers. Evidently no one bothers much about this either. The system of private audit is altogether a curious feature of our local government. No one has ever advocated a local audit of the accounts of the various outposts of the Inland Revenue authorities, or of custom houses, but local authorities in reality are nothing more than agencies of the central government distributed over the country, because of the convenience of local services for certain duties of administration. The present method of supervision can only be explained by the fact that the interests involved were at first insignificant.

I am afraid I have dealt with this point in tiresome detail, but in the interests of public finance the question demands settlement. This endowment of local authorities with financial powers is nothing more than an experiment really. It is of recent growth; it has been developed on no settled line of policy,¹ and it seems to have been inaugurated in exaggerated belief in the financial capacity of a democracy. In the meantime I wish to say nothing more than this. What we need, and what at present we have not got, are reliable sources of information by which to judge this venture.

It is likely that in the near future we shall see a still larger extension of local expenditure and local taxation. Everything points in this direction. "It is evident," says Sir Henry Fowler in winding up his report on the local taxation of England, "it is evident that the local expenditure which exceeded £50,000,000 in 1891; will continue to increase." Sir John Skelton prophesies the same regarding Scotland, and Professor Marshall in estimating the likelihood of a permanent reduction in the rate of interest bases his disbelief, among other grounds, on the unlimited capacity for spending possessed by local authorities.

It may be a grand development this: we may believe with Sir Erskine May that it is due to her free local institutions that England alone among the nations of the earth has maintained for centuries a constitutional policy. Or with De Tocqueville we

¹ Compare Mr. Goschen's speech of 3rd April, 1871. "Above all things I think it is our duty to make up our minds clearly as to what we want and to put a stop to that piecemeal legislation as regards local government which has produced the chaos at present existing."

may be convinced that town meetings are to liberty what primary schools are to science, that they bring it within the peoples' reach and teach them how to use it. But I am not so sure that these old "local assemblies of citizens" form complete analogies to modern conditions. The vast burden of financial responsibility has been imposed since then. There may be danger in overdoing management and supervision to the detriment of liberty, but a little supervision now to secure the material for intelligent criticism will stave off that complete supervision which will have to be resorted to if these assemblies insist on steering full steam ahead for the rocks.

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