

# CHAPTER 5

## LOCAL AUTHORITIES

### 5.0 THE LOCAL AUTHORITY SECTOR

#### SCOPE OF THE SECTOR

Substantially all local bodies (other than companies trading for profit) which are authorised to levy or order to be levied rates, taxes, tolls or dues, are obliged to submit annual financial returns under Part XI of the Local Government Act of 1933.<sup>1</sup> The boundaries of this sector are thus drawn so as to embrace all those 'public authorities of limited geographical scope' (C.S.O. [73], p. 306) which have power to raise funds by certain forms of local taxation, and which are treated as local authorities – with respect to their obligation to make an annual return of income and expenditure – by the Ministry of Housing and Local Government (or its predecessors the Ministry of Health, from 1920 to 1951 and, prior to that, the Local Government Board) and the corresponding departments in Scotland and Northern Ireland.<sup>2</sup>

It includes such general administrative bodies as county, borough, district and parish councils and also local bodies with special functions such as Boards of Guardians of the Poor (abolished as from 1 April 1930), the Mersey Docks and Harbour Board, the Port of London Authority (from 1909/10), the Metropolitan Water Board\* (from 1913/14) and the Metropolitan Police.

The local authority accounts are presented in the same categories as those adopted for the Central Government and the principles discussed in Chapter 4 (including the elimination of transactions within the sector) are also applicable here.

The estimates are set out in six sections:

- 5.1 Income from rates and taxes on expenditure, 1870–1965
- 5.2 Gross trading surplus and rent, interest and dividends, 1900–65
- 5.3 Grants from the Central Government, 1900–65
- 5.4 Current expenditure on goods and services at current and constant prices, 1870–1965
- 5.5 Subsidies, grants and debt interest, 1900–65
- 5.6 Capital expenditure and transactions in financial assets, 1920–38

For 1855–1919 and 1939–65 capital expenditure is covered separately in Chapter 9.0.

Since all six sections have a common source of information in the returns submitted by the local authorities we turn next to a general description of the data and of the problems encountered in constructing the required national accounting categories. More specific problems of definition and estimation are dealt with in the individual sections.

#### SOURCES AND METHODS OF ESTIMATION

From 1946 onwards all the estimates are those prepared by the C.S.O. and published in the Blue Books. The estimates for this period are not specifically discussed in this chapter but the basic sources have changed little from those available in the inter-war period (more precisely, since 1929/30) and the methods of estimation are essentially the same as those described in full below. See also C.S.O. [73], pp. 306–19.

For 1939–45 the old C.S.O. estimates [77, 1951] were used wherever it was possible to accept or adapt the definitions then applied. For other series new estimates were derived from the original sources or *Statistical Abstracts* and data was also taken from the study by Peacock and Wiseman [226].

For 1920–38 a complete set of estimates was prepared in 1947–8 by Professor J. E. G. Utting, but the results were not published. The work was done with exceptional care and attention to detail and was accompanied by a memorandum on the sources and methods of estimation, and this forms the basis for many of the succeeding pages of this chapter. It has been necessary to adjust most of the items so as to conform with current definitions, but the information required for this was generally available in the very detailed accounts and worksheets compiled by Utting. I have

<sup>1</sup> There are corresponding acts for Scotland and for Northern Ireland. Prior to 1933 the same obligation was imposed, e.g. by the local Taxation Returns Acts of 1860 and 1877.

<sup>2</sup> Prior to 1920 the estimates also include Southern Ireland and the relevant body in this period was the Local Government Board for Ireland.



also added the purpose classification of expenditure on goods and services and the estimates at constant prices.

For 1870–1920<sup>1</sup> I have made new estimates for some series, or for part of the period, without, however going through the elaborate procedures for estimating missing items carried out by Utting for the inter-war years; and otherwise have relied on the work by Jefferys and Walters [184] and unpublished estimates kindly made available by J. Veverka.

The brief note on sources and methods which follows is written with specific reference to the estimates prepared for 1920–38 by Utting, but most of it is equally applicable to earlier and later years.

For 1920–38 the basic source of information for local authorities in England and Wales was the return *Local Government Financial Statistics* [22] (prior to 1934/5 *Annual Local Taxation Returns* [10]) prepared and published by the Ministry of Health for every financial year (ending 31 March). From 1929/30 to 1936/7 the form of publication was virtually unaltered. For each of these years there were three main volumes (Parts I–III) and a summary. Since 1936–7 only the summary has been published.

The summary aggregated the figures for all authorities in England and Wales, analysing their transactions service by service and by type of income and expenditure, but eliminating, as far as possible, transactions of one local authority with another; it also excluded certain transfers from one account to another of the same council, where both accounts were of the same type, but it retained transfers between accounts of different types (e.g. from rate fund account to trading services or to capital account).<sup>2</sup> The summary tables thus show the transactions of local authorities with the rest of the economy, excluding internal transfers except insofar as they are from one kind of account to another. They make it possible to pick out certain transactions between rate fund and trading services as well as with bodies outside the local authority sector, and from that point of view are excellently suited to an analysis showing the interactions of local authority trading enterprises and local authority non-trading services with one another and with the outside world. For the years for which summary tables are available, the more detailed analyses by class of authority can practically be ignored.

For years prior to 1929/30, however, there were no summary tables in the published volumes of *Local Taxation Returns*; and, although the details of individual authorities and classes of authority in Parts II and III were substantially the same as in later years, there are certain minor variations which make exact comparisons difficult. For this reason, although it is possible to make one's own aggregation of the various classes of authority

and to attempt to eliminate transfers between different authorities, it is not possible to check the method by applying it to the later years and checking the results against the published summaries. Fortunately, however, the Ministry of Health did compile certain summary figures (in the same form as in later years) for the financial years 1927/8 and 1928/9 which not only give reliable aggregated information for two further years, but also provide a means of checking any method of aggregation which one wishes to apply to the earlier years. Aggregate figures for some of the *main* items of income and expenditure relating to the whole of the period were also prepared and published in the Ministry of Health *Annual Reports* [13] and the annual volumes of the *Statistical Abstract*; these provide a further check on any estimated aggregates. It was, therefore, possible to compile aggregate figures for all local authorities in England and Wales, covering the years 1919/20 to 1928/9 in the same form as the published summaries for later years, which agree very closely with the official information available in the *Statistical Abstract* and elsewhere. The method of aggregation and consolidation is described in Appendix 5.1.<sup>3</sup>

For Scotland the official statistics of local government finance are published in the *Annual Local Taxation Returns (Scotland)* [11] prepared by the Scottish Home Department (formerly by the Department of Health for Scotland). They are in considerably less detail than the statistics for England and Wales, but they contain a number of summary tables relating to all authorities in Scotland which are similar, in respect of the main headings, to those published in *Local Government Financial Statistics*. They refer to a financial year ending on 15 May.

The last volume of *Annual Local Taxation Returns (Scotland)* to be placed on sale related to the year 1934/5, but summary figures for years up to 1941/2 have been given a limited circulation by the Scottish Home Department.

No difficulty, such as that encountered with the figures for England and Wales, exists in compiling the data for the earlier years since the form of the published material was virtually unchanged throughout the period.

<sup>1</sup> This estimate for 1920 covers the whole of Ireland; the estimate made by Utting excludes Southern Ireland.

<sup>2</sup> Trading services cover the supply of electricity, gas, water and transport, and the operation of docks, harbour, canals, ferries, cemeteries, markets and corporation estates. Rate-fund services cover all non-trading activities including education, highways, housing, police, health and sanitation services. For discussion of the significance of this distinction see also p. 93 below.

<sup>3</sup> See also p. 96, n. 1, below.



The *Statistical Abstract* also gives Scottish local financial data, and this has been used for one item which does not appear in *Local Taxation Returns*.

The Northern Ireland government also publishes an annual volume known as *Local Taxation Returns* [23] giving details of the financial transactions of local authorities, prepared by the Ministry of Home Affairs. It gives information relating to the income and expenditure, during a financial year ending on 31 March, of the individual local authorities, as well as analysing the aggregate figures under a number of broad headings. It is possible, by suitable rearrangement of the data, to analyse them in a way which is in close agreement with the principal headings of income and expenditure in *Local Government Financial Statistics*.

There are no major difficulties resulting from variations in the form of publication of the data during the period under review, but there is a gap in 1919/20 and 1920/21, for which years no returns were published.

We proceed now to consider the derivation of the national accounts from the data given in the local authority *Returns*.

#### *England and Wales*

The information available in the summary tables of *Local Government Financial Statistics* in 1938/9 was classified under the headings of income and expenditure shown in the three parts of Table 5.1, below. It will be seen at once that these headings are far from ideal for social accounting purposes. Apart from the separate headings for government grants, there is little indication of the way in which either income or expenditure is allocated between different sectors of the economy, and it is not even possible to trace *all* the transfers between different tables. Nevertheless, it is possible by suitable rearrangement of these headings to arrive at a system of accounts which distinguishes such different classes of transactions as purchases of goods and services, interest payments, depreciation, transfer payments, grants, investment income, receipts from rates etc.

The details of the transition from Table 5.1 to the required social accounting categories are specified in the individual chapters devoted to these categories.<sup>1</sup> The following general points may be noted here.

First, the distinction drawn in *Local Government Financial Statistics* between 'trading services' and 'rate fund services'<sup>2</sup> is, with one major exception, accepted as the basis for the division between trading enterprises<sup>3</sup> and non-trading services. The exception is housing, which is treated as a trading service. Local authority trading enterprises (other than housing) are assumed to be run on a commercial basis with the intention of making a profit, or at least of covering their

costs; any profit – or unintentional loss – is treated as a component of domestic factor incomes together with the profits or losses of private trading enterprises.<sup>4</sup> Housing is the only trading service where the deficit (i.e. the excess of expenditure including loan charges and repairs etc. over rents and government grants) is treated as a subsidy. Non-trading services, which provide common services without any commercial basis of charge (which does not preclude some charges or fees, e.g. for school books) are treated in the same way as the non-trading departments of the Central Government.<sup>5</sup>

Secondly, the definitions adopted by the local authorities for current and capital expenditure are accepted for the national accounts except for the capital expenditure on Small Dwellings Acquisition. This was actually money advanced to individuals (to enable them to purchase or build houses for their own occupation) and is treated as such in Chapter 5.6, with a corresponding treatment of capital receipts by this service.

Thirdly, the various 'special funds' included in Table III of [22] (see Table 5.1, below) were each given separate consideration and allocated to trading or non-trading services with appropriate classification of their income and expenditure. A brief note on these funds is given in Appendix 5.2.

<sup>1</sup> See also J. E. G. Utting, *Social Accounts of Local Authorities*, 1953 [256].

<sup>2</sup> See also p. 92, n. 2, above.

<sup>3</sup> See Chapter 4.2 for detailed discussion of the criteria used in defining a public trading enterprise.

<sup>4</sup> It is recognised that some individual undertakings classed as trading services in [22] are deliberately run by the responsible local authority so as to incur a loss, e.g. on the provision of electricity supply in a rural area. In this case the loss (which would be met by a contribution from the general rate fund) should be treated as a subsidy (see Chapter 4.2). In practice, however, there is no way of knowing whether a particular deficiency was intentional or not. The identified transfers from rate fund accounts towards deficiencies on trading services (other than housing) are all eliminated on consolidation of the sector accounts even where the deficiencies appear regularly in the same undertakings of the same authorities.

<sup>5</sup> The converse of the previous case (n. 4) arises where a rate fund service shows a surplus without the aid of any sort of subsidy. This applies, for example, to 'Private street works and other works of private improvement'. These are works which are wholly rechargeable to other bodies and persons, but include certain works carried out at the instance of the local authority and compulsorily charged to other persons – rather like a tax – as well as those carried out at the instance of the person who foots the bill. However, the surpluses are only of the order of £100,000 and, as a matter of convenience, they are left with the non-trading services.



TABLE 5.1 HEADINGS OF INCOME AND EXPENDITURE IN  
SUMMARY TABLES OF LOCAL GOVERNMENT FINANCIAL  
STATISTICS FOR ENGLAND AND WALES, 1938/9 [22]

TABLE I RATE FUND SERVICES

## REVENUE ACCOUNT

<i>Expenditure</i>	<i>Income</i>
1. Maintenance and other expenses not being loan charges	5. Rates
2. Repayments of loans and transfers to sinking funds <sup>a</sup>	6. Government grants allocated to specific services
3. Interest payments <sup>a</sup>	7. Government grants not allocated to specific services
	8. Specific income from fees, rents etc.
	9. Transfers in aid of rates from trading accounts
4. Total expenditure	10. Total income

## CAPITAL ACCOUNT

<i>Capital Receipts during the Year</i>	<i>Capital Expenditure during the Year</i>
11. From loans	16. Capital expenditure on works <sup>a</sup>
12. From government grants	17. Repaid to lenders or transferred to sinking funds <sup>a</sup>
13. Transfers from revenue (included in item 3) and from special funds (included in item 41)	
14. From sales of land and other sources	
15. Total receipts	18. Total expenditure

<sup>a</sup> Obtainable from footnotes to Table I in *Local Government Financial Statistics*.

TABLE II TRADING SERVICES AND CORPORATION ESTATES

## REVENUE ACCOUNT

<i>Expenditure</i>	<i>Income</i>
19. Working expenses	26. From sources other than government grants
20. Repayments of loans and transfers to sinking funds <sup>a</sup>	27. From government grants
21. Interest payments <sup>a</sup>	28. Receipts towards deficiencies from rate fund accounts
22. Transfers to reserve and other special funds	29. Receipts towards deficiencies from other accounts (including reserve funds)
23. Transfers to capital accounts	
24. Transfers in aid of rates	30. Total income
25. Total expenditure	

## CAPITAL ACCOUNT

<i>Capital Receipts during the Year</i>	<i>Capital Expenditure during the Year</i>
31. From loans	36. Capital expenditure on works <sup>a</sup>
32. From government grants <sup>a</sup>	37. Repaid to lenders or transferred to sinking funds <sup>a</sup>
33. Transfers from accounts other than capital accounts <sup>a</sup>	
34. From sales and other sources <sup>a</sup>	
35. Total receipts	38. Total expenditure

<sup>a</sup> Obtainable from footnotes to Table II in *Local Government Financial Statistics*.

TABLE III SPECIAL FUNDS

<i>Expenditure</i>	<i>Income</i>
39. Expenditure (other than transfers)	43. Transfers from rate fund revenue accounts
40. Transfers to rate fund revenue accounts	44. Transfers from other accounts
41. Transfers to other accounts	45. Other income
42. Total expenditure	46. Total income

The special funds separately distinguished in this table are:

- (a) Sinking funds or redemption funds for repayment of loans
- (b) Statutory housing repairs accounts
- (c) Housing equalisation accounts
- (d) Other reserve funds

- (e) Insurance funds
- (f) Trust or charity funds
- (g) Superannuation funds
- (h) Other special funds

The letter after any of the Nos. 39-46 in the references to this table (e.g. Chapter 5.1, p. 99) refer to the corresponding special fund as listed here.



Finally, all statistics for financial years ended 31 March were allocated to calendar years on the usual three-quarters/one-quarter basis.

With one exception all the information required is obtained from the *Local Government Financial Statistics* (or *Local Taxation Returns*) or from the estimates described in Appendix 5.1 for years prior to 1929/30. The exception relates to 'Loan charges'.<sup>1</sup> As given in the summary tables these are not divided between interest and repayment provision for any year prior to 1930/1. However, the head of the local government division of the Ministry of Health, in a paper to the Royal Statistical Society,<sup>2</sup> gave figures for total loan charges (including repayment of loans from capital accounts) and for interest payments in earlier years. His figures have been used as the basis for an apportionment of interest payments between rate fund and trading services, and of repayment provision between these two groups of services and also between revenue and capital accounts. There is reason to believe that, on average, the rate of interest payable on loans for rate fund services has been rather higher than that for trading services, and the published figures for 1930/1 to 1938/9 show that if interest payments are represented as a percentage of gross outstanding debt, the figure for rate fund services is on average (and consistently) some 0.4 % above that for trading services. If this is assumed to hold for earlier years it is possible, knowing the gross outstanding debt on each of the two groups of services (from the *Statistical Abstracts*), to apportion Sir Gwilym Gibbon's interest figure between the two sectors. Subtraction from 'Loan charges', as given in the summaries, yields the apportionment of repayment provision on revenue account. Repayments on capital account can be obtained in aggregate by subtracting loan charges as given in the revenue summaries from Sir Gwilym's figure for total loan charges; the apportionment between rate fund and trading services has been made in proportion to 'Receipts from sales of land etc.' in the two accounts, to which these repayments are related by the fact that such receipts are frequently used for that purpose.

#### Scotland

The Scottish *Local Taxation Returns* [11] are not immediately comparable with the tables of *Local Government Financial Statistics*. For instance, although they give summary figures for all local authorities in Scotland, these are not brought together in a single series of tables in accounting form but are shown in a number of scattered tables in the descriptive memorandum, and receipts and the corresponding expenditure may be separated by several pages. Further, instead of the sub-

division into trading services, rate fund services and special funds, the Scottish tables distinguish revenue-producing undertakings, non-revenue-producing undertakings and the common good. The revenue-producing undertakings partially correspond to the trading services in England and Wales, but they include housing, baths and washhouses, and private improvement expenses (which are comparable to the private street works already discussed for England and Wales).

Baths and washhouses must be transferred to non-trading services but it is convenient as well as realistic to treat the private improvement works as trading enterprises. As in England and Wales housing is also regarded as a trading service.

Water rates are included in income from rates and must be separated and treated as current revenue of the water supply enterprises.

The common good consists of property vested in the town councils – 'the revenues whereof are expended for the behoof of the community' – but where this property includes markets or other trading undertakings their income and expenditure are included with other revenue-producing undertakings. Hence the income of the common good has here been treated as investment income and its expenditure as payments for goods and services by non-trading services.

The available information was then rearranged to get the required social accounting categories. This is a less complicated procedure than in the case of England and Wales chiefly because the information available is rather less complete. This necessitates certain assumptions about the figures and prevents some of the finer adjustments (e.g. in respect of transfers between accounts) which were made in the accounts for England and Wales, but it does not seem likely to have had any important effect on the general magnitude of the figures.

One item requires some additional calculation. *Local Taxation Returns* divide the loan charges between interest and repayment provisions, but only show the totals for all services, so that it was necessary to estimate the way in which the two components are allocated between the two sections of the accounts. The division has been based on the corresponding figures for England and Wales, where it was found that average interest rates, when expressed as a proportion of gross outstanding debt, were generally about 0.4 % higher for rate fund services than for trading undertakings. The

<sup>1</sup> Loan charges consist of interest on borrowed moneys, repayments of principal other than out of sinking funds and payments into sinking funds.

<sup>2</sup> Sir Gwilym Gibbon, 'The Expenditure and Revenue of Local Authorities', *J. R. Statist. Soc.* LXXXIX, 1936 [167], p. 498.



same margin has been applied in estimating the interest figures for Scotland. In the case of repayment provision the relationship between the two groups of services is apparently more complex. In England and Wales the figures obtained for repayment provision (which in earlier years are admittedly not independent of the interest estimates) have again been expressed as percentages of gross outstanding debt, giving a result which is roughly indicative of average periods of loan repayment. In the rate fund services this percentage fluctuates around 2.5 %, with a low point at about 2.2 % in the years 1928–33; but in trading services, after fluctuating about 2.5 % in the early 1920s, it increases steadily from 2.7 % in 1925/6 to 3.9 % in 1938/9. This apparently indicates that rate fund loans, which are concerned very largely with buildings and land, have remained long-term throughout the period, while there has been a progressive shortening of the repayment period for loans to trading undertakings, which are more concerned with the purchase of machinery and other equipment yielding an immediate financial return.

The Scottish data indicate that repayment periods are, on average, shorter there than in England and Wales, but it still seems likely that similar considerations affect the relative length of period for the two groups of services. In estimating the division of repayment provision between the two sectors therefore, the relative trends of the percentages obtained for England and Wales have been maintained, but the absolute figures have been increased to take account of the shorter average periods of repayment.

All figures are for the financial year ended 15 May and were allocated to calendar years in the proportion: five-eighths/three-eighths.

#### *Northern Ireland*

The *Local Taxation Returns* [23] for Northern Ireland are arranged in a way which is more like the Scottish returns than those for England and Wales. There are tables showing the main sources of income and expenditure, with total figures for all authorities in Northern Ireland, and there are detailed figures in the appendices for different classes of authority and for individual authorities. The tables make no clear distinction, such as exists in England and Wales, between trading undertakings and other services.

In setting up separate accounts for local authority trading enterprises and for non-trading services, therefore, it has been necessary to decide which services should be regarded as falling within each sector. Of those for which separate details are available, a number clearly come under the heading 'enterprises' as it has been used in England and Wales; these are water, gas,

electricity, tramway and omnibus undertakings, housing and markets, fairs and abattoirs. 'Rents from property in land, houses etc.' is an item which apparently corresponds to income from 'Corporate estates' in England and Wales, but expenditure on this property is not shown as a separate item; it has therefore been included with the non-trading services, where the expenditure is included with other works and services.

The details given in the *Returns* were then rearranged to obtain the required categories. Certain of the totals had to be built up from the figures for individual types of undertaking or classes of authority. These are not always complete, but they are the nearest approach to a complete figure which can be obtained from the available information. All government grants were allocated to non-trading services.

The financial year ended on 31 March, and adjustment to a calendar year basis was made in the usual way. The estimates for 1921/2 were used for both 1920 and 1921 in the absence of published accounts for 1919/20 and 1920/21.

Aggregate accounts for the United Kingdom were then obtained by simple addition of the estimates for the three regions;<sup>1</sup> there being no reason to suppose that there were any transactions between the three groups which warranted elimination. The results are presented in the form of a current account for the local authority sector in Table 13 (which covers the period 1900–65) and a classification of the current expenditure on goods and services by purpose and by type of payment is shown (for 1920–38 only) in Table 35. A capital account for the inter-war years is set out in Table 36. Two of the series, current expenditure on goods and services and income from rates and taxes on expenditure are required for the main national accounting aggregates and are also estimated for 1870–99. They are shown, together with the corresponding series for Central Government, in Table 2. Expenditure on goods and services at constant prices is given for 1920–38 in Table 35 and for 1870–1965 (together with the Central Government) in Table 5.

<sup>1</sup> Unpublished material showing: (a) separate accounts for England and Wales, Scotland and Northern Ireland originally prepared by Utting (in far more detailed form, but with somewhat different definitions, than the summary presentation in Table 13); (b) the consolidated series, transfers etc. reconstructed or estimated for England and Wales for 1919/20–1928/9 (see Appendix 5.1); and (c) details of the derivation of the accounts for the two smaller regions from their published *Returns* are available in the library of the Department of Applied Economics, University of Cambridge.



## CONSISTENCY AND RELIABILITY

The estimates have an unusually high degree of continuity in the sense that a single source, the local taxation *Returns*, spans the entire period and provides comprehensive coverage of all local authorities. There are, however, a number of possible points at which breaks in continuity could occur, due either to a change in the basic data provided in the *Returns*, or to changes in the definitions used. Instances of the former occur – moving backwards chronologically – in 1928/9, 1918/19 and 1901/2, and of the latter in 1914. Differences in definition also help to account for the discrepancies between the present and the Blue Book estimates for 1938, shown in Table 5.2.

TABLE 5.2 COMPARISON WITH THE BLUE BOOK ESTIMATES OF LOCAL AUTHORITY INCOME AND EXPENDITURE IN 1938 (£M.)

	Blue Book (1)	Present estimate (2)
<i>Receipts</i>		
Gross trading surplus	137	46
Rent, interest and dividends		74
Rates and taxes on expenditure	212	212
Current grants from Central Government	142	142
Total	491	474
<i>Expenditure</i>		
Current expenditure on goods and services	318	310
Housing subsidies	5	5
Current grants to persons	25	26
Debt interest	68	68
Total	416	409
Current surplus	75	65

SOURCE: (1) 1967 Blue Book [75], p. 6. (2) Table 13.

For five of the items the agreement is near perfect. The difference in current expenditure on goods and services is accounted for by the exclusion from the present estimates of £9 m. for loan charges for roads etc. This imputed item is similarly excluded in the Blue Book estimates for 1946 onwards but the 1938 figure was not amended when the change was made for the post-war years.

This also accounts for part of the large discrepancy on the receipts side where the same amount is excluded from the present estimates of imputed rental income. A further £7 m. also affecting rent, interest

and dividends<sup>1</sup> is, I believe, accounted for by an error in the adjustments for transfers to capital account and special funds made by the C.S.O. in the course of moving to the current estimate of £137 m. for income from property from an earlier estimate of £7 m. with a rather different conceptual basis (given in the 1948 National Income White Paper [65, Cmd. 7371, p. 32].<sup>2</sup>

The change in 1914 affects only the estimate of the gross trading surplus and springs from the transition from the estimates based on Inland Revenue data to the estimates based on the local authority *Returns*. The difference amounts to some 12 %. See Chapter 5.2.

Turning to the breaks in continuity of the data we may note, first, the transition from the special summaries for England and Wales compiled by Utting for 1919/20–1928/9 to the official summaries published by the Ministry of Health. As noted above (p. 92) it is possible to compare the estimates for 1927/8 and 1928/9 with unpublished summaries for those years prepared by the Ministry of Health on the same basis as for later years. It is clear from this that the differences are negligible; for current expenditure on goods and services, for example, the one estimate for 1927/8 is £229.3 m. the other is £230.2 m.<sup>3</sup>

Before 1919/20 the estimates are based in large measure on the summaries given in the *Statistical Abstracts* and the break at this point is somewhat more significant. For the main series (in the sense that it also affects the gross domestic product estimates), current expenditure on goods and services, the estimate for 1919/20 for England and Wales given by Utting's summaries is £154.8 m.;<sup>3</sup> the corresponding estimate using the data available in the *Statistical Abstracts* is £160.1 m. The higher figure reflects the failure to exclude such items as transfers towards deficiencies on trading services and transfers to certain special funds.

Other breaks occur at points such as 1901/2 when estimates of non-trading current expenditure have to be based on data for the corresponding type of income; and here it is impossible to say precisely what the effect is, but a comparison of the data for years when both income and expenditure are available suggest that the two move closely together.

The reliability of the series is probably the best of any in this study. At least from 1920 onwards there is a source of information which is comprehensive; reasonably

<sup>1</sup> For the gross trading surplus see also Chapter 4.0, p. 70, n. 3.

<sup>2</sup> Based on a letter to the author from the C.S.O., dated 8 October 1962.

<sup>3</sup> This is the figure obtained *before* making certain of the adjustments noted in Chapter 5.4, e.g. the exclusion of loan charges for roads.



compact – so that, unlike the government accounts, it is relatively simple to ensure that all entries are accounted for; and embodies concepts which are tolerably close to those required for social accounts.

We can, therefore, assign the following reliability grades<sup>1</sup> to the estimates shown in Table 13.

1900–1919	B
1920–1965	A

For the two series carried back to 1870 rates can also be considered as grade B for 1870–99, but current expenditure on goods and services is perhaps subject to slightly larger errors and may be only grade C.

## 5.1 INCOME FROM RATES AND TAXES ON EXPENDITURE, 1870–1965

### DEFINITION OF THE SERIES

The principal item is local rates plus payments in lieu of rates made by the Central Government and certain nationalised industries. Land drainage rates are included but water rates are treated as the current receipts of a trading service.

For 1909–38 a sum of just over £1 m. p.a. has also been included for dog and gun licences etc. collected and retained by the local authorities since 1 January 1909. For later years this is treated by the C.S.O. as a grant from the Central Government [74, p. 234].

The series is shown separately for 1900–65 in Table 13, and for 1870–1965 is combined with Central Government taxes on expenditure in Table 2.

### SOURCES AND METHODS OF ESTIMATION

1946–1965

See p. 91 above.

1939–1945

This is the series for local rates implicit in *Statistical Digest of the War* [77, pp. 200–2], i.e. total public authority taxes on expenditure less Central Govern-

ment taxes on expenditure and employers' contributions to National Insurance and Health Funds (see Chapter 2.1 above).

1920–1938

This is local rates (item 5 of Table 5.1, p. 94, and the corresponding items for Scotland and Northern Ireland) plus the figure for dog, gun and game licences etc. given in the *Annual Reports of the Ministry of Health* [13].

1870–1920

The local rates collected in England and Wales, Scotland and Ireland are taken from the *Statistical Abstracts* [35, e.g. No. 62, p. 54]. For Ireland receipts in 1919/20 and 1920/1 are assumed to be the same as in 1918/19, the last year for which figures were published for all Ireland; and for 1886/7 until 1906/7 the rate receipts for Ireland include water rates. Before that profits from gas undertakings are also included. For Scotland the rate receipts for years before 1890/1 were estimated by reference to the published series which includes the income of gas and water undertakings. The figure for dog and other licences, added from 1909, is given for this period in the *Statistical Abstracts* [35, e.g. No. 62, pp. 34–5].

## 5.2 GROSS TRADING SURPLUS AND RENT, INTEREST AND DIVIDENDS, 1900–1965

### DEFINITION OF THE SERIES

The first component is the *gross trading surplus* of local authority trading enterprises<sup>2</sup> before providing for depreciation and stock appreciation and before charging interest. It is measured by the surplus of current receipts over current expenditure. As with private trading enterprises (see, e.g., Chapter 3.1) the imputed rental income from land and buildings owned by local authorities and used for trading services (other than housing) is treated as part of the gross trading surplus.

Current receipts consist chiefly of revenue from sales or from tolls and dues and include any Central Government grants towards trading services. Receipts towards deficiencies from rate fund accounts or from revenue funds are not included. The current expenditure con-

sists of working expenses and employers' contributions to superannuation funds. Loan charges are not included; nor are transfers in aid of rates, transfers to reserve funds or to capital accounts. Direct taxation ought to be excluded but it cannot be isolated from other expenditure in the *Returns* and the profits are underestimated by the amount of direct tax liabilities.<sup>3</sup>

<sup>1</sup> See Chapter 1.4 for further discussion of these grades.

<sup>2</sup> See also pp. 92–3, above.

<sup>3</sup> The amount involved is very much lower than would appear from the trading surplus. Apart from such factors as wear and tear allowances the principal reason for this is that local authorities pay tax on the profits of their trading enterprises but are allowed to retain the tax which they deduct when paying interest including, in general, the interest on loans charged to non-trading services. The net tax liability is, therefore, very low. Cf. C.S.O. [73], p. 313.



The same definition is followed back to 1920 but it should not be overlooked that a substantial part of the municipal trading enterprises were transferred to the public corporations sector as a consequence of the nationalisation of all electricity and gas undertakings in 1948 and 1949; as measured by the gross trading surplus at current prices the local authority sector shrank to about half its former size.

For 1915–19 the definition is essentially the same; but for 1900–14 the series is based on income tax data and the definition of profits followed for tax purposes differs slightly from that used in the local authority *Returns*. (Cf. Chapter 7.1, p. 143.)

The second component of this chapter is the receipt of *rent, interest and dividends*. The rent arising from the ownership of houses and of non-trading property (other than roads)<sup>1</sup> is an imputed figure and is generally measured by the annual loan charges.<sup>2</sup> These are the equivalent of interest on capital plus depreciation. Loan repayments are an imperfect measure of depreciation in at least three respects: they lead to an over-estimate because the loan repayment period is normally rather less than the life of the asset (obviously so in the case of land); but they understate the true figure since the loan charges are related to the *original* cost of the assets and not to their current *replacement* cost; and furthermore a proportion of capital expenditure is usually financed from sources other than borrowing (e.g. capital grants from the Central Government).

The rent imputed to non-trading property is offset by the inclusion of an equal amount in current expenditure on goods and services, while the imputation for houses is balanced by the amount included in the calculation of housing subsidies.

Interest and dividends comprises the interest received on advances in connection with small dwellings acquisition and income received on the invested balances of sinking funds and other special funds.

The same definition of rent, interest and dividends is followed throughout though there is incomplete coverage of the interest, etc. in the earlier years.

The two components are shown for 1900–65 in Table 13.

#### SOURCES AND METHODS OF ESTIMATION

1946–1965

See p. 91 above.

1939–1945

Estimates of the *gross trading surplus* were made for the war years from the summary tables of *Local Government Financial Statistics* [22] published for England and Wales

and the data for Scotland and Northern Ireland in the *Annual Abstract of Statistics* [9, e.g. No. 87, pp. 249–51].

The same two sources were used for the estimate of *rent, interest and dividends* received.

For both series the derivation follows closely that outlined below for 1920–38.

1920–1938

The *gross trading surplus* is derived from the following items of Table 5.1, p. 94 (and the corresponding items for Scotland and Northern Ireland):

26	Income from sources other than government grants
+ 27	Government grants
– 19	Less working expenses (excluding loan charges and transfers to other accounts)
– 44g	Less transfers to superannuation funds from ‘other accounts’.

*Rent, interest and dividends* is derived from:

2 + 3	Loan charges on rate fund services
+ 45	‘Other (i.e. non-transfer) income’ of special funds
– 45g	Less ‘other income’ of superannuation funds

It was then necessary to deduct from this the loan charges on highways for which the necessary series is given for England and Wales in the *Local Government Financial Statistics* [22] and a rough allowance was made for Scotland and Northern Ireland.

1900–1920

For 1900–13 the estimates of the *gross trading surplus* derived in Chapter 7.1 from the tax data were adopted.<sup>3</sup> This series cannot be continued through the war years and as a first approximation a series was constructed for 1913–20 on the basis of the summary data published for local authority trading enterprises in the *Statistical Abstracts*. The result for 1920 falls some £2 m. (10 %) below the estimate obtained by Utting (on the basis of the independent compilation of the necessary aggregates described in Appendix 5.1); while the estimate for 1913 is some £2 m. (12 %) above the figure derived from the tax returns.<sup>4</sup> The series constructed from the

<sup>1</sup> No imputation is made for the rent from, or the use of, roads and public lighting, and no allowance is made for depreciation of these assets. See C.S.O. [73], p. 310–11.

<sup>2</sup> For the Blue Book estimates the imputed rent for fixed assets employed in education is based on rateable values [73, p. 310].

<sup>3</sup> See pp. 156–7 and Table 29 (where the series is carried back to 1889).

<sup>4</sup> A discrepancy in this direction is consistent with the finding for the inter-war years discussed in Chapter 7.1, p. 143.



*Statistical Abstract* was therefore used as a basis for interpolating between the 1913 and 1920 estimates with the recognition that part of the small net rise over the war years represents the transition from the lower level of the tax-based series to the higher level shown by the local authority *Returns*.

Rental income is again measured by the loan charges on housing and non-trading property (other than roads). For England and Wales this can be derived after 1902 from the summary data published in the *Statistical Abstracts*, and estimates were added for Scot-

land and Ireland, for which only an unclassified annual total of loan charges is available. The series was completed by extrapolating the total on the basis of the loans outstanding on non-trading property (other than highways) of local authorities in England and Wales.<sup>1</sup> The rough allowance added for interest etc. was based on the amounts identified as interest of sinking funds etc. in the *Annual Local Taxation Return* [10, e.g. 1913-14, p. 59, n. g] for England and Wales and Utting's figures for 1919/20.

### 5.3 GRANTS FROM THE CENTRAL GOVERNMENT, 1900-1965

#### DEFINITION OF THE SERIES

Current grants to local authorities from the Central Government comprise both grants in aid of the cost of specific services (such as education and police); and grants not allocated to specific services. These begin on a significant scale in 1930/1 with the block grants under the Local Government Act 1929 but include also grants under the Agricultural Rates Acts of 1896 and 1923 and the transitory grants paid in compensation for loss of rates in 1929/30. Grants towards housing are excluded. In the social accounts they are treated as a subsidy by the Central Government (Chapter 4.5) and this is balanced by an equal reduction in the subsidy paid by the local authorities (Chapter 5.5). Grants to trading services are also excluded – they are treated as part of trading income in Chapter 5.2, and as a government subsidy in Chapter 4.5. From 1939 receipts from licences collected and retained by the local authorities are also included; for earlier years this item (about £1 m. p.a.) is treated as a tax on expenditure (see Chapter 5.1). Prior to 31 March 1907 certain customs and other duties were collected centrally and paid direct to the local authorities. These amounts were treated by the local authorities as grants from the Central Government and are included as such in the present estimates.

Capital grants from the Central Government consist of war damage compensation and grants towards capital expenditure on specific services.

The figures derived for grants from the *Local Government Financial Statistics* do not agree entirely with those derived from the government's *Appropriation Accounts*. The C.S.O. suggests [73, p. 309] that the reason for this is that the former record amounts due, while the latter record actual payments. In order to maintain consistency between the two accounts it is necessary to have an agreed series. For 1946 onwards the Central

Government figures are used by the C.S.O.; for earlier years it is more convenient to base the estimates on the local authority records (as these also provide the data on the allocation of the grants between current and capital account and also between trading and non-trading services).

The current grants are shown for 1900-65 in Table 13, the capital grants for 1920-38 in Table 36.

#### SOURCES AND METHODS OF ESTIMATION

##### 1946-1965

See p. 91 above.

##### 1939-1945

Current grants from the Central Government are shown in the *Annual Abstract of Statistics* [9, No. 87, pp. 246-51]. The total shown was reduced by the amount of government grants to trading services as shown for England and Wales in *Local Government Financial Statistics* [22]; and by the grants towards housing. The figure for this was taken from Peacock and Wiseman [226, p. 195].

##### 1920-1938

For current grants this is the figure for grants to rate fund services as shown in the local authority returns (items 6 and 7 of Table 5.1, p. 94; and the corresponding items for Scotland and Northern Ireland) less that part of item 6 which is allocated to housing. For capital grants see items 12 and 32 of Table 5.1.

##### 1900-1920

This is the total amount shown in the *Statistical Abstracts* [35, e.g. No. 62, p. 54] for local authority receipts from government grants less, from 1909, the dog licences

<sup>1</sup> See also Chapter 8, p. 180.



etc. treated here as a local authority tax on expenditure (see Chapter 5.1). Grants for trading services and for housing and capital grants are taken as zero – they

were £1.5 m. in 1920 and would have been less in earlier years. Grants to Ireland are assumed to be the same in 1919/20 and 1910/11 as in 1918/19.

#### 5.4 CURRENT EXPENDITURE ON GOODS AND SERVICES AT CURRENT AND CONSTANT PRICES, 1870–1965

##### DEFINITION OF THE SERIES

This item covers the expenditure on revenue account of non-trading services (i.e. rate fund services other than housing), less certain expenditure which is treated as grants to persons (scholarships and grants to universities, school meals and milk and outdoor relief) and less internal transfers.<sup>1</sup> Fees and recoupments (e.g. school fees or recoveries of expenditure from persons charged for road construction) are deducted from the corresponding expenditures, but transfer from special funds (e.g. reserve funds) are not deducted.

The loan charges for rate fund services (other than housing, highways and small dwellings acquisition)<sup>2</sup> are included in the total of expenditure on goods and services to represent rental payments for the use of fixed assets financed from loans. This is the treatment adopted by the C.S.O. [73, p. 310]; it may be noted that while some of the assets in question are also used by the local authorities (e.g. offices), others are used by the public as a whole (e.g. schools or sewers) so that the imputed charge is to be understood as an element in the cost of the services provided for the community.

The definition is broadly the same for years before 1920 but it is not possible to eliminate all internal transfers or to obtain precisely the right definition and coverage for all items.

The estimates are shown for 1900–65 in Table 13 and also, combined with the Central Government expenditure, in Table 2 for 1870–1965 at current prices and in Table 5 at constant prices. A purpose classification of the expenditure at current prices and a total at 1938 prices is given for 1920–38 in Table 35.

##### SOURCES AND METHODS OF ESTIMATION

###### (i) At current prices

For 1946–65 see p. 91, above. For earlier periods an estimate was made in each case for all rate fund services (or the corresponding services in Scotland and Ireland) and the following items of expenditure were then deducted from this series: grants to persons (as estimated in Chapter 5.5); the deficit on housing revenue account before taking into account the Central Government contribution towards housing (see Chapter 5.5); and the loan charges for highways (see Chapter 5.2).

##### 1939–1945

For this period a series which conforms to the required definition, except in respect of the imputed charge for highways, is given in Peacock and Wiseman [226, p. 203]. It appears to be based on the C.S.O. series included (but not given separately) in *Statistical Digest of the War* [77, p. 200], adjusted to include the interest component of rate fund loan charges (the repayment component was already included). It was accordingly accepted and reduced by the amount of loan charges in respect of highways.

##### 1920–1938

The following components of Table 5.1, p. 94 (and of the corresponding tables for Scotland and Northern Ireland) make up the initial estimate for current expenditure on goods and services by all rate fund services:

1 + 2 + 3	Maintenance expenses including loan charges
+ 39b + 39c + 39h	Expenditure of special funds <sup>3</sup>
– (13 + 29 + 33 – 23 – 41)	Less transfers to capital accounts <sup>4</sup>
– 28	Less transfers towards deficiencies on trading services

<sup>1</sup> The items excluded are transfers to capital account, transfers towards deficiencies on trading services and transfers to certain special funds. These are all treated as transactions within the local authority sector which must be eliminated in constructing a consolidated account for the sector as a whole.

<sup>2</sup> Prior to 1946 the loan charges relating to small dwellings acquisition are left in, but this is balanced by the inclusion in the amount deducted for fees etc. of interest received on advances under this heading. The net effect of this is minute: £0.2 m. in 1938/9.

<sup>3</sup> See Appendix 5.2.

<sup>4</sup> For lack of direct information on transfers from rate fund account it is necessary to proceed by a somewhat round-about method: certain transfers not directly relevant have first to be included as part of one item and then excluded as part of another. It all works out all right in the end and any reader who needs to do so will no doubt be able to reconstruct the reasoning for himself.



– (43 – 43 <sup>a</sup> – 43 <sup>g</sup> )	Less transfers to special funds other than superannuation funds <sup>1</sup> and sinking funds <sup>1</sup>
– (8 – 40)	Less income from fees, rents etc. excluding transfers from special funds

The three items noted above were then deducted from this series.

#### 1900–1920

Estimates for this period were based on the summary tables in the *Statistical Abstracts* [35, e.g. No. 62, pp. 54–63] and on the *Annual Local Taxation Returns* [10] for England and Wales. The categories available are not precisely what is required, particularly with respect to receipts, but compensating errors should produce broadly the right result. The initial estimate is based on expenditure (other than out of loans for capital works), including loan charges,<sup>2</sup> for non-trading services<sup>3</sup> less the receipts classified as rents, interest etc., fees, fines, penalties and licences and miscellaneous receipts. The composition of these categories was established from the detailed statistics in [10]. The amounts deducted include interest etc. received by sinking funds (and an allowance for this was therefore added back – for the estimate see Chapter 5.2) and also certain unspecified receipts including ‘temporary borrowing’. These items will overstate the correct total of receipts<sup>4</sup> but this is partly offset by the overstatement on the expenditure side.

This series was then reduced by the amount of the grants to persons and loan charges for highways. Expenditure on housing revenue account was taken as zero.

#### 1870–1899

The results obtained above agree very closely (to within 2 % in almost all years) with an unpublished series – produced in association with the study by Peacock and Wiseman [226], and kindly made available to me by J. Veverka – when the alternative estimates are reduced by the loan charges for highways. The series goes back to 1886 and was accepted, with this one adjustment, for that period. For 1870–85 the estimates for Central Government and local authorities combined, prepared by Jefferys and Walters [184, p. 8] are used. See Chapter 4.4.

For the whole of this period it is necessary to estimate current expenditure from the data on current revenue so that the estimates cannot be as reliable as those for later years.

#### (ii) *At constant prices*

For 1870–85, 1914–19 and 1938–48 the deflation is made for Central Government and local authorities combined and Chapter 4.4 should be consulted for methods and cautions.

#### 1920–1938

The total current expenditure on goods and services was split into six categories for purposes of deflation: four covering salaries and wages, two for other expenditure (including imputed rent). For remuneration of teachers in grant-aided schools, police, salary-earners and wage-earners in ‘other local government service’ the series given by Chapman [146, pp. 171, 174–5 and 199] are deflated by her corresponding indices of average salaries or wage-rates. It is thus assumed, for want of a better procedure, that output per head in these sectors was constant over this period.

The estimates in Table 35 and the Chapman estimates of wages and salaries were then used to obtain one series for expenditure other than wages or salaries on education, police, health and poor relief and another for highways, sewers and other non-trading services. The first was deflated by the consumers’ expenditure average value index (see column (1) of Table 61); the second by an index of basic materials used for construction.<sup>5</sup>

#### 1886–1913

A special index was constructed for the purpose of deflating local authorities’ current expenditure on

<sup>1</sup> See Appendix 5.2.

<sup>2</sup> For 1919/20 and 1920/1 this expenditure is not given for Ireland and the figure for 1918/19 was extrapolated proportionately to the series for Great Britain. For years before 1902/3 it is not available for England and Wales and an estimate was made by reference to the revenue other than from loans and trading services. For all years the series includes some expenditure out of capital receipts other than loans which should strictly be treated as capital expenditure.

<sup>3</sup> The non-trading services also include cemeteries, ferries and corporation estates but the corresponding income is also included in the receipts deducted and the net effect is negligible.

<sup>4</sup> For this reason the receipts from repayments on account of private improvements were not deducted, although the corresponding outlays are included in the expenditure figure.

<sup>5</sup> K. Maywald, ‘An Index of Building Costs in the United Kingdom, 1845–1938’, *Economic History Review*, vii, 1954–5 [208], p. 193. The index is an unweighted average of the price of six materials and was recalculated with 1938 = 100.



goods and services in this period. It is an unweighted average of the consumers' expenditure average value index, the Maywald index of building costs, covering

both wages and materials [208, p. 192] and an index of the average pay of male and female teachers in public elementary schools in England and Wales.<sup>1</sup>

## 5.5 SUBSIDIES, GRANTS AND DEBT INTEREST, 1900-65

### DEFINITION OF THE SERIES

This chapter covers:

- (a) Housing subsidies
- (b) Grants to persons
- (c) Debt interest

As explained earlier (Chapter 5.0) housing is the only trading service for which the deficit is treated as a subsidy. The deficit is measured by the excess of expenditure, including loan charges and repairs etc.<sup>2</sup> on all housing revenue accounts over the amounts received in rents from tenants and in grants towards housing from the Central Government. The subsidy also includes the net cost to local authorities of improvement grants to private house owners (i.e. after deducting the government contribution). The housing subsidies were negligible before 1920 and are taken as zero.

*Grants to persons* consist of three items: outdoor relief (public assistance in cash and kind but excluding medical relief);<sup>3</sup> the net cost to local authorities of providing school meals and milk; and scholarships and grants to universities. The scholarships comprise cash payments to school and university students in respect of fees and maintenance allowances.

*Debt interest* represents the interest paid on rate fund and trading services revenue accounts. In the Blue Book estimates payments of debt interest which are financed from interest received on the invested balances of consolidated loan funds are also included. This element of debt interest does not appear in the *Local Government Financial Statistics* and is not included in the estimates for earlier years.

The three series are shown for 1900-1965 in Table 13.

### SOURCES AND METHODS OF ESTIMATION

For 1946-65 see p. 91 above, for all three series. For earlier years the sources and methods are as follows:

#### *Housing subsidies*

##### 1939-1945

The appropriate definition is obtained from the series for the net expenditure on housing before deduction of the government grant less the grant towards housing from the Central Government. The net series is given in Peacock and Wiseman [226, p. 195].

##### 1920-1938

The estimate starts from those components of current expenditure on goods and services as estimated in Chapter 5.4 (see p. 101) that specifically apply to housing. In terms of the items of Table 5.1 p. 94, these are the housing revenue account transactions:

1 + 2 + 3	Maintenance expenses including loan charges
- 8	Less income from rents
- 43b	Less transfers to housing repairs accounts
+ 39b	Add expenditure of housing repairs accounts

The Central Government contribution towards housing (see Chapter 5.3) is then deducted from this figure.

##### 1939-1945 *Grants to persons*

The series used are those given for education and poor relief in Peacock and Wiseman [226, p. 205].

##### 1920-1938

The figures for 'out-relief' are taken from Part I of *Local Government Financial Statistics* [22], the *Annual Reports* of the Scottish Department of Health and the *Local Taxation Returns (Northern Ireland)* [23], and to these are added a minute sum for expenditure by trust or charity funds (item 39f of Table 5.1). The figures for scholarships are taken from Peacock and Wiseman [226, p. 205].

##### 1900-1920

The figures for 'out-relief' are taken from an unpublished series compiled by Veverka (from the sources used for 1920-38); and an allowance for grants to students, based on the *Statistical Abstracts* [35, e.g. No. 62, p. 393], was added to this.

#### *Debt interest*

For 1920-38 this is the sum of the interest payments for trading and non-trading services shown as items 3 and 21

<sup>1</sup> Based on data from the *Report of the Committee of the Council on Education* (England and Wales [31], annual to 1898-9, and *Statistics of Public Elementary Day Schools*... [31].

<sup>2</sup> In estimating repairs it is the actual expenditure by the Statutory Housing Repairs Account which is included, not the provision for repairs charged to the housing revenue account.

<sup>3</sup> This service was taken over by the Central Government from July 1948.



in Table 5.1, p. 94 (and the corresponding tables for Scotland and Northern Ireland). For 1900-20 the total interest payments are given for England and Wales in the *Annual Local Taxation Returns*<sup>1</sup> [10, e.g. 1913-14,

pp. 76-7] and for Scotland and Northern Ireland in the *Statistical Abstracts* [35, e.g. No. 62, pp. 60-3]. For 1939-45 the required figures are given in the *Annual Abstract of Statistics* [9, e.g. No. 87, pp. 247-51].

## 5.6 CAPITAL EXPENDITURE AND TRANSACTIONS IN FINANCIAL ASSETS, 1920-38

### DEFINITION OF THE SERIES

This section covers:

(a) *Capital expenditure*. This is expenditure by trading and non-trading services on the purchase or construction of assets (including land), before providing for depreciation and net of receipts from the sales of land or other assets. It excludes such items as normal repairs and maintenance, but precisely what it includes is necessarily dependent on the practice of individual authorities; one may treat as capital an outlay which another would charge to revenue, e.g. expenditure on the widening of roads. The present estimates accept as capital expenditure all outlays so shown in the *Local Government Financial Statistics*.

(b) *Transactions in financial assets*: i.e. borrowing and repayment of loans by local authorities; loans to, and repayments by, individuals; and net changes in cash balances. This last item is measured as a residual and so includes any errors and omissions in the current and capital accounts.

The above estimates, taken together with the net surplus on current account and the capital grants from the Central Government constitute the capital account, shown as Table 36.

### SOURCES AND METHODS OF ESTIMATION

The items referred to in each case as the basis for the estimates are those set out in Table 5.1, p. 94 (and the corresponding tables for Scotland and Northern Ireland).

#### *Capital expenditure*

This is:

16 - 16s + 36	Capital expenditure on works by trading and non-trading services <sup>2</sup>
-(14 - 14s + 34)	Less receipts from sales of land and other sources <sup>2</sup>
-(44 - 44a - 22)	Less transfers from all capital accounts to special funds other than sinking funds
+ 39c	Add expenditure (non-transfer) of insurance funds <sup>3</sup>

#### *New borrowing*

This is receipts by the capital accounts from loans (items 11 and 31). The local authority *Returns* do not

distinguish borrowing from the Central Government but a separate figure for this can be obtained from the government accounts (see Chapter 4.6) leaving borrowing from other sources as a residual.

#### *Repayments*

This is built up from items:

2 + 20	Repayments and transfers to sinking funds by revenue accounts
17 + 37	Repayments and transfers to sinking funds by capital accounts
-(43a + 44a)	Less transfers to sinking funds
+ 39a	Add expenditure by sinking funds <sup>3</sup>

It thus represents actual amounts repaid and not amounts provided by way of transfers to sinking or redemption funds.

A separate series for repayment of Central Government loans can again be obtained from Chapter 4.6.

#### *Loans to individuals (net)*

This refers to that part of items 16 (capital expenditure) and 14 (capital receipts from sales of land etc.) which relates specifically to Small Dwellings Acquisition, i.e. the advances made to persons to enable them to acquire or build their own homes.

#### *Net change in balances and unidentified items*

This is essentially the residual item required to balance Table 36. The net increase in balances can formally be measured by subtracting total expenditure (other than by superannuation funds) on all five accounts (items 4 + 18 + 25 + 38 + 42 - 42g) from total income (other than for superannuation funds) of the five accounts (items 10 + 15 + 30 + 35 + 46 - 46g). The result will differ from the true change in balances (invested or at banks) as a result of any errors in the estimates including the adjustments from a financial to a calendar year basis.

<sup>1</sup> Figures for 1915-19 were obtained by interpolation between the last 'pre-war' aggregate figure published, for 1914/15 and the next available figure, for 1919/20.

<sup>2</sup> The subscript s refers to Small Dwellings Acquisition capital expenditures and receipts. These are treated as loans to and repayments by, individuals.

<sup>3</sup> See Appendix 5.2.



## APPENDIX 5.1

# AGGREGATE ESTIMATES OF THE INCOME AND EXPENDITURE OF LOCAL AUTHORITIES IN ENGLAND AND WALES, 1919/20 TO 1928/9

The first year for which the published *Local Taxation Returns* [10] for England and Wales contained summary tables of the transactions of *all* local authorities (such as are now published) was 1929/30. Prior to that the volumes on sale to the public only contained detailed information relating to individual counties, county boroughs, and metropolitan boroughs, the Metropolitan Police and Metropolitan Water Board, and aggregate tables for all authorities of each of the different types (county boroughs, counties, non-county boroughs, urban districts, rural districts, metropolitan boroughs and miscellaneous authorities). This information was, in fact, similar to – but not immediately comparable with – that given in Parts II and III of the *Local Government Financial Statistics* published in the late 1930s. A number of aggregate figures were published in the *Statistical Abstract for the United Kingdom* and in the *Annual Reports* of the Ministry of Health, including such items as income from rates, government grants, receipts from loans, loan charges etc.; but these were far from sufficient to give a complete picture of local government finance. On the other hand it is not enough merely to aggregate the figures in the *Returns* for different classes of authority to obtain summary tables representative of the whole local authority sector, for the published tables all include a number of transfers between different funds of the same council and between different authorities which must be eliminated as far as possible in the construction of summary tables.

Fortunately, the *Local Taxation Returns* give an indication of these duplicate reckonings in two columns which are referred to as ‘adjusting entries’ and which show how much of the *income* of each particular service was received from another account of the same council or from another authority. This does not show which service was responsible for the corresponding item of expenditure, and it is therefore not possible to eliminate these duplications with complete accuracy whilst still maintaining a distinction between rate fund, trading services and special funds, and between revenue and capital accounts. However, it has been assumed in the

calculations which follow that the duplications occur wholly between accounts of similar types, i.e. the amounts appearing as *current* income also appear as expenditure in *current* accounts, and similarly for capital accounts (special funds require a completely different treatment, as is explained later). This assumption may well be unrealistic, but its justification must be that it seems to work well in practice (it yields good results wherever official data are available for comparison) and that it does not seem possible to devise any other method with a sounder theoretical basis.

It is again fortunate that the Ministry of Health also prepared but did not publish certain summary tables for all authorities for the years 1927/8 and 1928/9. These were made available to us for comparison with the results obtained by aggregating and consolidating the figures given in the *Returns* for those years. Without these two summaries it would be very difficult to check the method of aggregation, for from 1929/30 onwards the form of the tables in the *Returns* is somewhat changed and it is not possible to apply the same method of aggregation and then to check it against the published summaries.

The procedure used to aggregate the figures can be illustrated by the calculation for the rate fund services for 1928/9. We set up a table in which the first eleven columns cover the eleven different classes of authority (including Poor Law Authorities as a separate class) and column (12) – which is reproduced below – is the total for all authorities. The two other columns of the table and the thirteen rows are shown in Table 5.3.

Columns (1) to (11) are completed by obtaining the data from the annual returns for the various classes of authority and summed to give the total in column (12). Rows 6 and 7 are the adjusting entries already referred to; they are amounts which appear twice as both income and expenditure by reason of being transferred from one local authority account to another during the year. They all appear as income of the authority they are paid to in row 3; while the amounts shown in row 6 also appear as expenditure of the *same* authority (but not necessarily



TABLE 5.3 METHOD OF AGGREGATING FIGURES FOR VARIOUS CLASSES OF AUTHORITY IN ENGLAND AND WALES, USED FOR THE YEARS 1919/20 TO 1928/9

(Data used are for the year 1928/9 in £M.)

	Class of authority Columns (1) to (11)	Total (12)	Less adjustments (13)	Net total (14)
<i>Current expenditure<sup>a</sup></i>				
1. Maintenance and other expenses		264.1	18.2	245.9
2. Loan charges		51.0	—	51.0
<i>Current income<sup>a</sup></i>				
3. Fees, rents etc.		62.3	18.2	44.1
4. Government grants		89.4	—	89.4
5. Rates		166.5	—	166.5
<i>Adjusting entries</i>				
6. From other accounts of the council		1.3	1.3	—
7. Receipts from other authorities		16.9	16.9	—
<i>Capital receipts</i>				
8. Loans		65.9	—	15.9
9. Transfers from revenue etc.		1.9	—	1.9
10. Government grants		2.9	—	2.9
11. Sales of land etc.		6.9	—	6.9
<i>Adjusting entry</i>				
12. Receipts from other authorities		0.5	0.5	—
<i>Capital expenditure</i>				
13. Total capital expenditure		76.8	0.5	76.8

SOURCE: *Annual Local Taxation Return* [10] for 1928/9.

<sup>a</sup> Excluding transfers *from* trading services in aid of rates, transfers *to* trading services to meet deficiencies and income

or expenditure arising from agency services for government departments.

in the rate fund table), and those shown in row 7 appear as expenditure of *another* authority (but again not necessarily in the rate fund table). Row 12 of the rate fund table shows capital sums received from other authorities, and these too must appear elsewhere as expenditure by the other bodies.

In aggregating the different funds of the different councils, therefore, the duplicate reckonings of income can be eliminated by a simple subtraction of rows 6 and 7 from row 3 and the elimination of row 12. The corresponding adjustment of expenditure is not quite so straightforward. As has been pointed out, the transfers received as income in one kind of account are not necessarily shown twice as expenditure in the same kind of account (e.g. they may be paid from trading service revenue account of one authority to rate fund revenue of another). But there is no indication of the extent to

which the duplicate entries are of the kind instanced; and so, as an approximation, they have been assumed to be confined to accounts of similar type (apart from trading service transfers in aid of rates and transfers from rate fund to meet trading deficiencies, which are a special case). This assumption means simply that the amounts shown as duplicate receipts in the current and capital accounts respectively (rows 6 and 7 and row 12) must be subtracted from the expenditure in the corresponding accounts (rows 1 and 13). The fact that the aggregation extends over all authorities makes it unnecessary to give any special treatment to transfers between authorities, which are therefore treated in exactly the same way as transfers between different accounts of the same council.

Exactly the same principles are followed in aggregating and consolidating the estimate for trading services. However, the procedure is a little more complicated



because part of the amounts shown as income from work done for 'other funds of council' or for 'other authorities' are *not* also shown twice as income in the row for 'income from sources other than grants', though they are included twice as expenditure either in the accounts of the same council or in those of another local authority. The amount deducted from income is, therefore, less than the amount deducted from 'working expenses'. Apart from the adjusting entries the rows set up for the trading services table correspond to items 19 to 38 of Table 5.1, p. 94.

There remain, moreover, a number of other adjustments to bring the figures derived in this manner into line with the summary tables for later years. There are, in particular, a number of rows for transfers to or from trading services, where figures are not available for certain classes of authority. This is usually because in the *Returns* the trading services of these authorities are included in the same table as the rate fund services, where such transfers are not normally shown. Examination of the summaries for 1927/8 to 1936/7 shows that for certain of these transfers, the authorities for whom details are available in earlier years represent a very high and stable proportion of the total – as would be expected from an examination of the lists of classes of authority. It has been assumed, therefore, that these same authorities represent a similar proportion of the total in the earlier years (prior to 1929/30), and the figures available have been taken to represent a percentage of the total equal to the average proportion in the period 1927/8 to 1936/7. These proportions are:

	Per cent
Transfers from trading service revenue accounts to reserve accounts	84.9
Transfers from trading service revenue accounts to capital accounts	86.3
Transfers from trading service revenue accounts in aid of rates	95.4
Transfers to trading service revenue accounts from rate funds	78.9

In the case of transfers to trading service revenue accounts from reserve and special funds, the available authorities normally cover so large a part of the total that no adjustment has been made.

Since this adjustment arises from the fact that trading and rate fund services are included in the same table for certain classes of authorities, it follows that the 'missing' components of transfers to reserve etc., and to capital accounts (but not to or from rate funds) which have been estimated in this way must be subtracted from the working expenses of the trading services where they were previously included (in the *Local Taxation Returns*).

This gives totals in the various rows which take account, so far as possible, of the various duplications in the

official figures for separate types of authority, and which give an exceptionally close approximation to the summary tables prepared by the Ministry of Health for 1927/8 and 1928/9. Certain of the items can also be compared with corresponding figures from the *Statistical Abstracts*. These comparisons, and those of the detailed figures for 1927/8 and 1928/9, suggest that the range of error in the estimated figures is very small. It should be noted that the estimates prepared in this way for *capital* receipts and expenditure do not make any special allowance for the fact that for some authorities and in some of the years, the official data relate to receipts from, and expenditure out of, loans only; it seems unlikely, however, that there were any other capital items of any size in those instances.

Turning to the special funds, the information available from *Local Taxation Returns* is far less complete and the estimates which can be formed are more hazardous. The official returns give details of individual special funds for only three classes of authority: the London County Council, metropolitan boroughs and county boroughs. To construct estimates of aggregate transactions on the basis of these three classes must depend on the fact that they cover a fairly high proportion of total special fund transactions, and that any error introduced in estimating the remainder is therefore likely to be small. The general method adopted has been to calculate for the years 1927/8 onwards the proportion of total transactions of a certain kind which are covered by these three classes of authority (or, more precisely – since the London County Council and metropolitan boroughs are somewhat exceptional – the proportion which county boroughs represent of the total *less* these two); this proportion is usually high, and in many cases quite stable, and has then been applied to the earlier data to make estimates for the years prior to 1927/8.

This method has been adopted in all except three cases. The first relates to transfers to or from special funds, where it is necessary to distinguish between payments to or from rate fund and those to or from other accounts. This distinction is not made in the London County Council accounts prior to 1930/1, so the totals have first been estimated for transfers to or from *all* other accounts, and have then been split between rate fund and other accounts on the basis of their average proportions in the years for which data are available.

The second case where a special calculation has been made is that of superannuation funds. There has been a steady growth in the number of authorities operating these, and it was clear from the figures for 1927/8 onwards that the London County Council, metropolitan boroughs and country boroughs represented a declining proportion of the total. This was also apparent from data



regarding the number of superannuation schemes in operation given in the annual reports of the National Association of Local Government Officers. In fact, over the period 1927/8 to 1936/7, the proportion of total transfers to superannuation funds from all other accounts (the employer's contributions) which is covered by those three groups of authorities decreases very steadily from 79.6 % to 66.5 %. If it is assumed that exactly the same trend existed prior to 1927/8, estimates can be formed for the earlier years, and this entails using a proportion of 91.2 % for 1919/20. That this is not unduly high seems apparent from the N.A.L.G.O. data which show that prior to the Superannuation Act of 1922, 32 out of 35 authorities operating superannuation schemes were in the three classes (21 of them were metropolitan boroughs.)

A somewhat similar consideration applies to the third case: the estimates of the expenditure of housing repairs accounts (item 39c in Table 5.1). Here there is the difficulty that prior to 1935/6 these accounts are not distinguished from other reserve funds, so that, although it is possible to estimate the expenditure of total reserve funds, it remains necessary to divide this between housing repairs accounts and other funds. The expenditure of housing repairs accounts must clearly have some connection with the number of local authority houses in existence and it was assumed to be directly proportional to the number of houses in existence four years earlier. For 1930/1 to 1934/5, however, this method gives results which are certainly too high (in some years they exceed the known total for expenditure by *all* reserve funds) presumably because activity was curtailed in conformity with the general restriction of expenditure during the depression. The estimate for this period was instead taken to be the same proportion of the expenditure of all reserve funds as in the four years 1935/6–1938/9. The non-transfer income of housing repairs

accounts (interest on invested balances) has been taken as zero throughout the period to 1929/30.

The data for expenditure by 'Other special funds' (item 39h) have not been calculated independently but are a residual obtained from independent estimates for all the other types of special funds and for the total. In connection with this item it should also be noted that an adjustment was made, arising from the variation in the published data relating to special funds which occurred in 1936/7, as is immediately apparent from a comparison of the figures for 'Other special funds' in that and subsequent years with those up to 1935/6. It is clear that there is a discontinuity in the constituents of this miscellaneous item; and it appears, from a study of the figures and from the recollections of various persons concerned, that this is due to the inclusion of the London County Council Consolidated Loans Fund Interest Account in the earlier period and its exclusion in the later years. With estimated adjustments for transfers between authorities, this would account for a discontinuity of just the right order of magnitude in all items. In theory it might be best to include this account (with the appropriate allowance for transfers from other accounts) in every year. In practice, the figures are not available for 1936/7 onwards, and the allowances for transfers are difficult to make in earlier years; the earlier figures for 'Other special funds' and for total expenditure by special funds (item 39) have, therefore, been adjusted to *exclude* this account, so as to preserve continuity.

*Local Taxation Returns* for 1921/2 gave summary tables for the various classes of authority but did not include any of the detailed tables on which the special funds estimates for other years have been based. In constructing the social accounts for that year all special funds transactions have been estimated as the mean of the figures for 1920/1 and 1922/3.



## APPENDIX 5.2

### SPECIAL FUNDS

The following notes relate to the treatment of the special funds covered by Table III of *Local Government Financial Statistics* [22]. The non-transfer income of all these funds (except superannuation funds, which are in any case treated differently – see (g), below) includes a large element of investment income and has been treated wholly as such. All transfers between accounts have been, as far as possible, eliminated. The treatment of non-transfer expenditure is explained in the notes.

(a) 'Sinking funds or redemption funds for the repayment of loans' are funds to which the revenue and capital accounts of both trading and non-trading services transfer annual contributions towards loan repayment. In the case of the revenue account transfers the accounts form part of the 'repayment' component of loan charges – see items 2 and 20 of Table 5.1, p. 94. The expenditure of the sinking funds is almost wholly applied in repayment of loans and so appears under that heading in the capital account where it replaces the amounts transferred to sinking funds by the other (revenue and capital) accounts of the local authorities.

(b) 'Statutory housing repairs accounts' are set up to provide funds for redecoration and maintenance of council houses; income is derived mainly from contributions by the housing revenue accounts and expenditure is mainly on repair and maintenance work; it has been allocated to non-trading services.

(c) 'Housing equalisation accounts' are a device for applying certain government housing grants, given for a period of 40 years only, to the repayment of loans spread over a period of 60 years; no expenditure is yet due from these accounts, but various small amounts are shown and have been included in the non-trading services.

(d) It appears that 'Other reserve funds' are mainly in respect of trading services. Expenditure (other than transfers) is treated as capital formation.

(e) The purpose of 'Insurance funds' is to cover part of the insurance risk on the councils' property; no information is available to show how these funds spend their money, so their expenditure has been included in non-trading capital formation (it is, in any case, very small).

(f) The expenditure of 'Trust or charity funds' has been regarded as a grant to the personal sector; these funds have numerous purposes, many of which are akin to out-relief.

(g) 'Superannuation funds' have been treated as funds held on trust for the employees; employers' contributions are therefore treated as a part of current expenditure on goods and services (in the case of non-trading services) or as current expenditure in the case of trading services;<sup>1</sup> all other income (i.e. from investments or employees' contributions) and expenditure of the funds are regarded as falling within the personal sector.

(h) 'Other special funds' are a heterogeneous collection of suspense accounts, firemen's and police pensions accounts, accounts for the maintenance of graves, and so on; their non-transfer expenditure has been treated as current expenditure on goods and services by the non-trading services.

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<sup>1</sup> 'Transfers to superannuation funds from rate fund account' measures the employers' contributions for employees in non-trading services; and the 'transfers to superannuation funds from accounts other than rate fund' covers the trading services.