

CHAPTER XVIII

THE FINANCIAL TRANSACTIONS OF THE LOCAL AUTHORITIES

IN 1957, there was a rise both in the revenue of the local authorities from taxes and Government grants, and in expenditure on current and capital account. Part of the emergency taxes imposed during the preceding year remained in effect, while outlay on civil defence declined. An additional source for the financing of expenditure on development—apart from the Government's Development Budget—was the bond issue floated jointly by the local authorities.

1. THE "BALANCE OF PAYMENTS" OF THE LOCAL AUTHORITIES

An attempt will be made in this chapter to draw up a "balance of payments" for the local authorities corresponding to that shown in Chapter XVII for the financial transaction of the Government.

Table XVIII-1 shows the receipts and payments of the local authorities in 1957 arising from transactions in goods and services on the one hand, and from transactions in financial assets on the other hand. Since this method of presentation of the accounts of the local authorities differs from the accepted method of classification by budget items, it is necessary to preface the analysis with some explanatory notes.

Section A of Table XVIII-1 summarizes the activities of the local authorities as collectors of taxes and grants and as providers of services to the public. The item "taxes and other compulsory contributions" included property taxes, levies and imposts; fees for services rendered by the local authorities; special assessments on property owners for the cost of road and pavement construction carried out by the authorities; and the current operating profits of municipal enterprises. The grants received by the authorities include Government grants-in-aid, grants from the Jewish Agency and the National Lottery, as well as gifts from abroad.

The payments tabulated in section A are divided into purchases on current and capital account, and transfer payments. Purchases on current account include wages and salaries of employees of the local authorities, other administrative expenses, all the ordinary transactions of the authorities (excluding municipal enterprises), interest paid, and most of the outlays on civil defence. Purchases on capital account include the direct investment of the local authorities in roads, schools, municipal water-works, etc. In the case of the regional councils, pur-

chases on capital account include development funds transferred in the form of loans to the local committees. The work carried out by these local committees, was not included in the budgets of the regional councils during the period under review. Transfer payments include relief payments to the needy and grants-in-aid to welfare, health, educational and cultural institutions, and the participation of local authorities in the budgets of the religious councils.

TABLE XVIII-1

*The "Balance of Payments" of the Local Authorities, by Type of Transaction, 1957
(millions of IL.)*

<i>RECEIPTS</i>		<i>PAYMENTS</i>	
<i>A. Transfers and transactions in goods and services on current and on capital account</i>			
Taxes and other compulsory contributions	98.9	Purchases of goods and services on current account	82.2
Grants—Government and other *	20.1	on capital account	47.4
		Transfer payments	9.9
<i>Total</i>	119.0	<i>Total</i>	139.5
<i>B. Transactions in financial assets</i>			
Long-term loans	21.9	Repayment of long-term loans	7.6
Short-term loans (net)	6.4	Cash holdings and bank deposits	1.8
Errors and omissions	1.6		
<i>Total</i>	29.9	<i>Total</i>	9.4
<i>Total receipts</i>	148.9	<i>Total payments</i>	148.9

* National lottery, the Jewish Agency and the rest of the world.

Section B of Table XVIII-1 covers the financial transactions of the local authorities—short and long-term loans received, debt redemption, and changes in cash holdings. The consolidation loans, providing for deferment of part of the interest and repayment of principal due on Government and bank loans, are included under loans on the receipts side, and under debt redemption on the payments side.

The account covers all the financial activities of the local authorities for the calendar year 1957 which are recorded in the ordinary and extraordinary budgets and in the extra-budgetary accounts. The data are derived from an analysis of

the monthly financial reports of a number of local authorities¹, and from information relating to grants and loans by the Government and various institutions submitted by these bodies to the Bank of Israel.

The total volume of financial transactions of the local authorities² came to about IL. 150 million in 1957, as shown in Table XVIII-1. Of total receipts, revenue from the public in the form of taxes and compulsory contributions accounted for less than IL. 100 million, or only about two-thirds, while the rest was made up of various loans. On the expenditure side, about IL. 130 million were spent on purchases of goods and services, about IL. 10 million on transfer payments to the public and about IL. 8 million on the redemption of long-term loans. About two-thirds of total purchases were spent on current account (including administration and services) and about one-third on capital account³.

Expenditure other than debt-redemption exceeded tax revenue by IL. 40 million, and revenue from both taxes and grants by IL. 20 million. The deficit was covered by borrowing in the form of long- and short-term loans from the Government, the joint municipal bond issue, and short-term credit extended by suppliers, contractors and banking institutions.

2. "THE BALANCE OF PAYMENTS" OF THE LOCAL AUTHORITIES, BY SECTORS

The "balance of payments" of the local authorities may also be classified by sector accounts: Government, the public and the banking system, as was done in Chapter XVII for the Government accounts (see Table XVII-1). Such a breakdown is given in Table XVIII-2.

This table shows that payments by the local authorities to the public exceeded receipts from the public by IL. 30 million, and that this difference was almost wholly covered by the Central Government in the form of grants and loans.

(a) *The local authorities and the Government*

Government participation in the expenditure of the local authorities amounted to about IL. 20 million in 1957. It included, in addition to the grant-in-aid and the participation of the Ministry of Labour in the outlay on local employment relief works, the participation of the various Ministries in the outlay on the state services which the local authorities are obliged by the Government to provide to

¹ The sample included the three principal municipal councils, nine other municipal councils, nine local councils and three regional councils. This sample accounted for about two-thirds of total receipts and payments of all the local authorities in 1956/57, according to the reports of the Comptroller General. In addition to the published financial reports of the Jerusalem, Tel Aviv and Haifa municipalities, additional information was received from the treasurers of these municipalities.

² Excluding receipts from water-works and other enterprises, except for net operating profit.

³ Including investment financed by the regional councils and carried out by the local committees.

residents under their jurisdiction: viz. education, culture, health and social welfare. Government participation does not include direct payment by the Ministry of Education of the salaries of primary school teachers and of kindergarten teachers.

Government participation in the budgets of the local authorities in 1957 exceeded that for the fiscal year 1956/57 by 23 per cent. This rate of increase was similar to the increase in Government grants in the fiscal year 1956/57 compared with 1955/56.

Government loans extended to the local authorities in 1957 included, apart from loans under the Development Budget, loans for the consolidation of the debts of the local authorities to the Government (deferment of interest and principal). This latter transaction considerably eased the burden of debt-redemption on the local authorities during the period under review. On the other hand, Government loans from the Development Budget remained at the same level as in 1956. Most of these loans were transferred to the local authorities through the intermediary of the Union of Local Authorities in Israel and through banking and other financial institutions.

TABLE XVIII-2

The "Balance of Payments" of the Local Authorities, by Sectors, 1957*

<i>RECEIPTS</i>		<i>PAYMENTS</i>	
		<i>The Government</i>	
Grants	18.7		
Long-term loans (net)	6.8		
Short-term loans (net)	1.2		
<i>Total</i>	26.7		
		<i>The Public</i>	
Taxes and other obligatory contributions	98.9	Purchases of goods and services on current and on capital account	129.6
Grants (National lottery)	0.6	Transfer payments	9.9
Long-term loans (net)	6.0		
Short-term loans (net)	5.2		
<i>Total</i>	110.7	<i>Total</i>	139.5
		<i>The Banking System</i>	
Credit (net)	1.4	Cash holdings and bank deposits	1.8

* In the absence of details on the repayment of principal by sectors, long- as well as short-term loans have been estimated on the basis of the change in balances (i.e. net rather than gross).

Short-term loans from the Government include the net change in the accounts of the three principal municipalities (Jerusalem, Tel Aviv and Haifa) with the various Government ministries¹ and the clearing account of the local authorities with the Accountant General of the Ministry of Finance. The sum total of these accounts shows a net increase in indebtedness, in spite of the decline in the debit balance of the clearing account.

(b) *The Local Authorities and the public*

Local taxes are largely taxes on property. Tax rates are based on the number of rooms per dwelling, and not on the level of income. The rigidity of the present tax structure has led the local authorities to demand basic changes in the tax system as well as greater independence in fixing local taxes.

The expenditure of the authorities has been rising continuously in recent years. This increase is due both to the rise in population and the consequent expansion of services, and to the rise in the cost-of-living allowance and other wage components. Rises in tax rates in the past have at best brought about an expansion of services, but not a reduction of the accumulative deficit, nor even the prevention of further recurrent deficits. In 1957, too, increased tax revenue (including revenue from emergency taxes which remained in force) was swallowed up by the increase in expenditure. In addition to the increase in tax revenue and in purchases on current account, another development in 1957 was the considerable rise in investment: this included the building of schools and other public buildings; the extension of the road, sewerage and water networks as a result of the intensified building activity; and progress on the construction of the underground railway in Haifa.

This increased volume of investment was financed in 1957, to a much greater extent than in previous years by loans from the public, largely from the joint municipal bond issue. Some IL. 4.1 million from the bond issue was transferred to 46 local authorities in 1957. In addition, a number of municipalities received medium-term loans from the parents of school children. Loans granted by the national lottery to local authorities for the construction of schools and hospitals amounted to IL. 1.6 million during the period under review.

In 1957, as in previous years, the local authorities resorted to short-term loans from contractors and suppliers.

(c) *The local authorities and the banking system*

The volume of credit extended to the local authorities from the resources of the banking system is relatively insignificant. The outstanding debit balances to banks and credit co-operative societies rose from the end of 1956 to the end of 1957 by IL. 1.4 million, as compared with a rise of IL. 1.3 million from the end of 1955 to the end of 1956.

¹ With respect to the other local authorities covered by the sample, it was not possible to distinguish between short-term obligations to Ministries and to other creditors.

According to preliminary estimates, the increase in cash balances (holdings of currency and demand deposits) exceeded the increase in bank credit. The improvement in the local authorities' cash position which had begun in the fiscal year 1956/57, continued during the period under review.

3. THE BUDGET DEFICIT

The local authorities as a whole did not manage to balance their budgets during the period under review. However, as compared with previous years, their financial position improved. A number of factors contributed to this development; the increased tax rates, the consolidation loans, improved tax collection and the funds raised by the joint municipal bond issue.

Part of the emergency taxes levied in the fiscal year 1956/57 remained in force during the period under review, while outlays on civil defence (including the construction of shelters) was considerably reduced. The local authorities also had at their disposal unspent balances from emergency loans granted for civil defence.

The consolidation loans in 1957 freed the local authorities from part of the burden of the interest and repayment of principal which fell due that year. However, as pointed out in the report of the State Comptroller, the budgetary improvement arising from these loans during the year in which they are granted is in part only statistical. On the income side, the entire amount of debt—deferment is recorded, whereas the expenditure side shows only that part of debt—repayment which falls due in the same year.

No data are available on tax collections and tax arrears for the calendar year 1957. It may be assumed that, owing to the widespread deferment of tax payments during the period of mobilization for the Sinai campaign at the end of 1956, a greater part of taxes due for the fiscal year 1956/57 was received by the local authorities during the first months of 1957 than during the same months in previous years.

During the year under review, the sums raised by the joint municipal bond issue represented an important additional source for the financing of the development expenditure of the local authorities.