

CHAPTER XXI

THE FINANCIAL ACTIVITIES OF THE LOCAL AUTHORITIES

1. THE FINANCIAL POSITION OF THE LOCAL AUTHORITIES

THE FINANCIAL position of the Local Authorities deteriorated considerably during the fiscal year 1956/57; this was partly due to the continued influence of factors which have already been in evidence during 1955/56 and, partly to other factors which arose during the year under review. This deterioration was caused by changes in the composition of income and expenditure, as well as by the increased volume of deficit financing and debts, while income from regular sources of revenue, such as taxes and other obligatory levies, declined.

Complete data for income and expenditure of the Local Authorities during 1956/57 are not yet available; total expenditure of their ordinary and extra-ordinary budgets can, however, be estimated at about IL.151 million, while income, including net loans received during the year, amounted to about IL.146 million.

The balance of the Local Authorities' budgets had already been unfavourable in 1955/56. Ordinary budget estimates for that year,¹ approved by the Minister of the Interior, showed that income exceeded expenditure by IL.0.6 million; actual expenditure, however, exceeded effective receipts by IL.4.3 million. During 1956/57 the situation was growing worse: approved ordinary budget estimates showed a favourable balance of IL.3.3 million, while actual expenditure exceeded effective receipts by an estimated IL.4 million.

It should be pointed out that certain Local Authorities regard the budget estimates, submitted for approval to the Minister of the Interior, as a formality required by law rather than a binding document representing the estimates of income and expenditure which they actually consider themselves permitted to effect.

This attitude may explain the discrepancy between the Local Authorities budget estimates and the actual figures of income and expenditure. In spite of the efforts made by the Ministry of the Interior and the State Comptroller's Office to eradicate this approach, the situation has remained unchanged, as can be seen from table XXI-2 comparing the budget estimates for 1956/57

¹ These budgets cover all the ordinary activities of the local authorities (i.e. mainly local and state services) as well as their expenditure on wages and salaries. Investments made by local authorities are covered by the extraordinary budgets and are therefore not included in the ordinary budgets.

with the actual income and expenditure in 1955/56. According to these figures, estimated income and expenditure for 1956/57 exceeded effective receipts and expenditure in 1955/56 by about 40 per cent.

Among the factors contributing to the unbalanced budgets of the Local Authorities during the period under review, expenditure relating to defence should be mentioned. This involved, on the one hand, increased expenses in connection with additional guards for areas under the authority of district councils and the construction of shelters and similar security installations provided by local councils and municipalities. On the other hand, the Sinai campaign interfered with current tax collections. Even though the actual campaign was short, many taxpayers were absent from their homes for a considerably long time and even upon their release from the armed forces, failed to re-join the normal circuit of tax contributors immediately. The first three months of 1957 (i.e. the last quarter of the fiscal year 1956/57) marked the return to normal conditions, in particular in the three cities, in the payment of taxes and other obligatory contributions levied by the Local Authorities; this was, however, not enough to compensate the financial burden carried over from the preceding year.

As already stated above, apart from general estimates, details on actual income and expenditure during the fiscal year 1956/57 have not been available. However, the analysis of a sample based on the financial reports submitted by the Local Authorities for the period ending 31.12.1956,² shows to what extent the financial structure was distorted during the first nine months of the fiscal year.

The difference between the actual income of the Local Authorities and their estimated budgetary income, both as regards income from total ordinary budget receipts and as regards revenue from taxes and other levies, can be seen from table XXI-1. The relation between total income and total expenditure of the ordinary budgets is also borne out by this table. When drawing conclusions from this table, due allowance should be made for the limited size of the sample. The tabulated data are furthermore not strictly comparable, as they refer in one instance to the actual income for the first 9 months of the fiscal year and to three quarters of the annual estimates in the other instance, while the greater part of the Local Authorities' revenue is collected towards the end of the financial year. Attention should also be paid to the fact, that while the financial position of the Local Authorities was alleviated during the last three months, in particular in the three big cities, it had not recovered completely by that date.

Whereas the time-lag between revenue on the one hand and, the estimated and actual expenditure on the other hand, is smaller in the three big cities than in the medium-sized and small towns as well as in the local councils, it is only very slight in district councils, where in spite of the special circumstances prevailing in 1956, the authorities successfully balanced their budgets which even showed a small surplus as at the 31st December, 1956.

² This sample included the three cities—Jerusalem, Tel Aviv and Haifa, 8 other towns, 12 local councils and 8 district councils.

TABLE XXI-1

Actual Ordinary Budget Income of the Local Authorities compared with Three Quarters of their Estimated Income for 1956/57, and with Actual Expenditure, April-December 1956*
(in per cent)

<i>Type of local authority</i>	<i>Income as compared with estimates</i>		<i>Surplus of expenditure over income</i>
	<i>Total income^b</i>	<i>Revenue from rates and service fees</i>	
The Three Cities	-25.5	-24.0	+15.9
Other Towns	-41.6	-33.8	+ 5.3
<i>Total—Towns</i>	-28.4	-25.2	+14.4
Local Councils	-30.8	-25.4	+39.6
District Councils	-20.4	-20.2	- 5.8
All Authorities	-28.3	-25.2	+13.8

* The weights are based on the actual expenditure of local authorities in 1955/56, as follows: the three cities—49.3 per cent; other towns—24.6 per cent; all towns—73.9 per cent; local councils—18.2 per cent; district councils—7.9 per cent.

^b Includes revenue from taxes, service fees (rates and imposts), Government participation, other obligatory payments, and income from loans—in so far as the latter were destined for Ordinary Budget purposes.

The above phenomenon is due to the fact that taxes and imposts within the area under the jurisdiction of district councils are not collected by them directly, but with the help of local committees; this procedure increases the efficiency of tax collection and reduces the administrative expenses of the local authorities concerned. Whereas the municipalities have greatly improved their collection methods by introducing the payment of taxes through banks, by mechanizing their collection departments, etc., this is not the case in the local councils. It goes without saying that a local council can not follow the municipalities in this respect; it may, however, be assumed that through a more concentrated collection of taxes and an improvement of its methods, local councils will be able to balance their budgets both at the end and during the course of the fiscal year. Efforts in this direction are being made both by the local authorities and the Ministry of the Interior.

2. ORDINARY BUDGETS

The ordinary budgets of the Local Authorities for 1956/57, as approved by the Minister of the Interior, show that estimated expenditure increased by about 40 per cent as compared with 1955/56, while estimated income increased by approximately 50 per cent for the same period. However, as outlined above, actual income and expenditure during 1956/57 has been assessed at considerably less than the approved estimates. The approved estimates are shown in table XXI-2.

TABLE XXI-2
*Approved Ordinary Budgets of the Local Authorities for 1956/57
 compared with Actual Income and Expenditure in 1955/56*

	1956/57 ^a		1955/56 ^b	
	<i>Estimated income</i>	<i>Estimated expenditure</i>	<i>Income</i>	<i>Expenditure</i>
Municipalities	106.0	103.0	69.0	72.2
Local Councils	23.2	22.9	16.2	17.3
District Councils	9.5	9.5	7.2	7.3
All Local Authorities	138.7	135.4	92.4	96.8

^a IL.9 million earmarked for debt redemption should be deducted from both columns of the 1956/57 budget. No detailed breakdown showing the allocation by type of local authority is available.

^b For comparison's sake, these figures include salary payments to teachers and kindergarden teachers made by the Government and registered in the books of certain local authorities. Such payments amounted to IL.11.2 million. These data exclude IL.1.2 million transferred to finance extraordinary budgets.

SOURCE: 1955/56—Office of the State Comptroller, and Calculations of the Bank of Israel. 1956/57—"Supplements to the Statement of the Minister of the Interior in the Knesset for the Financial Year 1956/57", published by the Ministry of the Interior.

3. EXTRAORDINARY BUDGETS

Data relating to the scope of the Local Authorities extraordinary budgets for 1956/57 are not yet available, as owing to their special character, they are summarized only some time after the end of the fiscal year. There is reason to believe that the volume of the extraordinary budgets—which include mainly investments in buildings and enterprises—has somewhat expanded as compared with 1955/56; the rate of increase was, however, lower than that of ordinary budgets and amounted to about 15 per cent.³ Expenditure within the framework of these budgets thus reached about IL.33 million during 1956/57, revenue falling slightly short of expenditure and deficits—in so far as they existed—being relatively small.

The rather limited increase of the extraordinary budgets is due to their character and the means used to finance them. Unlike the ordinary budgets, no activities are undertaken within the framework of the extraordinary budgets unless the financial resources for every individual operation have been assured. All operations within the framework of this budget are individually approved by the competent local councils when financing resources for each separate operation are available and not in their entirety, as a budget proposal, at the beginning of the financial year. This procedure has been adopted because the Local Authorities are reluctant to commit themselves in advance to financial obligations and the complications that are likely to arise therefrom; they are,

³ Estimate based on incomplete data.

moreover, often unable to obtain loans owing to the quantitative and qualitative restrictions of the volume of credit.

As in the case of ordinary budgets, district councils succeeded in balancing their extraordinary budgets as well; this was also true to a certain extent for the municipalities.

4. THE DEFICIT AND THE INDEBTEDNESS OF THE LOCAL AUTHORITIES

Expenditure of the Local Authorities amounted to IL.151 million during 1956/57. Of this amount IL.124 million were financed through taxes, imposts, levies and other obligatory payments as well as by the Government grant; IL.22 million were covered by net loans⁴, while the deficit—consisting mainly of debts to suppliers—totalled IL.5 million.

There is no clear dividing line between the deficits and the indebtedness of the Local Authorities; they may indeed overlap to a certain extent.⁵ It can, however, be assumed that the sum total of the deficit and net debts reflects approximately the burden of liabilities carried by these authorities.

Loans received during 1956/57 totalled about IL.22 million, including IL.7.5 million from the sale of the first series of linked debentures issued collectively by the Local Authorities during the year. The balance of this amount includes loans from the banking system (inclusive of credit from Government deposits) to the value of about IL.6 million, while further loans were granted directly by the Treasury (both from Government budgets and in the form of advances) apart from the additional loans designed to finance part of the special security expenditure, by the "Mif'al Hapayiss" (State Lottery) for the construction of schools and hospitals (principally within the framework of extraordinary budgets), and by subsidiary and investment companies of financial institutions.

Credits have also been granted by contractors working for the Local Authorities and, in so far as such credits were not repaid by the end of the fiscal year, they are included in the deficit.

At the end of the fiscal year 1956/57, the total outstanding loans of the Local Authorities were estimated at about IL.88 million. The deficit during that year amounted to—as already stated—IL.5 million, while the accumulated deficit totalled IL.21.4 million. Table XXI-3 shows the development of the total volume of indebtedness.

The Local Authorities do not consider the burden of these loans as particularly irksome, apart from the short-term liabilities to suppliers, the imputed interest on which is usually high. They enjoy a fairly good credit standing, due to

⁴ Loans from the Treasury and from other financial institutions granted for relatively long periods, generally subject to the approval of the Ministry of the Interior.

⁵ This assumption cannot be confirmed until consolidated balance sheets (as distinct from financial reports) of the local authorities are made available.

TABLE XXI-3
Total Indebtedness of the Local Authorities, 1955/56 and 1956/57

<i>End of fiscal year</i>	<i>Cash Deficits</i>		<i>Debts</i>		<i>Total indebtedness of local authorities^a</i>
	<i>During the fiscal year</i>	<i>Accumulated</i>	<i>Net Loans during the year^a</i>	<i>Accumulated debt^b</i>	
1955/56	5.2	16.4	13.0	66.0	82.0
1956/57	5.0	21.4	22.0	88.0	109.0

^a Loans received, less payments on account of the principal of old loans.

^b Balances of principal only.

^c The total of cash deficits and debts. Due reserve is expressed as regards these data, in view of overlapping and the impossibility of clear definitions.

^d Includes IL.7.5 million arising out of the sale of debentures issued by the local authorities.

SOURCE: 1955/56—Office of the State Comptroller.

1956/57—Estimates of the Bank of Israel.

their promptness in meeting obligations on the correct dates and the guarantees they are able to give. It seems, nevertheless, that the Local Authorities feel that the Government will take over their cash deficits in the end and free them of the burden of their accumulated debts.

About one-third of all the loans received by the Local Authorities have been granted by the Treasury. Some liabilities were acquired during the mandatory period, but the greater part are loans from Development Budget funds. So far the Local Authorities have been paying only part of the payments falling due annually on account of principal and interest on Development Budget loans and payment of the balance, which varied from one-third to one-half of the total amount, due, was being postponed to a later date (except during 1955/56, when the Treasury would not approve the deferment). The Treasury and the Ministry of the Interior have agreed to the consolidation of the Local Authorities' debts in order to arrive at a permanent arrangement and to reduce the amount that will have to be paid every year. This plan cancels the relatively early dates of redemption of debt balances outstanding on 31.12.1957, such debts now being redeemable over a 15-year period, beginning with the financial year 1957/58. Another agreement relating to the redemption dates of new loans, as well as of loans approved in former budgets but not yet taken up, was also concluded. The agreement provides that such loans will carry interest at the rate of 5.25 per cent, and will be amortized over periods ranging from 8 to 22 years, depending on the purpose for which the loan was granted and the type of local authority that had received it. The first payment of interest will be made three months after the acceptance of the loan and repayment of the principal will begin two years thereafter.

Although the consolidation of debts will alleviate the burden of the Local Authorities, it should be recalled that short-term loans, representing the most

irksome part of their liabilities, are included in the cash deficit and not booked under "debts".

Data relating to loans granted to the Local Authorities as at 31.3.1957 are not yet available; the development of the increasing burden of debts and its distribution among the various types of local authorities between 31.3.1955—31.3.1956 may, however, be of interest. These data are shown in table XXI-4.

TABLE XXI-4
Loans Granted to the Local Authorities,^a 1955 and 1956
(in IL. thousands)

	<i>Balance as at 31.3.1955</i>	<i>Net receipts^b during 1955/56</i>	<i>Balance as at 31.3.1956</i>	<i>Net increase in per cent</i>
Municipalities	35,867	6,865	42,732	+19.1
Local Councils	8,109	2,622	10,732	+32.3
District Councils	8,897	3,361	12,258	+37.8
<i>Total—All Local Authorities</i>	<i>52,874</i>	<i>12,849</i>	<i>65,723</i>	<i>+24.3</i>

^a Principal only.

^b Loans received during the year, less payments on account of principal of former loans.

SOURCE: Reports of the State Comptroller.

While in absolute figures municipalities accounted for most of the debts, be it debts incurred during 1955/56 or total indebtedness, it should be noted that the debt burden carried by district councils was, in relation to their budgets, by far the heaviest, their liabilities increasing at a higher rate than those of other local authorities.

District councils being the youngest among the local authorities, their initial operations require special means of financing. It is hoped that once these councils will have been well established, the rapid extension of their liabilities will cease.