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IMPERIAL SUBVENTIONS
TOWARDS SERVICES ADMINISTERED
BY
LOCAL AUTHORITIES
IN ENGLAND AND WALES

BY

C. GARRATT HOLDEN, B.A., B.COM. (Hons.)

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PART I - INTRODUCTION.

In the realm of Local Government there is probably no question of such importance or of so controversial a nature as that of the relationship which should exist between the central Government and the Local Authorities whose actions it at present so largely controls.

On this subject opinions range, with infinite variations, from the attitude of almost complete independence which is now maintained only by the City of London to the subservience exhibited by certain minor Authorities which appeal to some Government Department on every point that arises and which receive with undisguised welcome each new method of supervision and control. Between these extremes there exists a great body of local administrators, which, without denying the ideal of independence, is concerned for the Government to assist in bearing what it considers to be national burdens, and which therefore presses for State aid of various services administered by Local Authorities throughout the Country.

Pressure exerted from this source would however probably meet with little success were it not that the system of grants in aid possesses considerable advantages from the point of view of the central Government. Indeed, the advantages may be so pronounced as to cause the Government to take the initiative and offer a grant towards expenditure on a certain service administered by Local Authorities, in order to secure some measure of supervision or control. Though the standard of some services may well be left to local enterprise or indifference, certain others, partaking of a national character, require co-ordination by a central Department in order to secure a general measure of uniformity and adherence at least to a minimum standard of efficiency and utility. Grants have also been proposed by Parliament when introducing legislation which places further duties or responsibilities on Local Authorities, as some softening of the burden which is being added to their shoulders, or possibly as some earnest of the Government's interest in, and responsibility for, the subject of the legislation.

Imperial subventions thus possess the useful characteristic of appealing, from different motives, to both giver and recipient, so that it is not surprising that they should figure prominently in the multifarious legislation affecting Local Authorities which has found its way to the statute book since the great reforms which were effected by the newly-constituted Parliaments brought

into being by the Reform Act of 1832. From the date of the first subventions till the present time however, there has burned with varying fierceness a flame of controversy about the whole subject, as to the services which should be aided by the State, but more particularly as to the manner in which the amounts of the grants are to be determined, and the bases on which the allocations are to be made.

The problem thus presented is capable of no immediate and final solution, but demands careful consideration from many points of view, and, as is the case with most constitutional questions, must be approached first from the historical side in order to view the question in its correct perspective. This is all the more necessary in the present case, as the enactments of subsequent Parliaments have created a situation of extreme complication, the actual details of which can only be retained mentally by those whose duty it is to execute the requirements of the statutes; an historical survey is therefore the surest method of obtaining a reliable understanding of the present position, without which any suggestions of reform must necessarily be valueless.

PART II - HISTORICAL SURVEY.

To set down in chronological order the various grants which have from time to time been instituted, modified or discontinued, according to the caprice of successive Parliaments, would probably emphasize only the extreme complexity of the system rather than the main features of the system itself. Owing to an attempt made by the late Viscount (then Mr.) Goschen in the Local Government Act, 1888 to consolidate and unify the system as it then existed, one can only achieve continuity by dealing separately with those grants which were re-modelled by the Act of 1888 and those which have been introduced subsequently or were left untouched by that Act.

EARLY GRANTS.

Of the aforementioned class (usually known by the name of "Discontinued Grants") the first service to which grants were voted by Parliament was the maintenance of law and order. Ever since 1833 a grant has been made from the Consolidated Fund towards the cost of the Metropolitan Police Force. Between its inception and its abolition in 1888, the grant was extended no less than 8 times, and during the last 10 years of that period represented $\frac{4}{9}$ of the cost of the Force.

Contributions towards the cost of provincial police forces were made from 1856 and, after various modifications, the amount was fixed from 1874 at $\frac{1}{8}$ of the net cost of pay and clothing. The expenses of the Central Criminal Court, established in 1834, were paid out of the county rates until 1846, when the cost was transferred to the central Government. On the passing of the Local Government Act 1888, however, the cost reverted to the Administrative County of London.

Somewhat similar treatment was accorded to the costs of criminal prosecutions outside London, which were borne by the county rates from 1752 to 1835, when $\frac{1}{2}$ the expenses were transferred to the Government. Eleven years later the Government undertook to bear the whole cost, but this change also reverted to the Counties on the occasion of the reform of 1888.

A second group of grants relates to purposes connected with the Poor Law system, the earliest of which date from 1846 and are associated with the repeal of the Corn Laws. In order to compensate the agricultural interest for the loss of protection, Sir Robert Peel undertook to transfer a portion of the local burden from the rates to the National Exchequer. This was effected by

the State undertaking to bear the whole cost of conducting criminal prosecutions and of maintaining convicted prisoners, and in addition, to pay one-half of the cost of medical relief granted under the Poor Law system and to pay the salaries of teachers in Poor Law schools. Both these latter grants lasted without major alteration until 1888. The Vaccination Act of 1867, in addition to empowering Guardians to pay the public vaccinators appointed by them, provided for a fee from Government funds in respect of each successful operation.

Under the scheme of additional relief to local taxation which was introduced in the Budget of 1874 in fulfilment of a resolution of the House of Commons of 1872, a capitation grant not exceeding 4/- per head became payable to Boards of Guardians and to County Borough Authorities in respect of the cost of maintenance of the pauper lunatics chargeable to them. An Act passed in the same year increased the rate of remuneration payable by the Guardians to registrars of births and deaths and directed that the increase should be partly met by a grant from the Exchequer.

In addition to all the foregoing, the following special grants payable to Local Authorities were included in the reforms of 1888 :-

- (1) Compensation to Clerks of the Peace in respect of loss of fees suffered by the passing of the Criminal Justice Act, 1855, (which has now entirely ceased, as it only applied to existing officers.)
- (2) Half the salaries of the Medical Officers of Health and Inspectors of Nuisances, dating from 1872 when their appointment was first made compulsory, and
- (3) Grants for the maintenance of disturnpiked and main roads - introduced in 1888 in accordance with a promise made by Mr. Gladstone.

PRINCIPLES OF THE GOSCHEN SCHEME.

Such then was the position of affairs in 1888, when the Local Government Bill was framed for the purpose of creating a new Local Authority - the County Council - which was to assume the administrative functions hitherto exercised by Justices in Quarter Sessions, together with certain new important administrative powers giving to it a status superior to that of other Local Authorities except the larger towns. Responsibility for this part of the Bill rested with the President of the Local Government Board (the late Lord (then Mr.) Ritchie). But financial clauses of at least equal importance to the administrative provisions were sponsored by the Chancellor of the Exchequer (Mr. (afterwards Viscount) Goschen), who seized the opportunity to make sweeping changes in accordance with 3 principles to which he attached great importance.

Previously, specific grants had been made from the Consolidated Fund to individual Authorities on behalf of certain services, with the result that the grants figured as income in both National and Local accounts. This state of affairs Mr. Goschen sought to remedy by the method of assigning certain items of National revenue to a special Local Taxation Account, which was to be used not as part of the National resources but solely as a pool from which grants were to be made to the County Councils (including in that term the newly created County Boro's, each of which combined the status of a county and a boro' for its own particular area.)

By careful selection of the revenues to be assigned to the pool for the benefit of Local Authorities, Mr. Goschen hoped also to ensure the application of local revenues for local purposes, and also, by choosing growing sources of income, to achieve some degree of finality and avoid the frequent necessity for demanding increased subventions, to which the ever-enlarging range of activities of Local Authorities gave them some claim.

The revenues selected for the purpose were the bulk of the Excise Licences and half the proceeds of the Probate Duty. The former, which are referred to in the act as Local Taxation Licences, comprise those payable in respect of male servants, carriages, armorial bearings, guns, game and dogs, and those payable by vendors of intoxicating liquors, by auctioneers, hawkers, pawnbrokers, plate dealers, refreshment house-keepers and tobacco dealers. To emphasise their local character, Mr. Goschen originally intended that they should be collected by the Local Authorities and that where uniformity^{out} through the Country was not essential, the Local Authorities should have power to vary the rates of duty within prescribed limits, but neither of these suggestions remained in the Act as finally passed.

A local income tax being rejected as impracticable, the half of the Probate Duty was selected as the other tax in order to meet the clamour of the agrarian party for a contribution from personalty. (In 1894 the Probate Duty was abolished, and instead there was assigned to Local Authorities $1\frac{1}{2}\%$ of the new Estate Duty on personalty, leaving them in exactly the same position as before.)

Both these taxes were expected to increase in the future, and as the Excise Licences were expected to yield rather more than the amount of the discontinued grants, the half of the Probate Duty (which was allocated to England and Wales, Scotland and Ireland in the respective proportions of 80, 11 and 9%.) was hailed as a further relief to Local Authorities, to which were to be added duties on -

- (a) horses and race horses
- (b) carts and wheels

Owing however to the violent opposition aroused by the latter, the Bill imposing these duties had to be withdrawn by the Chancellor.

To provide substitutes for these rejected licenses, and also to meet the demand for police superannuation, Mr. Goschen carried a bill two years later by which an extra duty or surtax on beer and spirits (called Local Taxation (Customs and Excise) duties) was levied, and allocated between the three kingdoms in the same proportion as the Probate Duty, subject to a deduction in the case of England of £300,000 for police superannuation, to be divided equally between the Metropolis and the rest of the Country.

DISTRIBUTION OF THE ASSIGNED REVENUES.

The main principle of the Goschen scheme was thus the assignation to Local Authorities of three National revenues, but we have still to consider the manner in which the revenues were to be apportioned as between counties, and subsequently as between each county and the county boroughs (if any) within its geographical area. Attention must also be directed to the deductions made from the grants before and after their apportionment, and their eventual application to special purposes of the county or to minor Authorities.

The Local Taxation Licences were, in accordance with the alleged principle of supplying subventions from local sources, allocated to the county councils in the areas of which they had been collected by the State. The idea of similarly localising the Probate Duty does not seem to have occurred to the Government, although, if the existence in a county of a large number of dutiable objects is to be considered as giving a claim for relief ^{to} the rates, the principle might have been extended with as much (or little) reason to the Probate Duty. However, Mr. Goschen proposed to adopt the principle of the Metropolitan Common Poor Fund, which had been established in 1867, and to divide the grant from the Probate Duty in proportion to the number of indoor paupers. This proposal proved very unpopular in more than one quarter, and Mr. Goschen was forced to adopt a basis which he had previously denounced as the height of injustice and apportion the grant among the counties on the basis of the total amount of discontinued grants received by each during the year 1887-8.

This arbitrary basis was subsequently adopted in 1890 for the apportionment of the Customs and Excise Duties. The intricate problem of dividing each of the three grants between the administrative county and any county boroughs in its area was not solved by Parliament, but left to a Royal Commission established by the Act of 1888 itself and presided over by the

the late Earl of Derby, which considered the case of each individual county borough between 1888 and 1892 and made an "equitable adjustment" as directed by the Act, from which decision there was no appeal.

The Commissioners presented only a very short report which does not explain the principles underlying the bases of allocation which they adopted, so that one can only endeavour to discover their reasons from a perusal of the voluminous minutes of evidence and the obscure and contentious provisions of the Act itself. The actual bases adopted, which are clearly stated in the report, were that each area should receive from the total of Licences and Probate Duty sums equal to their respective shares of Discontinued Grants in the year 1887-8, together with the amount payable in respect of a newly-introduced grant towards the cost of the offices of the Boards of Guardians, and that the balance of the Probate and Licences grants, and also the Customs and Excise grant of 1890, should be apportioned on the basis of rateable value.

The selection of the Discontinued Grants as a basis of division was no doubt due to the Commissioners' interpretation of a highly contentious proviso (inserted in the Act at the instigation of some who feared loss under the new arrangements) which was to the effect that no area was to be placed in a worse financial position than it previously occupied. The selection of rateable value as the other criterion is probably attributable to the urgent representations made by the counties, from whose point of view this basis would be more advantageous than any other with any pretence to reason. For completeness it should be added that the Commissioners' awards could be re-opened to arbitration every 5 years, but, although this has not infrequently been done, the arbitrator has in every case confined himself to a re-adjustment in accordance with the altered rateable values, and has not disturbed the bases established by the Commissioners.

When this scheme of Exchequer contributions was introduced, the only deduction made from the assigned revenues was that in respect of police superannuation under the Act of 1890, half of which was paid to the Metropolis and half to be distributed among provincial forces on a basis prescribed by the Police Act of that year. Since then however, there have been introduced various modifications necessitating deductions from the Local Taxation Account, each of which will be mentioned in due course.

APPORTIONMENT BETWEEN LOCAL AUTHORITIES.

Into the complicated details of the eventual application of each county's share of the assigned revenues, it is fortunately not necessary to enter

for the purposes of this essay. In several matters the procedure differs between county and county borough, and between the Metropolis and the Provinces, while local circumstances cause some variation in the manner in which the principles of the Act are applied. Our chief concern at this stage is to notice the principles on which the grants were to be apportioned, and these, as one might expect from the complications inherent in this system, are neither uniform nor straightforward.

The principle of a fixed annual charge, determined by the amount spent during the last year under the old system, was adopted for the new grant towards the salaries of officials of Poor Law Unions and of Registrars of births and deaths. For most of the sums now payable from the Exchequer Contribution Account in substitution for the Discontinued Grants, the old principle of contributing a fixed proportion of the expenditure continued to be adopted, and was defended on the grounds that the estimated increase in the assigned revenues would make this course possible without causing injustice to the county councils, by whom the grants would now be paid over to the guardians, police authorities and district councils.

A different but not a new principle was adopted in the case of the grant in respect of lunatics, as here the basis was not expenditure but the number of lunatics maintained, for each of which 4/- a week was to be paid from the Exchequer Contribution Account wherever the cost of ^{maintenance} exceeded this amount. This furnishes one of the earliest examples of the application of the unitary system, to which further reference will be made when considering possible reforms.

When the Customs and Excise duties were added to the assigned revenues in 1890, the popular cry of the moment was for technical education, in deference to which an option was given (and generally exercised) for the application of each council's share in the furtherance of higher education. By the Education Act, 1902, this option became a compulsory duty, so that, although the amount still passes through the Exchequer Contribution Account, its destination is determined in advance.

After payment of these various grants, it was contemplated that a surplus would remain, and this, subject to certain minor but very complicated provisions which do not affect the general principle, was to be applied in the relief of rates levied over the whole area of the county or county borough. It was apparently not contemplated that a deficiency might result instead of a surplus, as no provisions for meeting such a contingency appear in the Act of

1888, though such an unfortunate condition is by no means unknown in practise.

The contemplated surplus was however hailed as a fulfilment of the Government's pledge for the relief of local taxation, but this somewhat misleading claim takes no account of the fact that prior to 1888 the Government bore the whole cost of criminal prosecutions and half the cost of main roads, and that both these charges were placed upon counties and county boroughs without any financial assistance from the Government. The reason for their exclusion is probably that, whereas the specific grants from the Exchequer Contribution Account were made to minor Authorities, the cost of criminal prosecutions and main roads fell on the Authorities responsible for administering the grants, and it was therefore unnecessary to insist on the allocation of specific sums for these services when the surplus (if any) on the Exchequer Contribution/^{Account}reverted automatically to the counties and county boroughs. Be that as it may, the cessation of the Government aid towards criminal prosecutions and main roads in many cases largely counterbalanced the advantages which the Goschen system promised to Local Authorities.

ADDITIONS TO THE ASSIGNED REVENUES.

We have now reviewed in outline the one comprehensive effort made by the Government to stabilise on an equitable basis the financial relations between the State and Local Authorities. It will be remembered that Goschen hoped, by the scheme introduced in 1888 and extended in 1890, to ensure

- (a) the separation of local from national finance
- (b) the utilisation of local revenues for local purposes, and
- (c) The establishment of a system with some pretence of permanency.

If any of these aims had been achieved, even at the cost of much complexity and duplication in the finances of counties and county boroughs, some straining of the imagination in order to perceive the local nature of the assigned revenues, and considerable advantage to stationary and declining areas at the expense of progressive districts, the benefits of the scheme might possibly have been considered to outweigh the disadvantages.

Unfortunately none of Goschen's aims has been realised in practice. The scheme was never all-embracing, and therefore local and national finance continue to be inter-connected, the grants are no longer derived from local sources, and the recent history of the subject reveals a series of fresh aids from the Exchequer, either as further recognition of the national character of certain services, or as assistance in the development of fresh services.

Whether the original Goschen system would ever have justified its introduction is a question to which a categorical answer cannot be given; certain it is that it has fallen far below the expectations of its originator, but no doubt its failure is to a considerable extent attributable to the many tamperings, amounting to repudiation of the original promises to Local Authorities, to which the scheme has been subjected by successive Chancellors of the Exchequer. In order, therefore, to gauge the true position, we must now pass in brief review over the modifications of the system which have been brought about since 1888.

The addition to the assigned revenues in 1890 of the customs and excise duties has already been mentioned as part of the original scheme, in that they were brought in largely in substitution of the unwelcome suggestion of a tax on horses and carts. It is convenient at this point to notice two other additions which were, for a short time, made to the revenues of the Local Taxation Account, the first of which was brought about by the Licensing Act, 1904, which provided that the sums paid for monopoly values of public houses should be treated in the same way as the liquor licences and be assigned for the benefit of Local Authorities. By the Finance (1909-10) Act of 1910, this benefit was transferred to the National Exchequer. At the same time (1910) half the proceeds of the newly-imposed duties on land values was appropriated for the use of Local Authorities. This benefit was, of course, lost in 1920 when these duties ceased to be chargeable.

DIMINUTION OF THE ASSIGNED REVENUES.

Apart from these minor and transient benefits, the modifications introduced into the Goschen system have all ensured to the detriment of Local Authorities. In reviewing these, it will be advantageous to depart from the order of strict chronology, in order to group the changes under two heads viz :- deductions from the assigned revenues, and stabilisation of these revenues.

The earliest modification under the first head dates from 1894 - only six years after the introduction of the system, when by the Diseases of Animals Act a contingent liability (which has become effective in nearly every year) was placed on the Local Taxation Account.

Under these provisions, Local Authorities have been made responsible by way of deduction from their grant, for part of the cost of suppressing certain diseases among animals.

Five years later (1899) a further deduction was authorised, on this occasion for the benefit of owners of tithe rent-charges, who were relieved of one-half of the poor rate levied in respect of their tithes, the deficiency to the

Rating Authorities concerned being supplied by direct payments from the Local Taxation Account.

The third deduction concerns the payments in respect of the monopoly values of liquor licences which accrued to Local Authorities from 1904 to 1910. In the latter year the rates of duty on these licences were increased, but certain concessions were made to compensate for the loss in monopoly values occasioned by the increased duties. It was provided that the cost of these concessions should fall upon Local Authorities where they had previously reaped the benefit of the payment for monopoly value, and this was effected by a deduction from the share of the assigned revenues payable to each Authority.

These deductions, however irritating to Local Authorities, are unimportant when considered in relation to the changes in the system which fall under the head of stabilisation. It was definitely intended by Lord Goschen that Local Authorities should benefit by the expected increases in the revenues which were allocated for their use, but serious departures from this principle were made in 1907, 1910 and 1911, the cumulative effect of which practically destroyed the main characteristic of the system.

In 1907, for example, the principle of assigning specific revenues was definitely abolished and the revenues diverted to the Consolidated Fund, which was charged with payment of the Estate Duty grant at the same rate as before, and of a sum equal to the amounts which would have been payable on the Customs and Excise duties and the Local Taxation licences at the rates hitherto in force. Local Authorities were for the moment safe-guarded from loss which might arise owing to an increase in the rate of duty payable on any of the licences, by being assured of a minimum payment equal to the average proceeds of the preceeding three years. In explanation of his proposals, the Chancellor of the Exchequer, who was ^{then} Mr. Asquith (now the Earl of Oxford and Asquith) intimated his desire to recover complete control over these duties in order to clear the ground for a re-settlement of the question of imperial subventions, and to enable the Government to increase the rate of duty payable on certain licences, and obtain for Imperial purposes any increased yield.

In the following year, the collection of certain of the licences was entrusted to county and county borough councils with the assistance of the Post Office, but they were not given any measure of control over the duties. If this change presaged a reform of the system, it has never materialised, and as it is merely an administrative question it is hardly germane to the subject under review.

In 1910 the rates of duty on liquor licences and motor cars were increased, but the amounts payable to Local Authorities were stereotyped at the figures for the previous year, so that the Government received the benefit, not only of the increase of the rates of duty, but also from the natural increase in the number of licences. In the following year the Customs and Excise duties and all carriage licences were similarly stereotyped, and with these departures from the original system the principles of the scheme may now be said to have been largely abolished, as the only items which now fluctuate annually according to the actual proceeds are the Estate Duty grant and some of the Local Taxation Licences.

The latest modification took place in 1920, when the petrol tax was abandoned in favour of the present system of the taxation of motor vehicles according to horse-power or weight. Out of the proceeds of these duties Local Authorities receive a stereotyped amount in respect of carriage licences, which is fixed by the figures for the year 1908-1909. At this juncture, the history of the vicissitudes through which the Gosehen system has so far passed is concluded, and, at a subsequent stage, an attempt will be made to review in broad outline the present complicated and unsatisfactory position.

GRANTS IN RESPECT OF RATES.

The remaining Government subventions consist of

- (a) direct assistance to Rating Authorities, and
- (b) special grants towards certain specific services administered by Local Authorities.

Of the two divisions, the latter is of course by far the more important, but it is convenient to deal first with the three grants in the first category, and thus clear the ground for a review of the most important examples of State assistance.

Under the general law all property occupied by the Crown for the public service is exempt from liability to pay local rates, but a Select Committee of the House of Commons recommended in 1858 that Crown property should be made assessable on the same basis as all other property. Following its invariable practice, Parliament declined to adopt this suggestion, but offered a voluntary contribution to the poor rate only, in parishes where the value of Government property exceeded one-seventh of the total rateable value of the parish. Both limitations were abolished in 1874, and the Government now makes its voluntary contribution in respect of all local rates, according to the valuation which it places upon its own property.

In practice this is approximately equivalent to an assessment for rates, but in theory these payments constitute a special form of Government assistance, primarily for the benefit of certain parishes where Crown property is an important factor in the rating system.

If the foregoing be considered as a form of relief to a special class of ratepayers, the grants under the Agricultural Rates Acts 1896 and 1923 are somewhat similar in purpose, though wider in application. Both Acts, like the Tithe Rent-Charge (Rates) Act of 1899 are temporary palliatives only and will disappear if the Rating and Valuation Bill now (April 1925) before the House of Commons passes into law, though the effect of the Acts will be maintained as a permanent part of the system.

Following the precedent established by the Public Health Act, 1875 as regards the general district rate, agricultural land was relieved in 1896 of half, and in 1923 of a further quarter of its share of rates, but as this provision alone without outside assistance would not have resulted in much relief to the purely agricultural districts, the Government undertook to bear the cost of the concession from National funds. This was indeed the arrangement made in 1923, but in 1896 the Government grant was stereotyped for all time on the figures of the actual cost of the relief for the year 1895-6, so that the grants under this Act now bear little real relation to the actual loss suffered by Rating Authorities.

The relief from one-half of the poor rates payable by owners of tithes appears at first sight to be an instance of State aid very similar to that conceded to occupiers of land, but, as already mentioned, the deficiency is in this case made good by ratepayers generally from their share of the assigned revenues and not from National Funds. It is therefore more correct to regard this as an adjustment of burden between various classes of ratepayers rather than as an example of Government assistance.

EDUCATION GRANTS.

The way is now clear for a survey of the grants which have been instituted from time to time in respect of specific services administered by Local Authorities. From the administrative point of view these are comparable with the Discontinued Grants, to which reference has already been made, and in importance and magnitude they now surpass those received through the medium of the Exchequer Contribution Account, although in 1888 practically the only grants excluded from the scheme of reform were those in respect of elementary education and reformatory schools.

The most important service aided in this way is education, towards which Parliament voted the first grant as long ago as 1833. This was expended originally on the erection of schools, and later also on equipment and maintenance. Further small grants were added at frequent intervals, each for a special purpose within the realm of education; thus in 1845 the provision of apparatus, in 1846 training schools, in 1848 salaries of teachers, in 1854 the general expenses of instruction were added to the list of purposes aided by Parliament. All these grants were, of course, paid to the managers of voluntary schools, which then supplied the only form of instruction available to the poorer classes.

The Elementary Education Act 1870, which created School Boards for those districts where voluntary effort was insufficient and for the first time placed part of the cost of education upon the rates, maintained the system of capitation and other grants without radical alteration in principle, although the amounts naturally increased with the number of fresh schools that were established.

The next landmark in the history of education is the Act of 1891, which offered to school managers a fee grant of 10/- per pupil on their abolishing school fees, subject to minor exceptions. As is well-known, the Act was almost universally adopted, and the burden of education transferred from the parents to the State, and thus compulsory education reached its logical conclusion and became free.

In 1902 School Boards were abolished, and their powers transferred to the larger Local Authorities, which were also made responsible for the voluntary schools. To meet these circumstances an Aid Grant was introduced which consisted of -

- (a) 4/- per child
- (b) an additional 1¹/₄d. per child for every 2d. per child by which the produce of a 1d. rate fell short of 10/- per child.

The annual grant of £1 1s 4d. per child and extra grants for special subjects continued to be payable in addition.

The position was therefore becoming unduly complicated, and the addition of a special grant for necessitous areas, and the greatly increased duties of Local Authorities alike gave rise to a claim for reform of the system. This took place when the whole scheme of education was overhauled by Mr. H. A. L. Fisher in 1918, and the system of grants then introduced was only slightly modified by the Consolidation Act of 1921.

The present system effects a complete separation between elementary and higher education and embraces three bases of computation:-

- (a) a percentage of expenditure
- (b) a fixed sum per child
- (c) a fixed rate poundage

The grant for higher education is simply 50% of the approved net expenditure, but for elementary education all three principles are combined in an endeavour to attain equity as between taxpayer and ratepayer, and especially between ratepayers in different districts. The consolidated grant (known as the Substantive Grant) is -

- (a) 36/- per child
- (b) 60% of the salaries of teachers
- (c) 50% of the expenditure on special services, such as schools for defective children.
- (d) 20% of the remaining approved net expenditure.

From the total of the four above amounts there is deducted the produce of a rate of 7d. in the £. The grant must not exceed two-thirds, or be less than $\frac{1}{2}$ of the net expenditure, but an additional grant may be paid in highly-rated areas.

Reformatory and industrial schools, which were originally and are still largely voluntary institutions, are not supervised by the Board of Education, but by the Home Office, which has since 1854 made a direct capitation grant to each class of school.

POLICE GRANTS.

The Police service takes equal rank with Education as being the first local service to receive assistance from the State, as the first grant in aid of the Metropolitan Police was, as previously recorded, voted in 1833, when the first contribution in aid of Education was made. The grant voted was the excess of the cost of the force over a rate of 8d. in the £. subject to a limitation of the grant to £50,000. There were at this time but few provincial forces, as their formation was optional in counties, and although nominally compulsory in boroughs under the Act 5 & 6 Will. IV, c. 76, there was no power to compel the maintenance of an adequate standard.

The unsatisfactory condition of such forces as existed compelled attention to the question, and, on the report of a Select Committee, the provision of an adequate police force in counties and boroughs was made compulsory in 1856. The Government agreed to pay one-fourth of the cost of pay and clothing of such forces as were certified as efficient by the Home Office inspectors, and thus secured some measure of control over the service.

As part of the scheme for the relief of rates, introduced by Sir Stafford Northcote in 1874 in fulfilment of a resolution of the House of Commons, the Government doubled their contribution of one-fourth of the cost of pay and clothing and this arrangement lasted until the passing of the Local Government Act, 1888. The contribution to the Metropolitan Police had meanwhile undergone several changes, but the grant was similarly increased in 1874, and after further modifications was fixed at 4d. in the £, or, as the cost was limited to a rate of 9d. four-ninths of the total cost. In addition the salaries of the Commissioners and Receiver were ^{and} still are paid by Parliament.

Under the Goschen scheme of 1888 the bases of the grants were not altered, but the amounts were to be paid from the Exchequer Contribution Accounts to the Police Authorities, an arrangement which is still in force, though the actual amounts, and also the shares of the £300,000 allocated from the Excise duties of 1890, are stereotyped at the figures for 1914-15.

The Police service attracted considerable attention in 1919, owing partly to dissatisfaction among the members of the force which culminated in an abortive strike in August of that year, and partly owing to strong pressure from Local Authorities for further financial assistance from the Government, to meet the greatly-increased cost of the service, as a result of post-war conditions and the frequent additions to their expenditure necessitated by the requirements of the Home Office.

The Desborough Committee, which was appointed to consider the whole question of the police service, reported in favour of the expenditure on the service being equally divided between Local Authorities and the National Exchequer, and as a result there was made permanent a temporary regulation to this effect which had been introduced in the early part of the year. Local Authorities therefore now receive a supplementary grant for this service, which, together with the two grants introduced by Lord Goschen, brings the total State Aid up to half the net approved expenditure.

HIGHWAY GRANTS.

The first grant in aid of the cost of main roads was voted by Parliament in 1882, Mr. Gladstone having proposed in his Budget to increase the carriage duty, and apply the proceeds in aid of the highway rates, which had greatly increased as a result of the abolition of the turnpike trusts. The cost of maintaining disturnpiked roads fell on the districts and parishes through which they ran until 1878, when half the cost was transferred to the county by the Highways and Locomotives (Amendment) Act. Mr. Gladstone's proposal was,

however, rejected and instead, half the cost to the local Highway Boards (i.e. $\frac{1}{2}$ of the total cost) was assumed by the Government.

Five years later Goschen instituted a similar grant to the counties, so that the Exchequer bore one-half of the total cost in 1887, 1888 and 1889, when, under the Local Government Act, main roads became a charge on the county. The Highway Boards disappeared, and the minor roads were transferred to the Urban and Rural Districts, though Urban districts were allowed to retain control of their main roads and to recover from the county the whole cost of maintenance. The Government grants disappeared, but it was intended that the balance of the Exchequer Contribution Account would more than compensate for the loss of this grant.

Among the many alterations embodied in Mr. Lloyd George's famous Budget of 1909 was an increase in the rates of duty payable on motor cars. The share payable to the Local Taxation Account was, as previously mentioned, permanently fixed at the amount payable during the year 1908-9, and the balance carried to a newly-created Road Improvement Fund, the revenues of which were to be distributed among Local Authorities for the maintenance of main traffic routes. The main source of revenue of the fund was, however, the petrol tax which was also imposed by the 1909 Budget, and this arrangement lasted until 1920, except for the war years during which the Government diverted the revenues of the fund to more urgent national purposes.

Among the schemes of re-organisation evolved in 1919 was the establishment of the Ministry of Transport, which immediately took in hand the pressing problem of the main roads throughout the Country, in the course of which all important roads were designated as "Class I" or "Class II" respectively, and this classification was made the basis for the new system of grants then introduced. The old system of licences for motor cars was abolished, and the present system established, resulting in a great increase in revenue, notwithstanding the abrogation of the petrol tax. The revenues are carried to the newly-created Road Fund (into which the old Road Improvement Fund is merged) and, after defraying the expenses of collection and administration, are solely applicable to the construction and maintenance of roads.

From this source Local Authorities now receive annual grants equal to 50% and 25% respectively of the cost of maintaining the Class I and Class II roads in their areas. In addition, the Ministry frequently contributes half the capital cost of constructing a new road of more than local importance,

and arranges for the apportionment of the remaining half of the cost among the Local Authorities concerned, when their assent to the scheme has been obtained.

PUBLIC HEALTH GRANTS.

The advent of State assistance within the realm of Public Health is a comparatively recent event, associated with the scheme of social reform of which the National Insurance Act, 1911 was one of the most prominent features. Under this Act local authorities established sanatoria for the treatment of tuberculosis, and towards the necessary expenditure the Government made varying contributions. With the passing of the National Insurance Act, 1920, the payment of sanatorium benefit, previously administered by Insurance Committees ceased, and arrangements were made for a considerable extension of the facilities provided by Local Authorities for the prevention and treatment of tuberculosis in all its forms. The grants payable by the Government in respect of this expenditure are, with minor exceptions, calculated on a basis of 50% of the approved net expenditure for the year.

National aid towards expenditure on providing accommodation and otherwise caring for the mentally deficient (as distinct from lunatics) dates from 1913, when a fixed grant of £150,000 was voted by Parliament for this purpose. In 1919 this limitation of the total grants was removed, and Local Authorities now receive a grant of 50% of the expenditure on obligatory services, together with capitation grants where extra services are provided.

The position with regard to grants in aid of maternity and child welfare work and clinics for the treatment of venereal diseases is similar to that outlined above for tuberculosis and mental deficiency, in that the grants were instituted (in 1913 and 1916 respectively) when compulsory duties were first placed on Local Authorities, and that these grants also represent a percentage of net expenditure, the figure being 50% in the case of maternity and child welfare and 75% in the case of venereal diseases.

HOUSING GRANTS.

Among the many post-war problems, none has occasioned so much expenditure of time, energy and money on the part of both National and Local Authorities as that of relieving the shortage of houses. The problem looms so largely in both national and local politics that it is unnecessary to stress its importance at the present time, and no doubt the three national schemes which have followed so closely on one another will enable the historian to form some impression of the magnitude and difficulty of the question.

Recognising in this the biggest domestic problem of the reconstruction period, the Government has accepted throughout its full share of responsibility for its solution, but at no time more so than in 1919 when it supported the scheme associated with the name of Dr. Christopher Addison, the first Minister of Health. Under this scheme, which subsequently received drastic curtailment at the hands of Sir Alfred Mond, the Government required Local Authorities to submit detailed proposals for the erection of houses in large numbers, and when these were approved, undertook all financial responsibility for any annual loss beyond a rate of 1d. in the £, an arrangement which continues until 1927, when a valuation is to be made for the purpose of ascertaining the Government's future burden in respect of the annual deficiency on each scheme.

This principle of limiting the liability of Local Authorities at the expense of the Government, which of course involves a very great amount of detailed control, was abandoned by Mr. Neville Chamberlain in 1923 in favour of a fixed grant of £6 per annum for 20 years, payable to Local Authorities for each house fulfilling the technical conditions which was erected in their areas, whether by themselves or by private enterprise. The capitalised value of the grant is £75 and the benefit is generally passed on to private enterprise in the form of a capital grant of about £100, the excess over £75 being of course contributed by the Local Authority. In the case of houses erected by a Corporation, the Government's contribution is similarly limited in amount, and thus any deficiency in excess of £6 per house for 20 years has to be met out of the rates, the liability of which is consequently unlimited, while that of the Government is fixed - a reversal of the principle of the Addison scheme.

The scheme introduced in 1924 by Mr. John Wheatley is not essentially different from the Chamberlain scheme, but special conditions are attached to the increased subsidy, in an endeavour to ensure the satisfaction of the need of the poorest classes, in preference to that of the better working-classes. The Chamberlain scheme continues in operation, but in addition a new scheme appears, under which a grant of £9 per annum for 40 years is made in respect of those houses fulfilling the special statutory conditions as to tenancy and rent. In calculating the rents to be charged, it is expected that Local Authorities will make a contribution equal to half that of the Government, and with the total subsidy of £18; 10s. 0d. per annum for 40 years the schemes are expected to be self-supporting.

MISCELLANEOUS GRANTS.

Closely allied to the housing problem is the question of re-settling in civilian life the men demobilised from the Services at the conclusion of the

Great War. In deference to a popular and by no means new cry of "Back to the land", the Government formulated in 1919 a scheme of land settlement, and encouraged Local Authorities to purchase estates for division into small holdings of a few acres each. The scheme recalls the housing proposals of the same year, as the financial responsibility rests primarily on the Government. Indeed, no less whatever in respect of a duly authorised scheme falls on the Local Authority until 1926, when a re-valuation is to take place, on the basis of which the Government will remain responsible for the repayment of such a proportion of the outstanding loans as is equivalent to the excess of the total cost of acquisition over the current market value of the holdings. With the aid of this grant, which will continue until the loans are redeemed, it is anticipated that the schemes will be self-supporting, and that no charge for this purpose should fall upon Local Authorities.

In spite of frequent and urgent representations by members of Local Authorities, no Government has given practical recognition of the national nature of the great burdens which the present industrial depression has thrown upon the majority of towns throughout the Country. Where, however, Corporations have undertaken works admittedly for the sake of relieving unemployment, which in the ordinary course would not have been carried out for some years, if at all, the Government has contributed during the last four years a percentage of the wages bill, in the case of revenue schemes, and a proportion of the interest and sinking fund charges for a varying period of years in the case of capital undertakings. The grants are, however, subject to so many restrictions, and represent at best but a small portion of the burden which unemployment has added to Local Authorities, that the total relief from this source is generally regarded as very inadequate. There are also small contributions made towards the expenses of the Distress Committees set up under the Unemployed Workmen Act, 1905, but the total amount involved is so small as to be almost negligible.

Following the reform of electoral machinery which was brought about by the Representation of the People Act, 1918, the State has contributed 50% of the cost of compiling and printing each half year the electoral roll of each area, which now applies to both national and local elections. The expenditure which is allowed to rank for grant is restricted according to a scale prescribed by the Treasury.

To complete this historical sketch of Imperial subventions, mention should be made of two small fixed grants, each having a curious historical origin. Since 1865 an annual grant of £10,000 has been made towards the cost of the Metropolitan (now the L.C.C.) Fire Brigade, as an Act

passed in that year (28 & 29 Vict. c. 90) imposed upon the late Metropolitan Board of Works the duty of extinguishing fire and protecting life and property in cases of fire occurring in the area. The grant was instituted owing to the fact that at that time the Government did not contribute in respect of Crown property towards the rate charged with the cost of the Fire Brigade, although entitled to its services whenever necessity arose. Although the Government now makes its contribution to the rates, the grant has never been withdrawn, probably because the reason for its institution is now largely forgotten.

The annual payment of £90; 9; 0d. made to the Corporation of Berwick-on-Tweed, though the last to be mentioned, is easily the earliest in origin, as it represents a grant of £100 made by Charles II to the Corporation for maintaining the bridge built by James I. The Corporation has to show by its accounts that the money is actually expended upon the maintenance and repair of the bridge.

Such, in broad outline, is the history of Imperial subventions in England and Wales. Sufficient has been written to show how complex the system (if the term can properly be applied to the present haphazard arrangements) is, and how imperative is the need for simplification and reform. Before considering suggestions for improvements, however, it will be well at this stage to collect the threads of the foregoing narrative, in order to obtain that clear view of the present situation which is essential to a proper consideration of possible improvements.

PART III - REVIEW OF PRESENT POSITION.

When that landmark in Local Government history, the Municipal Corporations Act, 1835, was passed, Government grants were practically non-existent, but this simple condition of affairs did not endure for many years. We have seen that one service after another has, from various motives, been added to the list of those receiving National assistance, at times to afford relief to landowners, or assist the ratepayer at the expense of the taxpayer, at other times to equalise expenditure between different districts, on still other occasions to secure Governmental control of a service, with a view to improving its efficiency, or to induce Local Authorities to undertake extended duties and responsibilities.

As an example of relief to rural areas one might cite the grants under the Agricultural Rates Acts, while the substantive grant in aid of elementary education represents a grant designed partly to equalise the cost between the various areas. The police grant is an outstanding instance of the grant as a device for securing Governmental supervision, and the present housing grants and the grants towards unemployment relief works are examples of assistance designed to stimulate the activities of Local Authorities.

We have seen that the majority of grants are at present, as was the case before the Goschen scheme, made directly in respect of specific services, but that a surplus under the Goschen scheme amounts in some cases to a substantial sum, which is not definitely destined for any particular object. We have seen also that the number of services assisted by the Government has gradually increased since the institution of the system, especially in recent years, and that the probability is therefore in favour of an extension rather than a diminution of the practice.

SERVICES IN RECEIPT OF GRANTS.

The services aided comprise the most important of those administered by Local Authorities, viz; education, police and main roads. Large contributions are also made towards the cost of the Poor Law system and to the allied services of lunacy and mental deficiency. To this list has been added in recent years public health, housing, land settlement and several other minor services, while aid which cannot be apportioned to any one particular service is received by some counties and county boroughs from their Exchequer Contribution Accounts, and by most Authorities from the grants

in respect of rates. The list is straightforward and simple, but it should be remembered that in many cases assistance is only given to a branch of the service, often without due regard to its relative importance in the general scheme; but the question of which, if any, local services should receive assistance from the Government is properly a matter for discussion at a subsequent stage.

BASES OF GRANTS.

When one turns to consider the bases on which the various grants are contributed, an extraordinary condition of affairs is revealed. It is quite obvious that what is a fair basis in one case may be most inequitable in another and frankly impossible in a third, but this does not in any way justify the miscellaneous collection of standards adopted either singly or jointly under the present regulations. There is, for example, the percentage system, upon which (subject to modifications) the most important of the subventions are made. There is also the unitary system, which is adopted in the present housing grants. We find, also, fixed sums allocated, e.g. £150,000 devoted to Superannuation of the Metropolitan police. In addition, there is the extraordinary medley of bases upon which the grants under the mutilated Goschen system are assigned. In some cases, the division is according to the area in which certain items of national revenue happen to be collected, in others, according to the expenditure of a single year, nearly 40 years ago, in still others, according to the relative wealth of the recipient, measured by rateable value. To add to the confusion, some of the grants allocated in one of the foregoing ways are subsequently divided between Local Authorities according to entirely different standards, and without regard to the total amount available for distribution. With such a heterogeneous collection of principles in operation, it cannot occasion any surprise to find that the grants under the Goschen scheme are hopelessly intermingled with the direct grants towards special services.

Shorn of all details, such then is the position of affairs at the present time. It is hardly necessary to emphasise the importance of a reconsideration of the whole question; an exposure of the facts is the most eloquent argument for reform. Drastic alterations have been recommended by authoritative bodies on several occasions, notably by the Royal Commission on Local Taxation (1896-1902) by the Royal Commission on the Poor Law (1905-1909) and by the Departmental Committee on Local Taxation (1911-1914). The reforms recommended by the last-named body were accepted by the Government, and the necessary legislation was only abandoned owing to the outbreak of war. Their

recommendations though valuable, are neither wholly applicable at the present time nor sufficiently far-reaching; the need for reform is greater.

PART IV - SUGGESTIONS FOR REFORM.

THE PRINCIPLE OF SUBVENTIONS.

In considering the various directions in which any possible reforms of the system might tend, it is perhaps as well to discuss at the outset the feasibility of the most sweeping reform of all, viz, the total abolition of Imperial subventions. The other sweeping reform in a contrary direction, consisting of the abolition of Local Authorities and the exercise of their powers directly by the central Government, one may reasonably pass over as being frankly impossible, but the restoration of Local Authorities to the position which they virtually occupied on the passing of the Municipal Corporations Act, 1835, is a question that cannot be so summarily dismissed, if only because it implies a return to pre-existing conditions. A condition of complete separation between national and local finance constitutes in many respects an ideal, deserving of some sacrifice for its attainment. The relative simplicity which separation makes possible, and the absence of periodical demands on the Exchequer for further assistance, are advantages not lightly to be thrown aside. One should mention also the advantages from the Corporations' point of view of immunity from control and freedom of self-determination, and also the adherence to the sound financial principle of elected representatives having power to spend only money provided by their electors in that capacity. Farther, the abolition of Grants in aid would render possible very considerable reductions in the activities of several Government Departments, a feature which most English people would regard as eminently desirable.

All these considerations must, however, fail before the arguments to be adduced in favour of the system of subventions. The main reason for their institution, and therefore for their continuance, depends for its validity upon the changing character of the services administered by Local Authorities. Just as the towns were the earliest units of Government and were only gradually embraced in a National system, so were the services administered by corporations originally local in character and importance. In more recent times however, the gradual extension of the services provided by them has led to the general adoption of the view that they perform services of national and not merely local importance. This change may be attributed to two causes -

- (a) the addition of new services.
- (b) an alteration in the character of certain individual services.

In the first category the service of education, transferred from the School Boards to the larger Authorities in 1903, occurs readily to mind; the registration of births and deaths furnishes an example of a minor service (in this case performed by Guardians) undertaken on behalf of the Government. As an example of the second class, one might cite the police service, which has undergone great changes since its gradual inauguration in the various counties and boroughs, and, with the rapid transport and still more rapid means of communication which characterise this century, the organisation and administration of the service has become a matter of very considerable national importance.

A more striking example is to be found in the main roads of the Country, which, with the arrival of the motor car, are of far more than local advantage, and have now attained to a position of greater import than that from which they were displaced by the advent of the railways.

Imperial subventions represent a method by which the State can bear its share of expenditure on services undertaken on its behalf by Local Authorities. There are, however, several other grounds for their existence, of which one is the measure of equality that can, by their aid, be obtained between the burdens on different districts. With the recognition of the national character of certain services, there follows not only the equity of a State contribution, but also at least prima facie evidence of the desirability of equalising to some extent the burden of these services on ratepayers in different districts. Grants in aid, suitably calculated, can be made to afford relief to poor areas with heavy expenses, at the cost of districts more favourably situated.

The foregoing may be considered as the main reasons advanced by the Local Authorities in justification of the system of subventions. The influence of local bodies on Parliament is however not sufficiently powerful to account for the extent to which the system has spread into English administration. Some grants are, of course, almost directly attributable to representations and pressure brought to bear upon the Government by the representatives of local interests, but these are not the circumstances under which many grants have been instituted, and it is probably not too much to say that grants have been introduced as much at the instigation of the Government as of Local Authorities. The reasons which have led Parliament to undertake, in many cases on its own initiative, very considerable financial liabilities in respect of the services

administered by local authorities are not far to seek.

Grants in Aid represents the British method of ensuring National control over certain services, the importance of which extends beyond the local area in which they are actually administered. Experience has shown that the complete independence of Local Authorities, at least where certain services are concerned, is not in the National Interest, and the system of subventions represents a characteristic compromise between absolute freedom of action and the complete subservience which would be entailed by administration from Whitehall.

It is true that Secretaries of State possess apparently formidable powers of compelling Local Authorities to carry out their statutory duties in an efficient manner, but the powers are not easily put into operation, and can only be regarded as a final expedient, which may, or may not, be successful. As a means of securing efficiency, they are obviously unsatisfactory and therefore of more theoretical than practical importance; besides, their exercise is not calculated to promote that harmony of working so necessary to successful administration. A Grant in Aid, properly wielded, has none of these disadvantages, and experience has shown that this device is more successful than any other for obtaining, through some degree of control of the way in which it is expended, the standard of efficiency desired by the Government. It is this function of a grant which makes it so desirable from the National point of view, and which indeed constitutes the most cogent argument in favour of the system.

By this means, also, it is possible to secure to all Local Authorities the benefit of wider experience and collective wisdom, which the representatives of the Government are best able to supply, and thereby to ensure that the money expended upon a particular service is utilised to the best advantage for the attainment of the main purpose, and not diverted into some side channel owing to lack of vision or want of a sense of proportion.

We have seen that in former years Imperial subventions owed their favour to the view that equity demanded a substantial contribution from personality towards the burden of rates, which is by many supposed to fall mainly upon owners of land. The writer has, in a previous essay*, expressed his doubts as to the correctness of this view in actual practice, and has for that reason not adduced this argument in favour of Imperial subventions. If however, that theory of the incidence of rates be accepted, it still does not constitute a very strong

* "The Incidence of Local Rates" a paper read before the Faculty of Commerce of the University of Birmingham

argument in favour of Grants in Aid, inasmuch as increased rates are very largely bound up with the development of certain districts, and the aggregation of people in towns, both of which tend to re-act in favour of landlords, by enhancing the value of their property, and thus increasing their rent-rolls.

There is however no need to resort to this somewhat inconclusive argument in favour of Imperial subventions, as the reasons previously given have hitherto been regarded as sufficiently compelling to outweigh the benefits of freedom and simplicity which existed under the old regime. This is in many respects an eminently reasonable conclusion, as the broad scheme of government in this Country embraces three main classes of services -

- (a) those administered entirely by the central Government for the benefit of the Nation as a whole, and not of the inhabitants of particular districts.
- (b) those administered wholly by Local Authorities without State intervention, except perhaps the granting of the necessary permissive powers, and
- (c) a class intermediate between the two foregoing, comprising services supervised by the State and locally administered by representative bodies.

The cost of services falling in the first class, such as the armed forces of the Crown, is naturally met from the proceeds of National taxation, just as the cost of purely local services, such as the provision of a fire brigade or the lighting of streets, falls entirely upon local rates. As therefore there are certain services which cannot be classified either as wholly National or purely local, but occupy an intermediate position, the division of the cost of these between those jointly interested in their maintenance, viz; the State and the Local Authorities, does not seem inappropriate in principle.

SERVICES TO BE AIDED.

The application of the general principle of subventions involves the settlement of the two very important questions of the services to be regarded as entitled to assistance from the State, and the manner in which the amount of grant is to be determined. A consideration of the first problem reveals the very considerable difficulty of classifying services, even under the three broad heads suggested above. The services at present administered by the State do not present serious trouble, as the general policy of Parliament has been to place upon Local Authorities all duties that can reasonably be added to their existing responsibilities, so that the probability of purely local services being wholly under National control is remote, when compared with the contrary possibility. In any case, this question, which is largely connected with that of the constitutional supremacy of Parliament, is rather beyond the scope of

this essay, which is concerned with subventions as they at present exist, rather than with problems of administration as such.

The difficulties become more apparent when one turns to consider the many services now administered by Local Authorities. Discarding the earlier division of services into "beneficial" and "onerous", according to whether or not the rate represented a payment for services rendered, one endeavours to determine what degree of interest is possessed by the State, as such, in each service carried out. The problem is not so easy as it appears, for though the removal of sewage and refuse and the treatment of infectious diseases may appear to be duties of merely local import, one cannot ignore the effect which these and similar sanitary services must have on the physical health and well-being of the Nation as a whole. The isolation and treatment of cases of smallpox is a duty of Local Authorities towards which the Government makes no direct contribution, but it is quite patent that the suppression of this disease is a matter of great National importance, calling for the maximum of skill and attention.

In a similar way, and to a varying extent, many if not most of the services provided by Local Authorities benefit not merely those who live in the areas which they represent, but, owing either to diffusion of benefit or mobility of the population, enure to the advantage of the Nation generally. With a few exceptions in the case of minor services, it is therefore impossible definitely to localise the effect of the actions of local bodies, but it is equally impossible to arrange for a contribution in every case to represent the extent of the interest of the State.

In considering the services to which in practice subventions should be given, one has therefore to deal only with those in which the Government can be shewn to have a very considerable interest, sufficient at least to justify the expenditure on supervision and control which we have seen to be an important concomitant of all grants. Historically it appears that subventions may be justified where the Government has an interest to the extent of one-quarter of the cost of the service, but in the case of most grant-aided services, the interest is considered to be divided equally between both partners, for which reason they are frequently termed "semi-national" services.

These at present comprise education, police, main roads, and certain branches of the public health service. In addition, grants are made towards certain expenditure on poor law services, on the maintenance of pauper lunatics, and one or two minor services of a semi-national character. It is difficult to see how any one of these services could be considered as a matter of merely

concern, to be left to the discretion of the inhabitants of each town. On the contrary, the Nation as a whole is in a great measure responsible for these services, and has therefore a very appreciable interest in their efficiency. It is important to observe too that some of them are changing in character (e.g. main roads) and becoming of greater moment to the nation as a whole than they were in the past. One may perhaps therefore assume that the theory that education, police and main roads are semi-national services will not encounter serious opposition.

Applying still the criterion of State interest in local services, it appears that a strong case exists for an extension of the system of subventions in several directions. Of these, the most important is the Poor Law. The majority and minority reports of the Royal Commission (1905-1909) unite in urging the claims of this service to be recognised as one of national importance, and this view was supported by the very influential Departmental Committee on Local Taxation. (1911-1914) Small grants are indeed made towards certain expenditure of Boards of Guardians, but the time is long overdue for such an extension of the subsidies as will place the Poor Law service on a basis comparable with that of education.

Parliament has at various times recognised a responsibility towards those unable to support themselves, as witness the system of unemployment insurance, and the scheme of pensions introduced by the present Government. The existence of compassionate legislation of this nature may prompt a question as to the reason for the reluctance of the Government to assume a greater share of responsibility for this service. The reason is probably twofold -

- (a) that reform of the Poor Law has been repeatedly promised during the last twenty years, and
- (b) that the system has not yet shaken off its historical connection with the parish, or the mediæval notion of "settlement" which now finds expression in the word "chargeability."

The simplification and economies which the abolition of this doctrine of settlement would bring about, can only be appreciated by those intimately concerned with Poor Law administration and the endless complications forced upon the system by the maintenance of a theory hopelessly unsuited to modern conditions.

It is difficult to say much concerning a public service which is at present under investigation by a Royal Commission, and the treatment of the mentally-afflicted is so intimately connected with the rest of the Poor Law system that it is perhaps sufficient to observe that this service has an equal claim for subventions with the rest of the Poor Law. This has to a great extent been

recognised by the capitation grant made from the Exchequer Contribution Account; it only remains to add that, in any scheme of reform, the financial responsibility should be more equally divided between the State and Local Authorities, as is now the case with the separate service of mental deficiency.

The question of Public Health grants is one of much difficulty, owing to the wide range of duties covered by that term and the varying standard of efficiency attained by different Authorities. Since 1872, when grants towards the salaries of medical officers of health and sanitary inspectors were introduced, public opinion has gradually advanced in the direction of realising that the maintenance of a good standard of health is as much in the national interest as the attainment of a certain level of education.

It is obvious too, that the great increase in the mobility of the people tends to emphasise the national character of this question and finally, the importance of subventions as an incentive towards the attainment of a high standard in this particular service cannot easily be exaggerated. That this has been realised to some extent is shown by the recent introduction of Grants in aid of expenditure on tuberculosis, maternity and child welfare and venereal diseases, and it is probable that extended subventions will be provided in the future, either towards special branches of the service, or towards the general cost of the various duties carried out under the direction of a medical officer of health.

Another service of some importance which has a claim to be regarded as semi-national is that of criminal prosecutions. The administration of justice is, primarily at least, a concern of the central Government, and though one would hesitate to suggest that this expenditure should be entirely borne by the State, it must be obvious that the State has an interest at least equal to that of the Local Authority in securing the prosecution of offenders against the law, and in the case of Crown prosecutions is under considerable moral obligations to meet the whole of the cost.

Up to the present no mention has been made of the position occupied by the housing problem, notwithstanding its great practical importance to Local Authorities. The housing grants, like those in respect of land settlement schemes and unemployment relief works, are however temporary subventions made to relieve an urgent problem directly occasioned by the late War. It is therefore inadvisable to consider them as part of any general scheme of grants, but rather to regard them as transitory assistance in dealing with an exceptional problem. It is probably unnecessary to enter into detailed support of the general view that problems of this nature, which are directly attributable to a National upheaval, must be in a very great measure regarded as responsibilities of the State. As

long, therefore, as the provision of houses is a duty imposed on Local Authorities by the Government, their title to financial assistance in carrying out their duties is not likely to be seriously opposed.

ABOLITION OF GOSCHEN SCHEME.

At this point, it is necessary to revert for a moment to the Goschen system of calculating and dividing grants between Local Authorities. A study of the recent history of the subject is sufficient to prove that the system has entirely failed to achieve the aims of its author, which are themselves of rather questionable importance. Apart from this however, it has never afforded satisfaction either to Chancellors of the Exchequer or to Local Authorities. The former have resented the limitations placed upon their actions, and have not hesitated to tamper with the system so as almost entirely to destroy its character, while the latter have found the promised relief a myth, and by the subsequent curtailment of the income have been left far worse off than before.

The system cannot be defended on grounds of equity, as it takes no cognisance of expenditure incurred on semi-national services, nor of the ability of the counties to meet those charges, while its extreme complexity would represent a very serious disadvantage even to an otherwise ideal system.

It may be confidently assumed therefore, that the method of assigned revenues will disappear when any reform of the system takes place, and that instead direct grants, as now in force in the case of several services, will be paid to the Local Authorities responsible for providing the various services. This plan is free from the failings of the Goschen scheme, while its simplicity facilitates control of the service by a Government Department, which is impossible under the former method. Further, it ensures that grants^{are} applied only to those services which the Government desires to aid, and also makes it possible to temper the assistance according to the expenditure incurred and the relative burden thereby entailed.

BLOCK SYSTEM.

On the assumption that grants should be made directly in respect of semi-national services, we may proceed to a consideration of the possible bases on which they may be calculated. These are four in number, and may be conveniently termed the block system, the percentage system, the unitary system and the rate-poundage system, each of which may be combined with one or more of the others in order to devise a satisfactory method of calculation. The essence of the block system is the stabilisation of the amount of grant for a

definite period of years, the sum payable being determined in the light of the preceeding period, which might be any number of years between 3 and 10. The great advantage of the method is the limitation of the liability of the State, which is settled in advance for a certain period of years. It has also been urged that grants made in this way towards the total cost of a service are more suited to the changing character of administration and to the great variety of local circumstances than grants given to relieve certain specified expenditure.

It might be expected under such a system that the necessity for detailed supervision and control of the action of Local Authorities would to a considerable extent disappear.

A system of this nature would however only be suitable for those services (if any) on which expenditure is stationary, and, as Parliament cannot bind its successors, there would always be a risk of a reduction in the national share without the possibility of a corresponding curtailment of local expenditure. Similarly, it is open to question whether block grants would keep pace, even in a relatively stable service like education, with the growing demands resulting from increased population, further legislation or more exacting requirements of Government Departments, while in any case Local Authorities would always suffer the disadvantage of receiving their grant, not according to their current requirements, but according to those of the previous period.

Apart from these considerations, however, one is faced with the question as to whether it is justifiable for the State to reserve the right of dictating its requirements to Local Authorities, while at the same time expressly limiting its financial liability to them. The following extract from the report of the Kempe Committee* gives what is presumably an authoritative view of the relative constitutional position of the Government and Local Authorities - "we would point out that the claim which is sometimes put forward on behalf of local authorities for some check on the demands of ^{the} Central Government is based upon a misapprehension of their constitutional position. They are not, as appears to be thought, co-ordinate authorities, and their revenues are not independent of Parliament. They and their revenues are, in fact, the creatures of Parliament and subject to its control, direct and indirect."

If this view be accepted, it does not seem equitable that the Government should impose further financial burdens on Local Authorities, which have neither representation in Parliament nor effective means of protest, and

* Final Report of the Departmental Committee on Local Taxation
(Cd. 7315 of 1914) p. 22.

at the same time limit its own share of the expenditure in such a way that it makes no contribution to them. It would, of course, be possible for additional grants to be made in such cases, but such proceedings would tend to render the advantages of the block system nugatory, while there would be no guarantee to Local Authorities that any assistance would be forthcoming.

PERCENTAGE SYSTEM.

The percentage system is the simplest basis at present in use for the calculation of grants. Under this method the contribution of the Government consists of a fixed proportion of the net expenditure approved (generally in advance) for a particular service. The actual percentage varies from 25% in the case of Class II roads to 75% in the case of venereal diseases, but is most commonly 50%, e.g. police and higher education. The system is very convenient, for in many ways expenditure forms the readiest guide to the amount of assistance needed, while with this method it is obvious that the State immediately bears its share of additional expenditure caused by an extension of the service, or the call for a higher standard of efficiency. The chief theoretical objection to the method is that, while it takes account of the expenditure incurred, it ignores the ability of the area to bear the burden, and this defect cannot be overcome without modifying the system, as the actual amount of expenditure is no guide to the relative burden on the rates.

It is unfortunate that in practice this system of grants tends rather to weaken the sense of responsibility of the Local Authority, and sometimes to encourage expenditure which will rank for grant, rather than that which the best interests of the service demand. These objections can, however, be largely overcome by restricting the State contribution to a reasonable proportion, so that, even after taking this into account, a considerable measure of responsibility remains with the Local Authority. Nevertheless, under present conditions it is unfortunately true that the tendency of the percentage system is, if not actually to encourage extravagance, at least to minimise the prudence with which grant-earning expenditure is undertaken. Those with practical experience of the financial operations of a Local Authority, know that expenditure is generally less strictly curtailed and more lightly undertaken in the false sense of security engendered by the thought that only half will actually fall on the rates. This danger is not, however, insuperable and it seems probable that it could be very considerably reduced by calculating the grant, not on the expenditure for the year, but on an average of the preceding three or five years, so that the

Local Authority would be compelled to give greater recognition to its financial responsibility before extending its activities.

UNITARY SYSTEM.

The third basis on which grants are calculated is the unitary or capitation method, which consists of giving a fixed amount of money for each house erected or pauper lunatic maintained, as the case may be. The method is undoubtedly attractive, as it appears to ensure a fair contribution towards the expenditure of the Local Authority, while at the same time avoiding the main objection to the percentage system, as extravagant or unnecessary expenditure will not increase the liability of the State. An extension of this system would also tend to create a healthy rivalry between the various towns, and would help local representatives to see whether their services were, by comparison with other areas, efficiently or economically administered.

The disadvantages are rather practical than theoretical, though, under the latter head it must be remembered that the method takes no account of the town's ability to bear the expenditure, nor is it suitable for expanding services without frequent alterations in the basis, which would detract from its merits. There are however grave practical objections to the scheme, for which a remedy must be found, if it is to receive serious consideration. Chief among these is of course the problem of finding a suitable unit for each service. In a few cases this would not be difficult; the average attendance at schools and each constable in the force are obvious examples, while a unit of population might sometimes be appropriate. At first sight, a square yard of road or a patient-day for a hospital seem equally straightforward, but are really quite unsuitable, as the cost of road repairs varies so enormously according to the traffic, the contour and even the weather, that it would be impossible to find a satisfactory unit. Similarly, the cost of hospital treatment is also very variable, and the only satisfactory solution would be the selection of several units according (in the foregoing cases) to the circumstances of each road, or the conditions of the hospital treatment and the affliction of the patient. This procedure would lead to undesirable complications, which constitute a serious objection to the scheme.

Moreover, it would be virtually impossible under present conditions to arrive at a basic figure of grant per unit which would be reasonably satisfactory to both parties as a whole. The variation in cost between towns for apparently identical services is at present exceedingly great, so that the general adoption of the system would seriously disturb the present incidence of rates. It must also be admitted that England is still much behind other

countries in the matter of comparative local statistics, and that until greater uniformity in the presentation of accounts is obtained, the possibility of working out a practicable scheme is rather slight. This defect is however being remedied from time to time and therefore delays rather than prevents the adoption of the method.

RATE-POUNDAGE SYSTEM.

The fourth possible basis for grants is the produce of a specified rate in the *g.* An example of this formerly existed in the case of the Metropolitan Police, and in an inverted form, in the Addison housing scheme and elementary education grants, but the basis has not been extensively used. Its limitation is no doubt due to the fact that, except in London, a valuation is only made at the discretion of the local Assessment Committee, so that in some towns present-day values obtain, while in others the assessments have not been altered for as long as 40 years. To pay grants on this system at present is therefore to afford very varying treatment to different towns, but this objection will be removed if the Rating and Valuation Bill now (May 1925) before Parliament passes into law, as among the reforms contained in this measure is the institution of an obligatory quinquennial re-valuation to take place simultaneously throughout the Country. This method may therefore assume greater importance in the future, especially as it has frequently been stated in Parliament that a reform of the system of Grants in Aid has been delayed largely owing to inequalities in the rating system making a more equitable division of the grants impossible.

BALFOUR OF BURLEIGH SCHEME.

Each of the foregoing methods has therefore its own merits and disadvantages, and in an endeavour to avoid the latter, while still retaining the former, various suggestions have been made from time to time with a view to applying two or more methods in combination. Of these schemes that associated with the name of the late Lord Balfour of Burleigh (the chairman of the Royal Commission on Local Taxation 1896-1902) may be taken as typical. The main purpose of his proposals was to secure the computation of grants in accordance, not only with the actual burden of expenditure, but also with the ability of the town to bear the burden. He thus hoped largely to relieve the inequalities which now arise from the fact that, in respect of many services, the poorer areas are faced with the greatest expenditure and at the same time have the least resources with which to meet it.

His proposals were concerned mainly with Poor Law grants, for which purpose he assumed that the necessity for the expenditure might be gauged

by the population of the town, and that the ability of the town to meet the expenditure was governed by its assessable value, which, of course, governs the amount that will be produced by any given rate in the pound. He had then to fix a unit of cost of the service per head of population, the actual figure selected at the time being 3/6d. Towards this he considered that the Local Authority should make a reasonable contribution in order to be substantially interested in the disbursement of the sums, for which purpose he considered a rate of 4d. in the pound appropriate. Having adopted these criteria of necessity and ability respectively he suggested that grants should be calculated in the following way. The State was first of all to make a grant equivalent to the amount by which a rate of 4d. in the p. fell short of the theoretical minimum expenditure of 3/6d. per head of population. The second grant was to consist of one-third of the amount by which the actual expenditure exceeded the theoretical minimum, provided that the grants were in no case to exceed two-thirds of the expenditure.

For a basis of this nature there is much to be said. It represents at least a genuine attempt to distribute grants among Local Authorities according to the measure of their necessity and ability, and by so doing to bring about some degree of equalisation of the burdens of ratepayers in different districts on account of semi-national services, the main control of which is not vested in their representatives. It is almost entirely free from the objections that expenditure may be undertaken unnecessarily in order to secure increased grants, as the interest of the Local Authority through^{out} is substantial.

The objections that may be urged against such a scheme apply chiefly to the way in which the principles are applied. It may be contended, for example, that the population of an area is not a fair criterion of the need for expenditure upon any individual service, and this is to a considerable extent true, owing to the great variety of local conditions and the wide differences in the character of the population of various areas. Similarly, assessable value per head of population is not altogether reliable as a measure of wealth of a town, so that the effect of introducing rate poundage into the formula might not be altogether equitable, especially if the grant applied to small areas. The difficulty (or, in some cases, the impossibility) of fixing a unit of expenditure on which to base the calculations has already been mentioned in connection with the unitary system and need not be repeated at this stage, nor need one emphasise the fact that the method is unsuitable for services which are constantly developing, though these two factors are probably largely responsible for the failure of the scheme to secure adoption.

RECOMMENDATIONS.

It now remains to consider which basis affords the most equitable treatment for those services which have been classified as semi-national. From the descriptions of the various bases given above, it follows that none is suitable for all services, and the selection of the most appropriate is a matter on which there may well be considerable differences of opinion.

Generally speaking, however the percentage system is that most suited to present conditions, in spite of the attacks to which it has recently been subjected. This does not mean that it is to be considered as eminently satisfactory, for such is not often the case, but rather that no more suitable method could be introduced at the moment. In the future, one may expect to find a tendency to employ the unitary system in some form, either with or without the feature of a prescribed rate in the £. Much of the objection to this last feature will be removed if the Rating and Valuation Bill now before Parliament finds its way to the Statute Book in anything like its present form.

The percentage system might be retained for higher education, as the great variety of forms which this service takes in different localities renders a unitary basis impossible at present. The same conclusion holds good for the police service, for somewhat different reasons. The cost per constable varies so very greatly between town and town and between town and county that a grant per constable would appear to be out of the question; moreover this is a relatively simple service in administration and one so rigidly controlled by the Home Office that extravagance is not a danger much to be feared. The needs of the main roads of the Country have been very carefully considered during the last few years and the system of classification closely connected with the yield of the motor taxes, so that only very powerful arguments could justify the introduction of another system. These are not yet apparent, and the difficulty of finding^a suitable alternative to expenditure as a basis for the grants suggests the desirability of the continuance of the present system.

The service of elementary education occupies a somewhat similar position to that of the roads, in that the grants have recently been revised and placed on a new basis. The formula adopted, which includes in its factors a unit of cost, the percentage system and rate-poundage, bears a close resemblance to Lord Balfour of Burleigh's scheme and is therefore on sound theoretical lines. Though apparently a little complicated, it is not unduly so when compared with the magnitude of the service to which it relates, and

must seem exceedingly simple to those familiar with the complexities extant until 1918. The system has worked satisfactorily since its introduction, and the maxima and minima prescribed for the total grant prevent its abuse in either direction. It would therefore be wise, when reforms are under consideration, to allow the basis of this grant to remain as at present, although the actual figures of rate poundage and unit of cost will no doubt need periodical revision.

The grants in aid of the public health services present a problem of some difficulty, due primarily to the very wide range of activities which the term "public health" generally covers. Many of these are, however, preponderantly local in nature, and owe their inclusion in the category of public health services almost entirely to the fact that their management is governed by the Public Health Act, 1875, an Act which deals with many other subjects, e.g. rating, than those implied by its short title. For this reason therefore a grant based on population for example, as recommended by the Kempe Committee, is not wholly desirable, as the ultimate destination of the money is hardly more settled than is the surplus on an Exchequer Contribution Account. Thus the Government is robbed of the very important powers of being able to encourage the development of certain branches of the service by means of grants in aid, and of ensuring that the money is applied to work of a semi-national character.

National interest in public health is at present growing with some rapidity, so that expenditure in this direction is almost certain to increase in the future, accompanied probably by an extension of grants to further branches of the service, such as the treatment of small-pox, or the suppression of diseases of animals. On the whole therefore it seems inevitable that the expenditure basis, which is at present in force as regards the salaries of medical officers and sanitary inspectors, tuberculosis, maternity and child welfare, mental deficiency and venereal diseases, should continue to be used, notwithstanding the practical difficulty of correctly apportioning expenditure over the various heads of service. When the service is more stabilised and the present great variations between towns have diminished, it may be possible to adopt some form of the unitary system but, at present, this does not seem feasible.

The difficulties connected with public health grants are however slight compared with those which confront anyone venturing at the present time to suggest any improvements in the administration of the grants payable to Boards of Guardians. The poor law system has been the subject of such

frequent and powerful attacks, and such varied suggestion for its reform have been put forward, that it is difficult to determine how long the present system will remain, or what will become of its functions on its abolition. At the present time a draft Bill for the reform of the poor law is being prepared by the Minister of Health, and until the main features of this are known it is impossible to discuss the details of any system of subventions.

It has already been contended that many of the duties now carried out by Boards of Guardians are semi-national in character; it follows therefore that State aid should still be given in respect of these, even if the duties are performed by another body, but it may be that some alteration in the basis will be necessary in order to bring the Grants into line with others, or to render possible the unification of services now artificially divided. If any great changes are to be made, it will follow almost automatically that the percentage system will have to be adopted for grants for some years until the new services become stabilised, and until the necessary data on which to base a formula such as that of Lord Balfour of Burleigh have been collected.

The maintenance of pauper lunatics, although part of the poor law system, is largely self-contained and receives at present a special grant from the Exchequer Contribution Accounts, calculated on the unitary basis. Whatever alteration takes place in the main system, the asylums will probably continue very much as at present, and therefore a separate grant, payable directly by the Board of Control, is a probable contingency. In this case, the present basis of paying a fixed amount per person maintained will probably be continued, but the actual amount is in urgent need of revision in accordance with the present purchasing power of money. Whether or not the element of ability as measured by assessable value could be introduced, seems to depend upon the nature of the local body to whom responsibility for the insane is entrusted, but if such a modification would have the effect of equalising the cost of this service over the various parts of the Country it appears a desirable feature.

Grants are also paid at present towards the cost of housing, land settlement and unemployment relief schemes and of the registration of electors, but owing to the special features of these services, and especially the temporary nature of the first group, no alteration of the bases at present in force seems desirable, although the grants towards unemployment relief schemes cannot be considered as a very generous contribution by the State.

There remain to be considered the three grants which partake of the

nature of rates themselves, viz. the contributions in respect of Crown property and the grants under the Agricultural Rates Act and the Tithe Rent-Charge (Rates) Act. The first of these is one of these numerous anomalies and complications with which English local taxation abounds as a result of its haphazard growth during past centuries. As we have seen, the removal of this anomaly was recommended by a Parliamentary Committee as long ago as 1858, yet it still remains, and it is a matter of disappointment to Local Authorities that the present Rating and Valuation Bill, which should do so much to simplify the system, contains no provision for the abolition of this artificial distinction between rates and the contribution in lieu of rates which the Government is pleased to make in respect of some, but not all, property in the occupation of the Crown.

It is generally admitted that the relief to occupiers of agricultural land and holders of tithe rent-charges should be continued on the present basis, but it is open to question whether the deficiency thus caused to the Rating Authorities should continue to be made good by all other rate-payers as in the case of rent-charges or by Government Grants, as in the case of land, a portion of the relief being stereotyped on the figures of 1895-6 and the remainder fluctuating with the actual yearly deficiency.

From time to time it has been suggested, that when a reform of the whole system of grants is undertaken, these particular subventions should be abolished in favour of larger grants for certain purposes in rural districts. The objections to the grants are generally based on the fact that they do not conform to the principle that Government control should accompany all Government Grants, and that the money should be spent only on semi-national services, but this attitude takes no account of the peculiar nature of the grants in respect of rates on agricultural land and tithe rent-charges.

They were introduced, not on the representations of Local Authorities, but of the agricultural party, and their general tenor is to afford relief to occupiers of agricultural land, without prejudicing the position of Local Authorities. They should therefore be regarded, not as subventions to Local Authorities, but as a national subsidy given to relieve an industry suffering from a severe depression. This view is borne out by the fact that the Act of 1896 was originally intended to last for five years only, and has been annually renewed ever since, together with the 1923 Act, on the representations of those interested. If this view be accepted, it does not seem correct to judge these grants by the standards applicable to others, as it is only for administrative convenience that they are paid to Local Authorities and not to their real recipients, the farmers. Indeed, one may very reasonably suggest

that the grant only takes this form because rates form a relatively heavy burden on farmers and because the amount of the burden is readily ascertainable and the subvention is easy to administer. The future of these grants depends therefore rather on the position of agriculture than on the reform of the system of subventions.

So long as they are operative, it would seem an obvious justice that the 1896 grant should be brought up to date and made to represent half the rates payable now, instead of in 1896. As it is, the grant represents only a small portion of the actual loss, the remainder being of course ^{borne} by the other ratepayers, which in a rural area means that the Act is far from fulfilling its express intention of relieving farmers of half their poor rates. The principle of making the grant fluctuate annually in accordance with the actual deficiency to the Local Authority has been adopted by the Act of 1923, which granted relief to the extent of an additional quarter of the poor rate, making three-quarters in all.

The preceding paragraphs are generally applicable to the relief given to clerical holders of rent-charges, as it is generally admitted that the financial position of the clergy leaves very much to be desired. At present, the grant is paid by deduction by ratepayers as a whole, and this position might be continued, by assessing tithe rent-charges at half their rateable value, as is now done for certain classes of property in the case of the General District Rate under the Public Health Act, 1875. Though in theory this may be a National burden it is doubtful whether a grant for this purpose is really necessary in practice, as the amount involved is hardly large enough to justify the extra work, and the burden is already fairly evenly distributed throughout the various areas.

GOVERNMENT CONTROL.

It is a *sine qua non* of all subventions that they shall carry with them the right of the Government to exercise some degree of supervision and control over the service in aid of which the grant is given. We have seen that this feature of the system is one of the most important arguments in the case for subventions, and therefore control is exercised not, as some think, because an increase of expenditure means an increase of grant, but because the service to which aid is given is one over which national supervision is desirable in the public interest.

As regards extent, it is desirable that the supervision should not exceed the minimum necessary in the national interest, and that it should be

confined as far as possible to matters of principle and broad policy, leaving Local Authorities to work out the details in the light of their closer knowledge of local conditions. The supervision should be elastic in order to be readily adaptable to widely divergent circumstances, and it may justifiably vary according to the standing and reputation of the Authority, efficiency being rewarded with a greater degree of freedom, thus permitting attention to be concentrated in those directions where it is most needed. With the present tendency to concentrate power in the hands of the larger Local Authorities, the need for detailed supervision should become appreciably less, and this is very desirable in order to foster a strong sense of local interest and responsibility, and also to encourage the most capable citizens to take their share of local government.

The forms which the control will take will of course vary according to the nature of the service and the basis on which the grant is calculated. The power of withholding all or a portion of the grant must exist in every case, but this is always regarded as a final resort when all other methods of improving the standard of a service have failed. In normal cases control takes the form of general directions on matters of policy, which may have statutory effect or be merely expressions of the wishes of the responsible Minister, and of periodical inspections to ensure the maintenance of an efficient standard. It is usual also for the accounts of the service to be audited and for the claims for grant to be certified either by the district auditors of the Ministry of Health or by the professional auditors of the Local Authority. In cases where the grant is based on expenditure it seems impossible to avoid the rather vexatious procedure of the submission of estimates for approval before the commencement of each financial year, but the criticism and meticulous examination to which these are subjected is in many cases carried to a much greater extent than the needs of the service warrant. This practice must be very expensive, often causes unnecessary friction and might to a considerable extent be omitted. The adoption of scales of expenditure for certain items is a modern tendency which promises to redress some of the grievances of Local Authorities on this subject.

PART V - CONCLUSION. ---

In the foregoing pages there have been outlined the broad principles on which Imperial subventions are now made to Local Authorities in England and Wales, and the historical bases upon which they are founded. There is however one aspect of the question which has not yet been considered, and which, in general, Parliament has entirely failed to appreciate. This is the problem of raising capital monies, which, with the exception of certain capital grants recently instituted by the Ministry of Transport, in connection with important road schemes, has always been a duty devolving upon Local Authorities. Suggestions have been made that the Government should bear part of the burden in the case of such services as housing, where a large outlay of capital is essential, but with the exception of the cumbersome and unsatisfactory procedure of obtaining loans from the Public Works Loan Commissioners nothing has been done in the matter.

On the whole, it is probably better that the duty of raising loans should be left to Local Authorities, in which case they should be given a free hand to obtain the best possible terms permitted by local circumstances and the monetary situation, and not be peremptorily informed, perhaps eighteen months later, when conditions have entirely altered, that the Government considers that certain loan charges are excessive and cannot wholly qualify for grant. It may surely be assumed that Local Authorities do not pay a higher rate of interest on their loans than the situation at the time when they are required to undertake heavy capital expenditure compels, and it would conduce to greater harmony in working if this fact were more generally acknowledged by those responsible for examining claims for grants.

The question of subventions has been considered by several Commissions and Committees, the latest of which sat under the chairmanship of Lord Meston in 1921 and has not yet presented a report. Various recommendations have been made, but all have emphasised the difficulty and complexity of the whole subject. It is fairly evident however that the Goschen system has long outlived any usefulness it may have possessed, and that a simpler system of direct grants more in accordance with the spirit of the times is urgently needed, in the interests both of the Government and of Local Authorities. A scheme for the reform and simplification of rating is embodied in a Bill now before Parliament, and the Minister of Health has promised that a draft Bill for the reform of the Poor Law

system will be circulated among those interested at no distant date. When these reforms are completed, the great obstacle in the way of a reconstruction of the bases of Imperial subventions will have been removed, and it is to be hoped that the opportunity will be seized for effecting some much-needed improvement in the financial relationship which exists between the Government and the Local Authorities of the Country.

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