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WORKING PAPER CIRCULATED BY THE SECRETARIAT

JERUSALEM AREA :

REVENUE AND EXPENDITURE

The following communication is circulated for the information of members of the Committee.

"I submit approximate revenue and expenditure figures for the New State of Jerusalem on the lines of our discussion on 13th January. The information I have given in the attached statements must, of course, be accepted with considerable reserve as I have had to prepare figures from the printed Government Estimates in respect of the year 1947/48. I am unable to obtain any details for the Municipalities of Jerusalem and Bethlehem later than 1946/47 and these I have quoted. I am of opinion that even though I had estimated figures for 1948/49 they would be of little value in view of the changed conditions during that year.

I can speak with a certain amount of authority on Jerusalem Municipality affairs for 1947/48 as I had a fair amount to do with their estimates at the time of submission. All major works at the end of 1947 were postponed to meet the amount required for the revision of salaries estimated at about £ 100,000. The Municipality was facing a financial crisis and before the termination of the Mandate certain renewals funds for the water supply had to be realised to meet salary payments. Arrangements were being made to increase property rates to meet recurrent expenditure, but so far as I can recall there was no official approval. Considerable arrears accumulated during the last six months of the Mandate and without authority the Jewish community took control of the Jewish area of Jerusalem and collected rates and other municipal revenue. Prior to the termination of the Mandate the available cash balance of the Municipality, amounting to about £ 54,000, was apportioned between the Jewish and Arab sections of the City to enable them to run their own affairs.

I should explain that owing to the tension in the City it was impossible for Arabs and Jews to work in the same office and district, and in order to ensure the lives and safety of the Municipal officials it was decided in March to divide the office, the Arabs remaining in Allenby Square and the Jews to establish themselves in the Western part of the City.

I have explained in my Notes to the Estimates how I have arrived at the figures, but these are naturally based on normal conditions. I cannot offer any useful information as to present day or future conditions, but it must be borne in mind that thousands of the former population of Jerusalem are now in neighbouring countries and it may be years before they return. The wealthy Arab property owners will probably never return to their damaged and looted property and a heavy decline in the City's rateable value must be considered. Hundreds of houses have been demolished in the Old City and around the City walls, while water and sewage installations may be almost non-existent, with a resulting loss of revenue previously received by the Municipality.

The estimates I have submitted show a total revenue of £ 1,781,750 and expenditure of £ 1,336,000.

The additional revenue which may be expected to accrue to the Jerusalem State amounts to £ 1,245,000 or 5.6 % of the estimated revenue in 1947/48 from Customs, Licences, Fees, Posts and Telegraphs formerly received by the Mandatory Government. I am not in a position to advise whether the figure of £ 1,245,000 should be increased, since the whole problem depends upon the present situation in Jerusalem and what attitude is adopted by the surrounding States. The whole fiscal policy may have to be revised, or loans may be raised to meet developments requirements, in which case the potential revenue of the new State would call for complete revision. I cannot, therefore, do more than assume that revenue will continue to be collected up to the same amount as under the Mandatory Government. I have in my Notes given reasons for the percentages adopted and I feel they are reasonably accurate when comparing the area and population of the Jerusalem State with the remainder of Palestine. It must also be borne in mind that Jerusalem and Bethlehem would always command for their holy places alone an important position in world affairs, and this would attract its full share of revenue without taking into consideration tourist income.

The expenditure of £ 795,000 in addition to existing Municipal expenditure appears to be too low when compared with revenue. The first answer is that included in recurrent expenditure of £ 19,500,000 for the year 1947/48 Mandatory Estimates £ 7,000,000 was for Police. When this is deducted the expenditure of £ 795,000 reduced to a percentage gives 6.3%, which compares very favourably with the 5.6 % of additional revenue. I have restricted the expenditure figures to recurrent items only, and consideration will have to be given to special items of expenditure to cover new buildings and equipment. I am not in a position to comment on this matter as this is a long term policy and will depend entirely on whatever administration is established. The 1947/48 salary scales and compensatory allowances only have been provided and no consideration can, of course, be given to present salaries or cost of living index which, as you will appreciate, will materially affect the estimates as submitted.

A point in favour of the expenditure estimates as submitted is the fact that essential buildings and equipment will be available to the new State. There is an organized Postal Service, Public Works Department equipment, a Prison and a Water Supply to meet at least immediate needs, and it should, therefore, be possible with strict supervision to build up during the first two years a reserve to meet expanding services.

There will be numerous points which will require explanation at some future date, but I feel it would be rather a waste of time to enter into detail now; in fact it is rather an impossible task having so little information available. I shall be only too pleased to give you any further assistance I can, and after you have read the Notes and Estimates perhaps you would wish to discuss the figures before taking further action.

Yours sincerely,"

REVENUE

Jerusalem Municipal Revenue from all sources for the years 1946/47, the greater part of which is in respect of Municipal Rates, amounted to	£ 419,000
Various grants in aid for the same year amounted to	63,000
Government Grant	38,000
Bethlehem Municipal Revenue from all sources for the year 1946/47 amounted to	12,000
Various grants in aid for the same period	4,500
Government Grant	250
Total Revenue	£ 536,750 (1)
Customs	£ 500,000 (2)
Income Tax and Company Profits Tax	150,000 (3)
Rural Property Tax	50,000 (4)
Urban Property Tax	70,000 (5)
Stamp Duties	15,000 (6)
Excise	5,000 (7)
Other Licences	50,000 (8)
Fees	225,000 (9)
Posts and Telegraphs	180,000 (10)
	1,245,000
Total anticipated Revenue	£1,781,750

EXPENDITURE

Jerusalem Municipal Expenditure for the year 1946/47	£ 526,000
Bethlehem Municipal Expenditure for the year 1946/47	15,000
Total Expenditure	£ 541,000 (11)
Customs	£ 20,000 (12)
Education	100,000 (13)
Health	100,000 (14)
Income Tax	10,000 (15)
Judicial	15,000 (16)
Police	170,000 (17)
Posts and Telegraphs	135,000 (18)
Prisons	60,000 (19)
Water Supply	110,000 (20)
Extension of existing services	75,000 (21)
	795,000
Total anticipated Expenditure	£ 1,336,000

NOTES

1. These figures have been obtained from audited Statements sent to the Director General of Colonial Audit.

2. The estimated Customs Revenue in 1947/48 was £ 10,500,000 and 5 % of that figure, say £ 500,000 has been taken, since the Jerusalem State will contain no major industries and duty collected will be relatively small as compared with the remainder of Palestine.

3. The Jerusalem State is mainly agricultural and a 5 % return on a total revenue of £ 3,000,000 at present rates is all that can be expected.

4. The amount accruing to the Jerusalem State would probably be 10 % of the total estimated revenue of £ 475,000, say £ 50,000.

5. Prior to the termination of the Mandate legislation was enacted authorising Municipalities to collect Urban Property Tax within their boundaries. A sum of 10 % of total collections would probably accrue to the Jerusalem State.

6. Total estimated stamp duties amount to £ 350,000, but it is unlikely that more than £ 15,000 can accrue to the Jerusalem State.

7. A token figure has been inserted, The production of Matches, Salt, Tobacco, Intoxicating Liquors, Cement, takes place outside the Jerusalem State, but there may be some small firm carrying on business from whom Excise Duty is payable.

8. This item includes licences for Broadcasting, Motor Transport, Liquor, Animal Tax, etc., and a 10 % return from the total revenue collection might be considered appropriate.

9. A certain class of fees is not appropriate to the Jerusalem State as they are direct revenues to the Mandatory Government. These have been excluded and of the balance 10 % has been awarded, but full revenue has been added back for receipts from the Water Supply.

10. A number of items have been excluded, e.g. Engineering Service Broadcasting, which was a reimbursement, and of the remaining revenue 10 % has been taken representing the revenue accruing to the Jerusalem State.

11. These figures have been obtained from the Audited Statements sent to the Director General of Colonial Audit.

12. Revenue was assessed at 5 % and the same percentage has been taken of the Mandatory costs for the expenses of running the new Department. The cost, of course, will depend entirely on what Customs Posts are to be maintained and the arrangements made for Customs collections or refund from adjoining countries.

13. Grants-in-aid have been deducted from the total Government estimate and special expenditure ignored. The remaining sum amounts to £ 1,061,000 and 10 % has been allowed to provide at least for the same scale of education as under the Mandatory Government.

14. The same basis has been adopted as for Education, after deducting provision for Grants to Jewish Health Services.

(NOTES -- Continued)

15. Income Tax Revenue was assessed at 5 % of the total Government receipts, but a somewhat larger proportion has been adopted for expenditure since Administration expenses are heavy. No account, however, has been made for "Refunds of Income Tax".

16. A percentage of a little more than 5 % has been taken on the Government expenditure for 1947/48.

17. An estimate was given in January, 1948, that a force of 300 Jews and 300 Arabs would cost £ 12,000 a month and that figure has been accepted. A sum of £ 26,000 has been added to cover administrative and other necessary charges for maintaining such a force.

18. A figure of 10 % was taken as estimated revenue and a similar percentage has been adopted to cover estimated expenditure.

19. A large jail was administered in Jerusalem and a lunatic asylum at Bethlehem. Expenditure at the rate of 10 % of the total Prison expenditure representing the costs to be met by the Jerusalem State has been taken.

20. The cost to the Public Works Department of maintaining the Jerusalem Water Supply was £ 110,000, including a contribution to a Renewals Fund, and this figure has been accepted without amendment.

21. Although the existing Municipal Services cover direct expenses for Jerusalem and Bethlehem, the area covered by the new Jerusalem State will require additional staff to meet the extended services and to provide staff to deal with new services which were formerly financed by Government. The following Departments have, therefore, to be taken into consideration as either new or extended services :

Governor
Accountant General
Administrator General
Agriculture
Antiquities
Audit
Administration including Secretariat
Forests
Land Registration
Land Settlement
Legal
Migration
Broadcasting
Public Works
Road Maintenance
Road Transport
Printing and Stationery
Civil Aviation
Social Welfare
Surveys
Veterinary

There are other departments which may have to be considered, but those mentioned are the most important and staff must be provided if the State is to be effectively administered. In order to arrive at some figure of probable expenditure 2 % of the total Government provision for 1947/48 has been taken as a large proportion should already be covered by existing Municipal expenditure.