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F. WILSON-SMITH,  
*Proprietor.*

ARTHUR H. ROWLAND,  
*Editor.*

*Office:*

406-408 LAKE OF THE WOODS BUILDING,  
10 ST. JOHN STREET, MONTREAL.

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## MUNICIPAL SINKING FUNDS.

A feature of the report on funded debt, recently issued by Mr. Thomas Bradshaw, commissioner of finance for the city of Toronto, is a discussion of the objects of and methods of management regarding municipal sinking funds, which deserves close attention. The functions of sinking funds, and the importance of their rightful management, have not always been sufficiently appreciated by Canadian municipal administrators. Cases have occurred in which a sinking fund has been treated as a convenience for obtaining ready cash by impecunious and spendthrift authorities. There have been other cases where sinking fund monies have been placed in undesirable investments. Altogether, the municipal sinking fund has figured too often in Canadian finance in the role of a Cinderella. Mr. Bradshaw, in his illuminating exposition, places the sinking fund in its proper place as a vital factor in municipal finance, demanding the same judicious management as a trust, and calling for the same attitude of mind in its administration as marks the conscientious trustee.

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One of Mr. Bradshaw's notable accomplishments since he took office at Toronto has been a thorough investigation with the object of allocating to each individual debenture debt of the city its exact mathematical sinking fund, as at the close of 1916, and for each future year until the debt matures. So far as is known, this is the first investigation of its kind which has ever been undertaken by any Canadian municipality—a fact which emphasizes sharply the laxity of municipal authorities in regard to sinking funds. It would naturally be supposed by any intelligent outside critic that a primary necessity in the good management of a sinking fund would be an exact ascertainment of its liability in the case of every loan, for the repayment of which at maturity the sinking fund is supposed to provide. However, slipshod methods of administration are not peculiar to Canadian municipal authorities, neither are they singular in their lack of appreciation of scientific exactness and the function of the trained mind in practical affairs. Toronto, thanks to Mr. Bradshaw, now has this information. Its sinking funds, amounting to over \$2,000,000, and constituting the City's most valuable monetary asset, have been placed on a thoroughly scientific basis, which, now once secured, it will be a comparatively easy matter to maintain.

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The good management of municipal sinking

funds is a matter of vital interest, not only to the holders of municipal securities, but also to taxpayers. To the one, as Mr. Bradshaw points out, the sinking fund stands as a guarantee that adequate provision is being made for the prompt payment of debentures at maturity; to the other, it is an assurance that systematic provision is being made for the liquidation of the municipality's indebtedness. Both purchasers of debentures and taxpayers are entitled to know that a sinking fund is being utilised solely for the purpose for which it was constituted, that it is being fully maintained and that it is being efficiently administered. It is certain that any knowledge or even suspicion by purchasers of municipal securities that the sinking-funds of a municipality are not measuring up to this standard, will have an immediate effect in depreciating that municipality's credit; in other words, in making the future financing of that municipality less easy and more expensive. Hence the unwisdom (to use a very mild term) shown by those municipalities which have utilised municipal sinking funds more or less as a convenience to meet various financial necessities. Such action could only arise from a lack of appreciation of the vital fact that sinking funds are trusts, and must be administered in accordance with the well-recognized principles of trusteeship.

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It is emphasized by Mr. Bradshaw that the foundation of a sinking fund's successful administration lies in the method of making investments. In many instances it has been the practice of the municipality to purchase its own debentures for the sinking fund at par, no matter what rate of interest they carried, or what their true market value might be. In such cases the sinking fund has suffered to the extent of the difference between the artificial par value paid for the debentures and the lower market value at which they should have been bought. The aim in the management of a sinking-fund should be to purchase investments, no matter whether they are the municipality's own debentures or other securities, on the most favourable terms possible, just in the same way as would a trustee charged with the management of an estate. Similarly, when the necessity arises for the sale of securities, the best current price should obtain. The municipality, purchasing its own debentures from the sinking-fund, should not be required to pay an artificially inflated price.

## MUNITIONS CREDIT BY C.P.R.

An interesting development in the Canadian financing of the British Government's requirements in Canada is contained in the official announcement that the Canadian Pacific Railway has made a loan of \$10,000,000 to the Imperial Munitions Board. This credit, it is understood, follows the lines upon which Canadian banking credits have in the last year or two been given to the Board, the Company receiving British treasury bills. At December 31st, 1916, C.P.R. reported cash on hand of \$57,076,018 so that the Company's treasury is well equipped for an operation of this kind. Disbursement of these funds will, of course, be made in Canada. The arrangement is a particularly helpful one in that it involves a transfer of credit, and not as in the case of the banks' loans to the Imperial Munitions Board, a creation of new credit, leading to inflation.