

# REPORT

OF THE SELECT COMMITTEE ON THE

## CONSOLIDATION OF PROVINCIAL LOANS ;

TOGETHER WITH THE

PROCEEDINGS OF THE COMMITTEE, MINUTES OF  
EVIDENCE AND APPENDIX.

WELLINGTON.

—  
1867.

ORDER OF REFERENCE.

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*Extract from the Journals of the House of Representatives.*

TUESDAY, 17TH SEPTEMBER, 1867.—*Ordered*, “That ‘The Provincial Loans Consolidation Bill’ be referred to a Select Committee consisting of Mr. Campbell, Mr. Curtis, Dr. Featherston, Mr. Jollie, Mr. Macandrew, Mr. Moorhouse, the Hon. Mr. Stafford, Mr. Stevens, Mr. Vogel, Mr. Williamson, and the Hon. Mr. Fitzherbert, with power to call for persons and papers. Five members to be a quorum. Report to be brought up this day week.”—(*Hon. Mr. Fitzherbert.*)

## INTERIM REPORT.

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THE Committee, after a careful and lengthened examination into the subject of the consolidation and conversion of the Provincial Loans, have agreed to recommend to the House in lieu of the Bill referred to them, the draft Bills which are attached hereto, and are intituled severally:—

- (1.) “An Act to declare the Liability of the Colony of New Zealand for Provincial Loans and for other purposes.”
- (2.) “An Act to authorize a Loan of Seven Million Pounds Sterling for the purpose of converting and consolidating the Public Loans of New Zealand.”

WILLIAM FITZHERBERT,  
Chairman.

Committee Room,  
27th September, 1867.

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## PROCEEDINGS OF COMMITTEE.

WEDNESDAY, 18TH SEPTEMBER, 1867.

PRESENT :

Mr. Campbell,  
Dr. Featherston,  
Hon. Mr. Fitzherbert,  
Mr. Jollie,  
Mr. Macandrew,

Mr. Moorhouse,  
Hon. Mr. Stafford,  
Mr. Stevens,  
Mr. Vogel,  
Mr. Williamson.

The order of reference was read.

On the motion of the Hon. Mr. Stafford, the chair was taken by the Hon. Mr. Fitzherbert.

On motion of the Hon. Mr. Stafford, *Ordered*, That copies of the various Acts under which Provincial Loans were raised, or authorized to be raised, be placed before the Committee.

On motion of Mr. Moorhouse, *Ordered*, That the following gentlemen be summoned to give evidence:—Messrs. T. Russell, Cowie, John Johnston, Pharazyn, Miller, Buchanan, Bridges, Reeves; Mr. Russell to be summoned for noon to-morrow.

On motion of Mr. Williamson, *Ordered*, That a sub-committee be appointed to receive and classify the questions which the members of the Committee may prepare to be put to witnesses. To consist of the Chairman, Mr. Stevens, and Mr. Vogel.

Adjourned until 11.30 of Thursday, the 19th September.

THURSDAY, 19TH SEPTEMBER, 1867.

PRESENT :

Mr. Campbell,  
Dr. Featherston,  
Hon. Mr. Fitzherbert,  
Mr. Jollie,  
Mr. Macandrew,

Mr. Moorhouse,  
Hon. Mr. Stafford,  
Mr. Stevens,  
Mr. Vogel,  
Mr. Williamson.

Hon. Mr. Fitzherbert in the Chair.

The minutes of the last meeting were read and confirmed.

Mr. Russell was in attendance.

Mr. Russell was requested by the Chairman (in order to save time) to write answers to the questions prepared by the Committee, and to hand in these answers as early as possible to-morrow morning: also, to be in attendance at 11.30 a.m. This, Mr. Russell promised to do.

*Ordered*, That copies of the questions be immediately written out, and sent to Mr. Russell for his written replies.

Adjourned to Friday, the 20th instant, at 11 o'clock.

FRIDAY, 20TH SEPTEMBER, 1867.

PRESENT :

Mr. Campbell,  
Mr. Curtis,  
Dr. Featherston,  
Mr. Jollie,  
Mr. Macandrew,

Mr. Moorhouse,  
Hon. Mr. Stafford,  
Mr. Stevens,  
Mr. Vogel,  
Mr. Williamson.

Hon. Mr. Fitzherbert in the Chair.

The minutes of last meeting were read and confirmed.

Mr. Russell's answers to the questions proposed were handed in, with the exception of the answers to those proposed by Mr. Vogel, which Mr. Russell promised to give to-morrow.

The questions and answers were read over to the Committee.

On motion of Mr. Campbell, *Ordered*, That all questions put to Mr. Thomas Russell, and his replies thereto, be printed, and circulated for the information of members of the Committee; and that the Committee meet to take them into consideration on Monday.

Moved by Mr. Curtis, That any gain arising from the consolidation of the Provincial Loans by extending the colonial guarantee to the Provincial Creditor shall be treated as strictly colonial revenue, and shall be subject to appropriation by the General Assembly for colonial services. It is understood that in the case of unraised loans the term "gain" shall only apply to such sums as may be realized from sales above par.

And the question being put the Committee divided, when there were—

*Ayes, 7.*

Mr. Curtis,  
Dr. Featherston,  
Mr. Jollie,  
Mr. Macandrew,  
Mr. Moorhouse,  
Hon. Mr. Stafford,  
Mr. Stevens.

*Noes, 3.*

Mr. Campbell,  
Mr. Vogel,  
Mr. Williamson.

So it passed in the affirmative.

On motion of the Hon. Mr. Stafford, *Ordered*, That the questions proposed by Mr. Moorhouse, and Mr. Russell's replies thereto, be printed first.

Adjourned to Monday, the 23rd instant, at 10.30 a.m.

MONDAY, 23RD SEPTEMBER, 1867.

PRESENT :

Mr. Campbell,  
Mr. Curtis,  
Dr. Featherston,  
Mr. Jollie,  
Mr. Macandrew,

Mr. Moorhouse,  
Hon. Mr. Stafford,  
Mr. Stevens,  
Mr. Vogel,  
Mr. Williamson.

Hon. Mr. Fitzherbert in the Chair.

Minutes of last meeting read and confirmed.

Mr. Russell's printed evidence having been considered by the Committee, it was proposed by the Hon. Mr. Stafford, That this Committee is of opinion that it is expedient that the Colony of New Zealand should provide for the payment of the interest and final redemption of the several Provincial Loans heretofore authorized to be raised, such payments of interest and the redemption to be effected by the agency of the New Zealand Government, and to be charged against the respective Provinces on account of which they may be made.

Carried unanimously.

Moved by Mr. Vogel, the following resolutions :—

1. That agents should be appointed to verify and stamp Provincial Debentures, and that the holders of same on presenting them to such agents within a time to be fixed by the Governor, being not less than six months nor more than twelve months, shall be entitled to have them stamped on payment of for every one hundred pounds to cover the cost and such stamping shall mean a recognition on the part of the Colony that the debentures have been lawfully issued.

2. That the Colony should be liable for the interest and redemption of the debentures so stamped and should charge the same against the Provinces respectively on account of which the payments are made in accordance with "The Public Revenues Act, 1867."

Question put. The Committee divided, and the names were taken down as follows :—

*Ayes, 4.*

Mr. Campbell,  
Mr. Macandrew,  
Mr. Moorhouse,  
Mr. Vogel.

*Noes, 6.*

Mr. Curtis,  
Dr. Featherston,  
Mr. Jollie,  
Hon. Mr. Stafford,  
Mr. Stevens,  
Mr. Williamson.

So it passed in the negative.

Proposed by the Hon. Mr. Stafford, That the word "ultimate" be inserted before the word "payment" where it first occurs in the resolution proposed by him, and carried unanimously.

Question put. The Committee divided, and the names were taken down as follows :—

*Ayes, 7.*

Mr. Curtis,  
Dr. Featherston,  
Mr. Jollie,  
Mr. Moorhouse,  
Hon. Mr. Stafford,  
Mr. Stevens,  
Mr. Williamson.

*Noes, 3.*

Mr. Campbell,  
Mr. Macandrew,  
Mr. Vogel.

So it passed in the affirmative.

On motion of Mr. Stevens—

*Resolved*, 1. That it is expedient that the principle of "The Consolidated Provincial Loans Bill, 1867," as amended, be the basis of the proposed consolidation and conversion of the Provincial Loans.

2. That clause 22 of the said Bill be omitted, and that the clause No. 15 proposed by Mr. Russell be added to the Bill, namely: "If any Province of the Colony shall make default in the payment of the interest and sinking fund upon any of its loans the General Government shall out of the consolidated fund pay such interest and sinking fund and thereafter continue to pay the same until the final extinguishment or payment of such loan and all sums of money which the General Government shall

so pay on account of interest and sinking fund upon any such Provincial Loan shall be a charge on the revenues of the Province so making default. Provided always that if at any time it shall appear to the General Government that any Province is likely to make default as aforesaid then and in such case the General Government may without waiting until such default shall actually happen pay such interest and sinking fund as hereinbefore provided."

3. That the agents to be employed shall not be limited as to using discretion in the price to be given for Provincial Debentures, provided that par be not exceeded.

4. That the entire amount of debentures likely to be required from first to last, shall be placed at the outset in the hands of the agents, in view of the expediency of their being enabled to take advantage of favourable opportunities for negotiating the debentures which the state of the market may present from time to time.

The Committee then adjourned until eleven o'clock of Tuesday, the 24th day of September (to-morrow), when it was ordered that Mr. Russell be again requested, by letter, to give further evidence before the Committee.

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TUESDAY, 24TH SEPTEMBER, 1867.

PRESENT :

Mr. Campbell,  
Mr. Curtis,  
Dr. Featherston,  
Mr. Jollie,  
Mr. Macandrew,

Mr. Moorhouse,  
Hon. Mr. Stafford,  
Mr. Stevens,  
Mr. Vogel,  
Mr. Williamson.

Hon. Mr. Fitzherbert in the Chair.

The minutes of last meeting were read and confirmed.

Moved by Mr. Campbell, That this Committee is of opinion that, as it is expedient for the Colony to secure the payment of the interest and sinking funds of Provincial Loans, a Bill should be introduced this session declaratory of this resolution, and restricting the borrowing powers of Provinces from being any longer exercised otherwise than in the name of the Colony; and that this should be regarded as a step preparatory to the operation of converting the Provincial Loans, and consolidating New Zealand Loans generally.

Moved by Dr. Featherston by way of amendment, That the following words be inserted, namely, "in the same Bill full power should be taken to convert Provincial Debentures into Colonial Stock," in lieu of the words "This should be regarded as a step preparatory to the operation," &c.

Resolution as amended carried.

Mr. Campbell then moved as follows:—And this Committee is of opinion that power should at the same time be taken to convert and consolidate all such Colonial Bonds as can be advantageously dealt with into a loan of one common denomination.

Carried unanimously.

On motion of Mr. Stevens, *Ordered*, That all unissued Provincial Debentures shall, so far as possible, be withheld, and received by the Colonial Treasurer for cancellation, and the proceeds of an equal nominal amount of Colonial Bonds to be negotiated by the Colonial Government under the system of money-raising to be adopted under the foregoing resolutions be paid to the respective Provincial Governments entitled to receive them, provided that nothing in excess of par be paid to those Provinces.

On motion of the Hon. Mr. Stafford, *Ordered*, That to give effect to the foregoing resolutions, the Chairman do cause a Bill to be drafted, which, when agreed to by the Committee, shall be reported to the House as an interim report.

Adjourned till Thursday, the 26th September.

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THURSDAY, 26TH SEPTEMBER, 1867.

PRESENT :

Mr. Campbell,  
Dr. Featherston,  
Mr. Jollie,  
Mr. Macandrew,

Hon. Mr. Stafford,  
Mr. Stevens,  
Mr. Vogel,  
Mr. Williamson.

Hon. Mr. Fitzherbert in the Chair.

The minutes of last meeting were read and confirmed.

The printed drafts of two Bills were laid by the Chairman on the Table for the consideration of the Committee in accordance with the instructions of the Committee, the Short Titles of which were—

- (1.) "The Public Debts Bill, 1867."
- (2.) "The Consolidated Loans Bill, 1867."

On motion of Mr. Vogel, *Ordered*, That the Bills be taken into consideration clause by clause.

The Committee then proceeded to deliberate upon the Public Debts Bill; and the consideration of the preamble and clause 1 having been postponed.

Clause 2 read.

Discussion ensued.

On motion of Mr. Campbell, *Ordered*, That in lieu of the words "the passing of this Act" in the fifth line of clause 2, there shall be inserted the words "such day or days as shall be fixed by the Governor by proclamation in respect of the debentures of any particular Province."

On motion of Mr. Vogel, *Ordered*, That all the words after the words "may be payable" in the eighth line of clause 2 be struck out.

On the question being put That the clause as amended do stand part of the Bill, the Committee divided, and the names were taken down as follows :—

<i>Ayes, 5.</i>		<i>Noes, 3.</i>
Mr. Campbell,		Dr. Featherston,
Mr. Jollie,		Mr. Stevens,
Mr. Macandrew,		Mr. Williamson.
Hon. Mr. Stafford,		
Mr. Vogel.		

So it passed in the affirmative, and the clause as amended was agreed to.  
Adjourned until Friday, the 27th September, at 10 o'clock, a.m.

FRIDAY, 27TH SEPTEMBER, 1867.

PRESENT :

Mr. Campbell,		Hon. Mr. Stafford,
Mr. Jollie,		Mr. Stevens,
Dr. Featherston,		Mr. Vogel,
Mr. Macandrew,		Mr. Williamson.
Mr. Moorhouse,		

Hon. Mr. Fitzherbert in the Chair.

The reading of the Public Debts Bill was continued.

Clauses 3 to 11 were read and agreed to.

Preamble and clause 1 agreed to.

Proposed by Dr. Featherston, That the sixth item in Schedule A. be struck out, it not being practicable to define the liability.

Carried.

Schedule A., as amended, agreed to.

Schedule B., after a short discussion, agreed to; the 5th clause to read with alterations, "For taking up the total unraised and unissued, &c. \* \* \* \* a sum not exceeding."

"The Consolidated Loan Act, 1867," was then read.

In the title, after the word "pounds," the word "sterling" to be inserted.

Preamble and clause 1 postponed.

Clause 2, after some discussion, agreed to.

Clause 3 agreed to, with the addition of the word "sterling" after "pounds."

Clause 4 read and agreed to, with the insertion of the words "and conditions" after the word "mode," and striking out the words "whether by sinking fund or otherwise."

Clauses 5 and 6 read and agreed to.

Clause 7 agreed to with the insertion of the word "conversion" before "redemption."

Clauses 8, 9, and 10, read and agreed to.

Clause 11 read, alterations made, after the words "no Act" insert the words "or Ordinance which may be passed by" *dele* the word "of."

The draft "Public Debts Bill, 1867," and the draft "Consolidated Loan Bill, 1867," as amended, having been approved of by the Committee, the Chairman was requested to draw up an interim report and introduce them to the House as approved by the Committee.

Moved by Mr. Macandrew, That without desiring to fetter the action of the Government in carrying out the provisions of the Consolidated Loan Act, this Committee is of opinion that it is expedient that the agency shall be placed in the hands of some great financial house in London rather than in the hands of any bank or associated banks.

Carried.

Adjourned.



## MINUTES OF EVIDENCE.

THURSDAY, 19TH SEPTEMBER, 1867.

PRESENT :

Mr. Campbell,  
Dr. Featherston,  
Hon. Mr. Fitzherbert.  
Mr. Jollie,  
Mr. Macandrew,

Mr. Moorhouse,  
Hon. Mr. Stafford,  
Mr. Stevens,  
Mr. Vogel,  
Mr. Williamson.

Hon. Mr. Fitzherbert in the Chair.

Thomas Russell, Esquire, called in and examined.

1. *By Mr. Williamson.*] Are the persons you represent holders of any large number of Provincial Bonds; and if so, of how many Provinces, and to what extent?—They are holders of a very large number of Provincial Bonds, at the present moment, of Auckland, Otago, and Canterbury. *T. Russell, Esq.*  
19 Sept., 1867.

2. As representative of such bondholders, do you see any objection to the repeal of the Surplus Revenues Act, and the provisions of the Public Revenues Act?—Certainly I do. I have indicated some of those objections, briefly, in the printed Memorandum which I have circulated among the members of the Committee, and which I now hand in. (*Vide Appendix.*)

3. You have submitted clauses to be added to the Loans Consolidation Bill. Do you think the Provincial Bondholders would be more ready to accept the terms of the proposed arrangement if those clauses were added?—I think so. The only doubt I have in my mind is, that if the 15th clause of the new clauses proposed to be added were inserted, whether they would pay so high a premium as five per cent. I think they would. For my part I should be prepared to do so. I see no fair way of evading the insertion of the 15th clause. It is the consideration due to the bondholders for the repeal of the Surplus Revenues Act, and the enactment of the 12th and 13th clauses of the Consolidated Loans Act, and the 44th clause of the Public Revenues Act.

*The Witness withdrew.*

*Adjourned to Friday, the 20th September, 1867.*

FRIDAY, 20TH SEPTEMBER, 1867.

PRESENT :

Mr. Campbell,  
Mr. Curtis,  
Dr. Featherston,  
Mr. Jollie,  
Mr. Macandrew,

Mr. Moorhouse,  
Hon. Mr. Stafford,  
Mr. Stevens,  
Mr. Vogel,  
Mr. Williamson.

Hon. Mr. Fitzherbert in the Chair.

Thomas Russell, Esq., called in and examined.

4. *By Mr. Moorhouse.*] Will you give your opinion as to the best plan for securing a complete and final consolidation of the Provincial Loans?—If by “consolidation” I am to understand the conversion of all Provincial Loans into one General Government Loan, of, say six per cent., the Government still desiring to make a profit on the conversion, then I think the plan I propose in my Memorandum, and the clauses attached, is the best. This plan briefly is, (1.) The exchange of all the Provincial six per cent. Bonds for General Government six per cent. Bonds. (2.) The exchange of all other Provincial Bonds bearing different rates of interest, according to their value, as proposed in my eleventh clause. (3.) Upon these exchanges a small premium may fairly be charged; the premium to be such as not to prevent the bondholders’ acceptance of the exchange. (4.) Power to be retained as proposed in the Act, to buy any bonds for cash. I believe this plan would be quite successful, and in six months would ensure the conversion of all the Provincial Bonds. As nearly as I can ascertain, there are now in circulation, Provincial Bonds, six per cent., about £1,470,000; these would all be dealt with under the tenth clause I propose to insert in the Bill. There are also in circulation about £500,000 of Provincial Bonds, bearing seven, eight, and ten per cent. These bonds do not injure the credit of the Colony so much as the six per cent. bonds, which are of the same rate of interest as the General Government issue. The greatest part of this sum of £500,000 is due at short dates, and I do not consider it of great importance to get rid of it. I think the holders of it would come in and exchange upon the terms I propose; but those who did not choose to accept the terms offered for the exchange might retain their bonds and no evil would follow. If, however, by “consolidation” I am to understand simply the getting rid of Provincial Bonds, and the substitution of General Government Bonds in lieu of them,—the removal of the discredit at present attaching to New Zealand securities by the presence of Provincial paper of undefined value in the market,—then unquestionably the best and simplest course, and one quite certain of success, is to pass an Act accepting the liability for all Provincial Loans as they stand, upon all the bondholders exchanging their bonds for General Government Bonds of a similar amount and rate of interest within a given time. By this course no “profit” can be made; but as I hold that the Colony is liable for these bonds, I see no injustice in accepting that liability *T. Russell, Esq.*  
20 Sept., 1867.

*T. Russell, Esq.* at once, and thus putting an end to the present difficulty. Moreover, this is the course always hitherto proposed by the General Government of the Colony, and I submit is the course indicated in the letter of the present Colonial Secretary to Mr. Crosbie Ward, of date 8th May, 1867, a copy of which I attach to my evidence:—

“ Colonial Secretary’s Office, Wellington, 8th May, 1867.

“ SIR,—With reference to my letter of the 3rd instant, in which, having special reference to the recent failure of the attempt to place certain debentures of the Canterbury Province on the London market, and to your intended visit to Great Britain in the official capacity of Agent for that Province, I have thought it desirable to inform the Superintendent of Canterbury generally of the intention of the Government to submit to the General Assembly, at its next Session, a measure for the consolidation of Provincial Loans. I now desire to state, more especially for your information and guidance, so far as it is at present practicable to do so, that the Cabinet has definitely determined to introduce, as a part of its financial policy, a Bill to authorize the issue of Colonial Bonds to an amount which will cover the entire amount of Provincial Loans hitherto authorized, including those already raised and those not raised (wholly or in part) respectively. In all probability the interest will be fixed at six per cent., and the Colonial Debentures so to be raised will be secured on the entire revenues of New Zealand, territorial and ordinary.

“ As to the interprovincial arrangements and guarantees for repayment which it may be necessary to introduce into the measure, I am unable at present to furnish you with particulars. You are yourself cognizant of the difficulties and complications which will have to be dealt with, but the Government will not be deterred from pushing forward their measure by any consideration of these difficulties.

“ It is not, however, necessary for the success of your mission that these interprovincial arrangements should be made known, even if they were finally determined on. It is sufficient that you should be explicitly assured that the proposal will embrace the guarantee by the Colony of New Zealand of all Provincial Loans, subject only to domestic arrangements, that I apprehend being the sole question on which the capitalists will ask for information. The Government regard this measure as one of such great importance as to be inclined to make it a ministerial question; but I am unable at present to speak definitely on this point.

“ Crosbie Ward, Esq.”

“ I have, &c.,

“ E. W. STAFFORD.”

5. What time will be required to effect a complete consolidation by the plan you suggest?—Not more than twelve months.

6. *By Mr. Williamson.*] Are the persons you represent holders of any large number of Provincial Bonds, and if so, of how many Provinces, and to what extent?—They are large holders. Several Provinces. Upwards of £400,000.

7. As representative of such bondholders, do you see any objection to the repeal of the Surplus Revenues Act, and the provisions of the Public Revenues Act?—I do; for the reasons specified in the Memorandum I have laid before the Committee, and in the answers I have given to the several questions put to me by members of the Committee. Further, I observe, by two Loan Acts of the Province of Canterbury, the sums payable to that Province under “The Surplus Revenues Act, 1858,” are specified as part of the security given to the bondholder; and I see in one of the Otago Loan Ordinances an enactment, that “the holder of any debenture issued under this Ordinance shall not have any preference over any other such holder by reason of priority of date or otherwise;” but the effect of the Bills now before the House is, to repeal “The Surplus Revenues Act, 1858,” and to give a preference of one debenture to another of the same loan.

8. You have submitted clauses to be added to the Loan Consolidation Bill. Do you think the Provincial bondholders would be more ready to accept the terms of the proposed arrangement if those clauses were added?—Yes. (See my answers to Mr. Moorhouse’s question No. 1.)

9. What would be the effect of those clauses in regard to the Provinces whose issued debentures it is proposed to include in the Consolidation scheme?—The interest and sinking fund on the debentures issued in exchange would be paid by the General Government, and deducted from the Provincial revenues of the Province. The Province would have to provide and pay interest and sinking fund on all those debentures not exchanged; but, if they made default, the General Government would then pay. If the new loan were issued at six per cent., without a sinking fund, the relief to the Colony would be about £30,000 per annum, and the Colony could in this case impose conditions of repayment to the Colony by sinking fund from the Provinces, or relax them at pleasure, and as the necessities of the country required. I may add that the 12th clause among my proposed clauses forms no part of my plan, and was drawn and inserted to meet the proposition that the profit should belong to the Provinces and not to the Colony.

10. Are you aware of any Auckland debentures having been offered at or below eighty, and refused at that price?—I have never heard of any, and do not think such a case has happened.

11. *By Mr. Campbell.*] Have any Provincial six per cent. Bonds been sold in London above par; and if so, to what extent?—Yes; the first lot of Auckland Bonds (£100,000) sold at and above par. Some of the Canterbury Bonds also sold above par. I cannot tell the number. I know of £150,000.

12. Has the Bank of New Zealand offered or sold any of the Auckland Bonds below par?—The bank has not sold any below par, nor do I believe they have offered any below par.

13. What were the objects proposed to be accomplished by the Auckland Loan of half a million when the General Government assented to it?—Those objects are fully detailed in the printed papers on Provincial Loans. (See Appendix Journals House Representatives, B. No. 5, 1863, Auckland Loan.) The loan was obtained to pay off debentures coming due; for the purchase of Native lands, for immigration, public works, and for the erection of public buildings, such as post office, custom-house, and Supreme Court, &c., &c.

14. Can you tell the Committee what loans were assented to by the Domett Government and the Whitaker-Fox Government?—They authorized the Auckland Loan, 1863; Otago Loan, 1863; Canterbury Loan, 1863, and, I think, a Southland Loan, which has not been put in the market.

15. Can you state from your present knowledge if those Governments examined carefully the question: Whether the loans were required, and the purposes for which the money was to be applied?—Great care was taken. The printed papers in the Appendix to Journals will show that the Government in every case deliberately weighed all the arguments adduced by the Provinces in favour of the loans. They were required to state fully for what purpose they were required, their assets and liabilities, &c. If the Government were not satisfied, the Acts were disallowed and loans refused.

16. Do you know anything relative to the Otago six per cent. Bonds sold by the Bank of New Zealand on account of the Otago Government?—The Superintendent of Otago came to Auckland to see the Members of the Executive of the General Government, with a view to obtain relief for his Province. His representations made at the time are printed. (See Appendix Journals House Representatives, B. No. 3, 1864.) Among other requests he states, "On an assurance being given that a Guarantee Bill will be introduced to the Assembly by the Government, the Superintendent believes that the Bank of New Zealand would be enabled to negotiate the Otago Debentures upon favourable terms, &c." The Colonial Secretary replied (27th July, 1864), "For the purpose of giving effect to these views, the Government will be prepared to propose a Bill in the next General Assembly, to guarantee on behalf of the Colony the loans which have been already authorized by Act or Ordinance of the Provincial Legislatures, assented to by the General Government, &c. This arrangement will give the several Provinces the benefit of the Colonial credit for raising the greater part of the money already authorized by Acts heretofore passed." These papers were furnished by the Otago Government to their agents, the Bank of New Zealand. Extracts from them were published in the *London Times*, and the bonds were sold upon the representations set forth in these papers.

17. Has the interest on Provincial Loans hitherto been punctually paid in London?—I believe it has.

18. Would any serious consequences to the credit of New Zealand follow, if default were made in the payment of interest due by any of the Provinces?—Default in the payment of interest on any New Zealand Loan, General or Provincial, would do great mischief.

19. As a general rule are Colonial Loans redeemed by means of a sinking fund?—As far as I can ascertain, they are not.

20. *By Mr. Jollie.*] Are you aware if any of the Provinces have provided any specific security, in the form of land or revenue, either for payment of the annual charges upon their loans, or for liquidating those loans as they became due; and, if so, what effect on their value has such special provisions exercised?—I am not aware of any specific provision in the way of land, and do not think it has been made by any Province.

21. What is the particular security specified in the bonds of the several Provinces as now held by the parties whom you represent?—As a rule, bonds do not specify the securities; they are mere forms appended to the Loan Acts under which the loans are authorized. The securities specified in the Acts are various,—for example, in "The Auckland Loan Act, 1863," the security is specified as "all the revenues of the said Province subject to be appropriated by the Superintendent and Provincial Council thereof." In the Acts authorizing the Canterbury loans of £300,000 in 1860, and £500,000 in 1863, the security is described as "the public revenue of the said Province" and clauses follow defining the public revenue as revenue from time to time payable to the Province under "The Surplus Revenues Act, 1858," "The Land Appropriation Act, 1858," &c.

22. *By Mr. Stevens.*] Assuming "The Surplus Revenues Act, 1858" to be repealed, and the Public Revenues Bill passed, how will your proposed clause No. 10, authorizing exchange of Colonial six per cent. Debentures, for Provincial six per cent. Debentures, at a premium in favour of the former of five per cent., be less compulsory on bondholders than the proposal of Government, as set out in clause 9 of the proposed Consolidated Provincial Loans Act?—My proposal will be less compulsory than the Government proposal because the bondholder under my plan need not exchange if he objects to the terms. Sufficient inducement, I think, is held out to him, and sufficient pressure put upon him, but the matter is still purely voluntary. He may, if he chooses, continue in possession of his bond, and the security on which it rests; whereas, under the Government proposal, he must sell to the Government, or run the risk of being gradually deprived of his security by the priority given to the General Government in favour of bonds they may buy up, or new bonds issued for the Provinces, and he may be eventually shut out altogether.

23. Will not the fixing of the price by Act of Parliament, as you propose, be equally unfair in principle (if unfair at all) as fixing it through the discretion of the Colonial Treasurer, as proposed by clause 9 of the proposed Consolidation of Provincial Loans Act? If not why?—My clause 10 must be read with 15, and the Government clause 9 with clause 13, Consolidation Act, and 44 Revenues Act, it will then be seen that the two cases are not parallel. I have nowhere alleged (though I think it can be maintained) it to be unfair in principle for the Government to fix a price at which to purchase the Provincial Bonds, if they do not beforehand damage the position of the bonds by altering the security on which they stand, and the priorities existing among the bondholders. My argument is that the Government ought not, before they offer a price, damage the bonds, and so compel a sale to themselves.

24. *By Mr. Vogel.*] Do you think it is advisable for the Colony at present to borrow at long dates, say twenty-five to fifty years, in preference to borrowing for say eight to fifteen years?—I should think short loans the best policy.

25. Suppose the credit of the Colony to improve, are long loans at present rates likely to press hardly or injuriously on it?—Yes; under the circumstances stated, long loans would be likely to press injuriously.

26. Under present circumstances, are long or short dated loans likely to command more favour in the English money market?—I should say short loans.

27. Do you think a sinking fund expedient?—I think New Zealand might now dispense with a sinking fund.

*T. Russell, Esq.*  
20 Sept., 1867.

28. Do you think it likely to make the loan realize a higher price?—I do not think it would, but I do not say so with confidence.

29. Do you think a lender of money would consider that there was better security in the right to claim repayment in full, at the end of, say ten years, or in the right to repayment, at the end, say of twenty-five years, in the latter case two per cent. being set apart annually to accumulate on his behalf?—I think he would consider he had better security in the right to claim repayment at the end of ten years.

30. State what features (if any) you consider objectionable in a sinking fund?—The additional annual charge on the country, and the liability to loss on investments. (See also my answer to No. 6.)

31. Suppose the Colony to declare itself liable for Provincial loans to the extent of seeing that the payments are duly made, do you consider the holders of Provincial Debentures will be willing to pay a premium for exchanging the same for Colonial Debentures of short dates.—Yes.

32. Would there be an equal willingness to pay such premium if the exchange were for long dated debentures?—I think not.

33. Suppose, without undertaking liability for Provincial Loans, Colonial Debentures were offered in exchange for them upon terms to be fixed by the Government, what would the effect be in respect to the holders who would not agree to the terms?

34. Under the financial proposals with which you are acquainted, what do you consider to be the relative positions of the holders of Provincial Debentures who accept the terms of the exchange and those who decline doing so?—One reply will give an answer to these questions, and that will be conveyed in the following remarks: (1.) If the Bills now before the House are passed in their present shape one of the securities on which the bondholders lent their money is taken away and repealed, viz., "The Surplus Revenues Act, 1858." It is no answer to say that another provision is made for the Provinces in lieu of it—that the Provinces instead of getting the undefined balance of the Colonial revenue will get a defined amount, possibly a greater amount. It is a matter of opinion whether it is a better security or not—the balance under the Surplus Revenue Act may be better than the other. I say the Colony ought not to alter the security which they had been parties to giving the bondholders without the consent of the bondholders, or an indemnity. (2.) The Bills now before the House alter the priorities now existing among Provincial bondholders, not only among all the bondholders of one Province, but among the bondholders of each particular loan, and further damage the present position of the whole class of bondholders of each Province by placing their loans after loans or portions of loans which may be henceforward raised for that Province, thus quite reversing the general order of payments, and making the transaction in the nature of a bottomry bond, the last of which, contrary to all other rules is always paid first. For example, take the case of Canterbury, referred to in my printed memorandum. In that case of the £500,000 loan, authorized by "The Canterbury Loan Act, 1862," about half has been raised. The other half will be raised under the provisions of the Bills now before the House, and the last half of this loan will be made a first charge on the revenues of the Province before any of the other bondholders of Canterbury of the same or any other loan can demand payment of their interest or sinking fund. Now, if the Provincial Council of Canterbury had passed such an Act as this, it is clear it would be the duty of the General Government in the interest of the public creditor to disallow it. Ought the Assembly to do towards the public creditor what they would not allow a Provincial Council to do? Take again the case of Otago. On 31st December, 1868, there are £10,300 of ten per cent. bonds due by this Province. That was the first loan raised by Otago. Since then about £650,000 have been raised, some of it extending over a period of thirty years. Now, under the Government proposals, if they succeed in buying up the £650,000 it will be placed before the £10,300 due next year, and that £10,300 will not be paid if the Province has not sufficient funds to pay both in full. (3.) From this it follows that the bondholders being deprived of their security by the Acts of the Assembly, and having their position changed, and other bonds placed on the revenues of the Province before them, will be driven first either to try and procure the disallowance of the Acts they object to, or secondly, to agitate with a view to redress from the General Assembly, or, thirdly, to sell to the Government upon whatever terms the Government may offer. (4.) For these reasons I submit that the enactment of the provisions of the Bill before the House requires the insertion of the clause No. 15 which I have submitted to members of the Committee.

## APPENDIX.

### MEMORANDUM ON THE CONSOLIDATION OF PROVINCIAL LOANS.

THE project for the Consolidation of Provincial Loans has deservedly been popular for some time past. No argument is necessary to show that if carried out successfully it will lead to the most beneficial results to the credit of New Zealand in financial circles in Great Britain, but while it is so desirable, it is at the same time a delicate operation, requiring careful management and a due regard for all the interests involved. It is submitted that the proposals of the Government, as contained in the two Bills before the House, will not meet all the requirements of the case; if they are adopted by the Colonial Legislature great injustice will be done to some of the holders of the Provincial Bonds, and a breach of faith will be committed towards a class of persons powerful enough to make their influence felt in the London money market and in the Colony. The two Bills now before the House propose to give the General Government—

- (1.) Power to buy up for cash or to exchange Provincial Bonds already issued for General Government Bonds.
- (2.) They prevent the issue of any further bonds of the Provincial Governments, and require the General Government to complete the issue of all authorized and unraised Provincial Loans.
- (3.) They give the General Government a first charge upon the Provincial Revenues for Interest and Sinking Fund on all Provincial Bonds, which they may buy up or obtain in exchange, and for all General Government Bonds which may be issued in substitution for unraised Provincial Loans.

The main difficulties in the way of the Government proposals appear to be as follows:—

1. It is highly objectionable to allow agents in England so large a discretion as must necessarily be given to them if the provisions of these Bills are adopted—what may occur can readily be imagined—to enable the agents successfully to purchase any number of the bonds various prices must necessarily be fixed and given as the debentures of each Province vary in price in the market, while they are all equally valuable to the General Government in carrying out its policy of consolidation; fixing and buying at different prices will lead to suspicions of unfairness and partiality very difficult to disprove. The idea that Provincial Bonds may now be purchased at low prices because some of them sold at low prices is not well founded; when some of the Otago Bonds were sold they only realized £70, but they have long since changed hands, and some are now held by those who have paid £90 and even more for them. (They have been lately quoted at £95). Moreover when the Otago Bonds were sold representations were made on behalf of the Provincial Government of Otago that the guarantee of the General Government would ultimately be given to the bonds, and the holders have thus been led to expect it and are entitled to any benefit accruing under it. It is objected as unfair to allow the holder of a Provincial Bond for which he gave £70 to get £100 for it, and it is proposed to offer him £80 as a sufficient profit, the remainder is considered to be the profit which the General Government is entitled for its guarantee. It is very doubtful if there are any of the present holders who bought at so low a price as £70, but it is an unfair and unworkable principle to fix the price relatively to what a bondholder gave. If one buys at £70, another at £80, and the price is fixed relative to those prices so as not to leave him too much profit, what can be offered to the person who gave £103 for his £100 bond, and that price has been paid for some of the Provincial Bonds.

2. The General Government have no right to interfere with or alter the present securities of the Provincial Bondholders. The revenue of the Colony under the Surplus Revenues Act is divisible among the Provinces after taking out of it the appropriations made by the General Assembly. This Act was law when the bondholders lent them money, and the General Assembly cannot alter it without indemnifying the bondholders.

3. The measures now proposed give a preferential claim to the General Government for all bonds they may buy up or issue to the prejudice of the bondholders who refuse to accept the prices offered by the General Government, *vide* sections twelve and thirteen Consolidation Act, and forty-four Revenues Act. Before tracing the practical effect of these proposals, it is proposed to show that the Government have no right to take this preference.

The Royal Instructions to His Excellency Sir George Grey, dated 12th August, 1861, directs His Excellency to reserve for Her Majesty's assent "Any Bill of an extraordinary nature and importance, whereby Our prerogative or the rights and property of Our subjects not residing in the Colony, or the trade and shipping of the United Kingdom and its dependencies may be prejudiced." Under this clause of the Royal instructions, it is submitted that His Excellency could not assent to the Bills now proposed by the Government, and they would probably be disallowed at home. In 1860 Lord Carnarvon writing to Governor Browne upon the New Provinces Act, the effect of which (in relation to the creditors of the Province of Wellington) had been objected to, said "now, whatever may be the equitable rights *inter se* of the old and new Province (.....) it is clear that the creditor who lent his money on security which the borrower had at the time of the contract a right to pledge, ought not to be deprived of any part of that security by any subsequent Act of the General or Provincial Legislature. Indeed, if such a transaction were allowable, the whole substance of his security might be gradually abstracted by successive divisions of the Province which borrowed the money."

The General Assembly itself has distinctly declined to permit legislation, the effect of which would give priority of charge on the revenues of the Provinces, over charges previously created. The Imperial Government, in their Act to guarantee the one million of the Three Million Loan, enacted that the interest and sinking fund of that guaranteed loan should be a prior charge over all other loans and charges (save some therein mentioned which do not effect the question) thus placing a prior charge on the Provincial Revenues to the charges previously created upon them by the Provincial Legislatures when they borrowed money on debentures. This breach of faith with the public creditors of the Provinces the Assembly distinctly declined to allow, and on the 9th December, 1864, in the Journals of the House of Representatives, p. 46, we find as follows:—

“On the motion of the Hon. Mr. Fitzherbert, ordered—That the following resolution be considered in the Committee of Supply, viz.: ‘That in the opinion of this Committee it is not expedient to accept the offer of the Imperial Government (as embodied in the Imperial Act of last session) to guarantee one million of the Loan of Three Millions authorized to be raised under ‘The New Zealand Loan Act, 1863,’ for the following reasons, viz.:—

- (1). “That the Act referred to requires the Colony to give a priority of charge in favour of such guaranteed loan over charges previously created.
- (2). “The Imperial Act requires that the Territorial Revenue shall be included in the security, a measure which, in the opinion of your Committee, would be incompatible with subsisting arrangements with the Provinces, and would prejudice the securities for Provincial Loans.”

If, however, the proposals of the General Government become law, what may be the practical effect of them?

Take first the Province of Canterbury—The Canterbury Province has authority to borrow £500,000, of which about half has been raised, the bonds are held principally in London—the remaining half of the loan is still unraised, though the bonds are made ready for issue and money borrowed upon them. The whole half-million is an equal charge on the Provincial Revenues. Now, the effect of the Government proposition is to cancel the unissued bonds, to substitute for them a General Government issue for the same amount, and to make that issue a first charge on the Provincial Revenues, thus committing a special injustice to the holders of the first issue of that loan, and a great injustice to all the other bondholders and creditors of the Province of Canterbury.

Take again, the case of a Province without a Land Fund, say Auckland, if the General Government buy up half the Auckland Bonds, say £250,000 out of the £500,000, it may possibly happen that the General Government would, under the provisions of these Acts absorb the whole of the Provincial Revenue to the entire exclusion of the holders of the other half of the loan, *e.g.*, the interest and sinking fund on £500,000 amounts to £40,000. If the Provincial Revenue fell to £20,000 the General Government holding half the bonds would absorb it all.

4. But, the Colony is really liable for all the Provincial Bonds. How can the Provinces in the aggregate disclaim their individual liabilities? The Colony in dealing with its individual parts cannot impose laws, burdens, &c., and alter them without respecting or protecting claims upon those parts especially as those claims came into existence with the consent and under the authority of the Colony. The General Government assent to Provincial Loans has not been given as a simple ministerial act, the Ministry of the day, before His Excellency has been advised to assent to a Provincial Loan, have required from the Province borrowing, a statement of its assets and liabilities, and of the objects on which the loan was to be expended, and have thus exercised a semi-judicial inquiry before authorizing the loan. If the result of the inquiry has not been satisfactory the loan has been refused; if satisfactory, it has been authorized. Now if the Colony was not ultimately liable, and the Governor's assent was a mere matter of form, why this inquiry and care to see the public creditor protected?

From the foregoing it follows:—

- (1.) That it is inadvisable to fix various prices, or any prices short of par, upon the Provincial Bonds.
- (2.) That the General Government cannot fairly take a prior charge on the Provincial Revenues for the objects they propose.
- (3.) That to enable them to deal successfully with the Provincial Loans—repealing the Surplus Revenues Act—making provision for deducting interest and sinking fund from Provincial Revenues, and for avoiding a disclaimer or repudiation of the Colonial liability for the obligations of the Provinces it is necessary to admit the ultimate liability of the Colony for the payment of the debts of the Provinces, and to offer the bondholders an exchange of their Provincial Bonds for General Government Bonds of equal amounts and rate of interest at such a premium as will induce them to make the exchange, the Provincial Bonds being taken at par. By adopting this method the Government avoid the objections to which their present proposals are open, and they can take the securities they now propose to take upon the Provincial Revenues as against the Provinces, they do no injustice to the Provincial Bondholder, who can keep, if he chooses, his present security, but who, it is believed would be willing to exchange it for a General Government Bond at a fair premium.

If then, in dealing with consolidation, the Colony has to say to the bondholders we have altered the security you formerly held, viz., the Surplus Revenues Act, and have made subsequent Provincial Loans a first charge (to your detriment) on Provincial Revenues, and we now say to you we are ultimately liable to you—if the Provinces do not pay you we will—the question remains upon what terms may the holder of a Provincial six per cent. Bond thus recognized by the General Government as worth £100 or par fairly be asked to exchange his Provincial Bond for a General Government Bond of equal amount and rate of interest—both being good, but in one case an ultimate liability only, and in the other a direct one—the one not saleable on the Stock Exchange, the other saleable there and now worth £5 premium. It is proposed that the Provincial Bondholder should give up his Provincial Bond and pay £5 premium. This would give the Colony a profit on the conversion, and be no hardship to the

Provincial Bondholder, if he did not choose to pay the £5 premium he need not, nor could he complain that the General Government had ignored his position by their over-riding legislation. On the contrary, his position is improved by the guarantee of ultimate payment, while asking him to pay the £5 for another and a saleable article is just, as the bond so purchased is actually worth the £5 which he is called upon to pay, but it may be justified also on the ground that the security he is called on to pay the £5 for is a different and better one than that which he holds.

T. RUSSELL.

Wellington, 9th September, 1867.

*Clauses of the Bill for the Consolidation of Loans, referred to in the foregoing Memorandum.*

Clause 12. If it shall appear that any part of the moneys authorized to be borrowed by any such Provincial Act or Ordinance shall not have been so borrowed before the passing of this Act it shall be lawful for the Governor in Council upon the request of the Superintendent and Provincial Council to direct that money shall be borrowed under the authority of this Act not exceeding the balance of such Provincial Loan as shall be then still unraised and to direct that the moneys so borrowed shall be paid over to the Provincial Treasurer of such Province for the public uses thereof.

Clause 13. The principal interest and sinking fund of the debentures issued under the authority of this Act by which the money expended in the purchase of such Provincial Debentures shall have been raised or for which such Provincial Debentures shall have been exchanged or the proceeds of which shall have been paid to any Provincial Treasurer as hereinbefore provided shall be charged upon and paid out of the public revenue of the Province on account of which the Provincial Debentures so cancelled shall have been issued and the Colonial Treasurer shall from time to time in accordance with the provisions of "The Public Revenues Act 1867" deduct from any moneys in his hands payable to such Province such sums as may be sufficient to provide for the payment of the principal interest and sinking fund hereby charged upon the revenues of such Province as the same shall become due.

*Clause of the Public Revenues Bill, referred to in the foregoing Memorandum.*

Clause 44. The Colonial Treasurer shall as soon as possible but not later than      days after the end of each month prepare an account for such month between the General Government and the Government of each Province in the Colony severally and shall therein credit each Province with      of the total sums which shall have been paid into the Consolidated Fund within such Province during such month and shall debit such Province first with the total of the sums which he shall during such month have expended within such Province on account of the several services of the General Government specified in the Schedule E. to this Act and on account of any other services which are or may become chargeable by law against the revenues of such Province and secondly with one-twelfth part of all the sums which may become so chargeable yearly on account of so much of the interest and sinking fund of loans raised upon the security of the general revenues of the Colony as shall have been made a charge against the revenues of such Province and the Colonial Treasurer shall forthwith pay over out of the Consolidated Fund to the Provincial Account of such Province the balance which shall appear upon such account to be due to the Provincial Government thereof.

