

1875.

## NEW ZEALAND.

## PUBLIC ACCOUNTS COMMITTEE.

## BANKING ARRANGEMENTS OF THE GOVERNMENT.

*Report brought up 20th October, 1875.*

## ORDER OF REFERENCE.

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

THURSDAY, THE 29TH DAY OF JULY, 1875.

*Ordered*, That it be an instruction to the Public Accounts Committee to inquire into and report upon the conditions under which the Banking Business of the Government is conducted by the Bank of New Zealand, and whether these conditions imperatively required that so large a sum as between three and four millions should be deposited with one institution; and further to report whether it is not in the interest of the colony at large that other arrangements should be made for the future. The Committee to report in three weeks.—*(Mr. Rolleston.)*

## ORDER OF REFERENCE.

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

TUESDAY, THE 24TH DAY OF AUGUST, 1875.

*Ordered*, That leave be given to the Public Accounts Committee to postpone the bringing up of their report on the Banking Business of the Colony for three weeks.—*(Mr. Reader Wood.)*

## ORDER OF REFERENCE.

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

THURSDAY, THE 7TH DAY OF OCTOBER, 1875.

*Resolved*, That the Public Accounts Committee have power to prosecute such inquiry as may arise out of any evidence before the Committee upon the Banking Arrangements of the Government.—*(Mr. Reader Wood.)*

## REPORT.

THE Public Accounts Committee having, in obedience to the reference to them of the 29th day of July, inquired into the conditions of the Banking business of the Government, and the several other matters referred to therein, and having taken evidence thereon, do now report as follows:—

1. The conditions on which the Banking business of the Government is conducted by the Bank of New Zealand are shown by the correspondence between the Government and the Bank, copies of which are appended.

2. The Committee are of opinion that those conditions did not require that the whole of the proceeds of the loans should be deposited with one Bank; and would further express their opinion that, for the future, a limit should be placed to the depositing of large sums in any one institution, and that separate arrangements, apart from the ordinary Banking arrangements of the Government, should be made in each case for dealing with the proceeds of all loans raised by the colony.

3. Further, the Committee have come to the following resolutions, which, together with the evidence and appendices, they have the honor to report:—

1. That, in the opinion of this Committee, notice should be forthwith given to determine the present agreement with the Bank of New Zealand.
2. That tenders should be invited from the several Banks (not associated but separately) carrying on business within the colony, for conducting the Government account of the colony.
3. That the imputations and inferences of Mr. Bridges, to the effect that some improper influence had been exercised by the Bank of New Zealand on Sir Julius Vogel, in connection with the purchase of the Port Chalmers Railway and otherwise, are absolutely unwarranted and without foundation.

E. W. STAFFORD,  
Chairman.

20th October, 1875.



## BANKING ARRANGEMENTS OF THE GOVERNMENT.

## MINUTES OF EVIDENCE.

TUESDAY, 24TH AUGUST, 1875.

Mr. D. L. MURDOCH examined.

1. *The Chairman.*] You are the Inspector of the Bank of New Zealand?—I am.
2. That Bank does the Government business entirely?—Yes, entirely.
3. Under specific conditions?—Yes.
4. Can you state what these are?—They are as contained in a printed paper laid before the House in 1873. [Witness laid a copy of the paper before the Committee, and it was read by the clerk.]
5. Has that been supplemented in any way by any further agreement?—Yes; but the general conditions of the agreement have not been affected.
6. Do the exchanges now stand on the same footing as under that agreement?—Yes, on the same footing.
7. Do you consider that these conditions render it necessary that the large sum which has been deposited in London should be deposited with the Bank of New Zealand?—Clearly. I may say that the amount has been overstated by Mr. Rolleston.
8. Will you state what that amount was at the highest time?—The largest amount of which I had advices to the credit of the Government at one time was £2,600,000, and that was only for a very short period.
9. Can you state the probable amount now, at the last advices?—£1,700,000 was the amount at credit. All the instalments of the loan had not been paid.
10. Do you suppose as they are paid in that the amount will be in excess of that?—I do not think so, from the imperfect knowledge I have of the liabilities of the Government in London.
11. Is the Committee to understand by your answer that, owing to the varying exchanges that have taken place in the last two or three years, the banking arrangements have remained the same throughout?—Precisely the same.
12. *Hon. E. W. Stafford.*] You have stated that the general terms of the arrangement have not been altered. Was there not a special alteration made with regard to the new portion of the loan?—Yes; there was a special arrangement made by Sir Julius Vogel lately, whereby the interest on credit balances was increased from 1 per cent. under the Bank of England rate to  $\frac{3}{4}$ .
13. *Mr. Johnston.*] You have stated that, in your opinion, the Government are bound under the terms of the arrangement to place the whole amount of the public money in the hands of the Bank of New Zealand, without any stipulation on the part of the Bank as to the amount of accommodation that might be required?—Yes, under this agreement; but I think that, from the experience of the Government during the time the Bank of New Zealand has held the account, there is ample evidence that they have always been willing to meet any reasonable request.
14. Reasonable compared with the paid-up capital of the Bank?—Yes, and its resources.
15. Generally speaking, is there not some relation between the amount of coin and bullion retained in the hands of the Bank, and the amount of advances they make, and that some proportion of coin and bullion must be retained in order to do a safe business, in theory?—The relation is not between the amount of coin and the advances, but between the amount of coin and the liabilities of the Bank—the deposits and the circulation of the Bank.
16. What is the ordinary relation?—It varies. It is between 20 and 25 per cent. of the demand liabilities of the Bank ordinarily considered.
17. May I ask the proportion in the Bank of New Zealand compared with the liabilities?—With its demand liabilities?—I am not prepared to say, but the proportion is larger than is considered the safe limit.
18. But still, is not the limit of safety so nearly attained that it would seem the Bank is doing as much as it can at the present moment?—If the Bank required a larger amount of coin, it could be obtained in fourteen days.
19. The reason I put the question is this: In case of the Government requiring a larger amount could the Bank furnish it without restricting its general business?—Certainly; it depends of course upon the amount of the accommodation required.

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20. I would say half a million?—That would also depend upon the period for which it was wanted. If only temporarily, the Bank would be in a position to do it.

21. Say for six months or twelve months?—I should not like to say positively.

22. *Mr. Shephard.*] That would depend upon the general state of the money market?—There might be a time of severe pressure when it would be inconvenient.

23. *Mr. Johnston.*] In Australia some of the Governments make a practice of dividing the account among an Association of Banks?—The Victorian Government is the only one that I am aware of that divides their account among any number of banks. There has recently been a partial withdrawal of surplus funds by the Government of New South Wales from the Bank of New South Wales, but under no provision for a division of the account.

24. Under the system of dividing the Government account, is it, in your opinion, easier for the Government to obtain a large amount without causing pressure upon the public?—Taking the united resources of the Association, I should be obliged to answer yes, but practically I do not think so. I think the Government is much more at the mercy of banks when an association of banks exists than when it is dealing with one bank.

25. In Victoria the Government negotiate its loans in London through the agency of this Association?—It does.

26. Does it obtain any advantage by so doing?—On the contrary, I think it is at a disadvantage. There has been a recent case of negotiating a loan, in which the Associated Banks failed in raising the loan. The balance of the loan was taken up by the Associated Banks at very considerably diminished prices.

27. Do you think the colony gets better terms by negotiating through the Crown Agents or through financiers?—I can scarcely tell. Judging by results, I should say the latter.

28. *Mr. Pearce.*] In reply to a question from Mr. Stafford, you stated that the Bank made special advances on special terms—will you state to what extent these were made, and what the terms were?—The terms were 6 per cent., and the amount has been up to £250,000.

29. That is to say, the special terms were in favour of the Government?—Yes.

30. On any occasion have more severe terms been exacted than those stated in the agreement?—No, on no occasion.

31. I observe in the agreement that there is no provision for bringing funds from London to the colony?—There is not.

32. On what terms is that done?—The Government draw at sixty days', and the drafts are negotiated by the bank at  $\frac{1}{2}$  per cent. discount.

33. Has that obtained for some time?—It has.

34. Is that the rate on that portion of the loan which has to come to the colony?—It is.

35. Is it not a fact that Provincial Governments have been able to get better banking terms than the General Government?—There has been one notable instance lately in which a bank competing for the Provincial Government account of Hawke's Bay gave an extreme rate.

36. *Sir F. D. Bell.*] What rate?—Seven per cent. on the daily balances of the account. Of course it is open to individual interpretation what the reason was, but if the Committee would like me to give my own opinion, I will do so.

37. *Mr. Pearce.*] Speaking generally, do not the Provincial Governments get their business done on better terms than the General Government?—They do not, generally.

38. You stated, in answer to Mr. Johnston, that in your opinion the Victorian loan was at a disadvantage by the banking account being in an association. You gave no reason for that. Have you any reasons to offer?—I have no reason beyond the results at that period. The Victorian loan seemed to be at a disadvantage as compared with other loans.

39. Was not that loan, which was 4 per cent., negotiated at £90 10s.?—I can only judge by what I saw in the papers, and that was that it was taken at 88 $\frac{1}{2}$ . They took it at the minimum price of 90, less accrued interest—and the interest was at least 1 $\frac{3}{4}$ —so that the price would be 88 $\frac{1}{2}$ .

40. Is it not likely that, if the Government made a demand on the Bank for a large advance, that it would materially interfere with commercial advances made under ordinary circumstances for the necessities of commerce?—It altogether depends upon the amount.

41. Was it not the fact that the Bank of New Zealand, prior to the floating of the loan, did bring pressure upon their ordinary customers—that is to say, did not afford the same facilities as they were prepared to do after the floating of the loan?—Certainly not.

42. The same facilities were afforded before as after?—Certainly. Of course there are individual cases in which pressure was brought to bear, but the reasons in these cases had no reference to the position of the Government and the Bank. Cases are constantly occurring such as I have mentioned, but beyond these no pressure that I am aware of was put upon the customers of the Bank of New Zealand.

43. If it is the general impression that it was so, it is an erroneous impression?—Certainly.

44. You are not aware that any of the managers stated that as a reason for withholding accommodation that would have been given under ordinary circumstances?—I am not aware of it.

45. *Hon. E. W. Stafford.*] At the time of floating the Four Million Loan, had the Bank made any large advance to the Government beyond the £250,000, which was stated in the Financial Statement to have been secured on special bonds?—Without referring to the books of the Bank, I am scarcely in a position to answer. My impression is that one or two drafts on the Loan Agents were negotiated before the negotiation of the loan. These might be to the amount of £200,000 or £300,000. That is my impression only; I cannot state it as a fact.

46. In answer to a question from Mr. Johnston, you stated, as your opinion, that the Government of Victoria suffered from keeping its account with the Associated Banks; will you give your reason why you think so. I am not now referring to the question of the loan, but generally?—There may be a combination amongst the banks to refuse any application made by the Government, which one bank would not feel justified in resisting.

47. Because, if it resisted, the Government would go to the other banks?—Quite so. An association of banks, I should imagine, must lead to a very great increase in the trouble of keeping the accounts, and, therefore, an increase of expense to the Government. Mr. D. L. Murdoch.

48. You are not aware, of your own knowledge, that it has led to an increase?—I am aware that the Bank of New Zealand acts throughout the colony as paymaster for the Government, which the Association of Banks in Victoria does not. 24th Aug., 1875.

49. Without charge?—Yes, without charge. In Victoria it costs between £15,000 and £16,000 in salaries alone in connection with country Paymasters, and, allowing for premises and rent, not less than £20,000, the whole of which is done here by the Bank of New Zealand.

50. Then cheques are drawn from the Treasury upon the local banks?—Yes, they are transmitted for payment, and receipts are taken at the banks.

51. *Mr. Johnston.*] You stated that under your interpretation of the agreement existing, the Government was bound to place in the hands of the Bank of New Zealand whatever money it might have to deposit?—Yes.

52. Does not the agreement also compel the Bank to give the Government the rate of interest mentioned in the agreement for the deposits?—Certainly.

53. Because I notice that the Government deposit of the two million and a half does not get the rate mentioned in the agreement?—It gets a better rate— $\frac{1}{4}$  per cent. better. It is  $\frac{3}{4}$  below the Bank of England rate, instead of 1 per cent.

54. *Mr. Pearce.*] Was there any understanding between the Government and the Bank that any large part of the loan should remain in London, or should be brought to the colony for the ordinary uses of the Bank?—The understanding between the Bank and Sir Julius Vogel was that the loan should only be drawn from the Bank in discharge of the liabilities for which the loan is raised.

55. The question is this: May the Bank, of its own motion, bring out a portion of these funds to the colony if it thinks proper to do so?—Certainly not; it must be ready to meet the demands of the Government in London.

56. But by the agreement the Government gets a larger rate of interest in the colony than in London. May the Bank, by its own motion, bring the moneys belonging to the Government to the colony, or must it retain the money in London till drawn for by the Colonial Treasurer here?—The Bank must be prepared to meet the demands of the Government in London. They could not bring the money out for use here. The Colonial Treasurer is negotiating bills to a considerable amount against the loan in London already; the sum approaches a million.

57. Might he draw the whole of the money to the colony, and get the colonial rate?—I do not think that would be in the spirit of the agreement with the Bank. The letter between the Bank and Sir Julius Vogel is printed, in connection with the correspondence connected with the Four Million Loan, and, according to the spirit of that letter, I should say that it would not be in accordance with the agreement if the whole amount, or any large portion not required here for the discharge of liabilities, was drawn from London.

58. At all events, there is never at the same time an overdraft here and a large deposit in London?—I am not aware of any instance. There is practically an overdraft now in the colony, but not bearing interest.

59. That is another divergence from the agreement?—I have mentioned that there was a special arrangement. We have never exacted terms worse than the agreement, but they have always been more favourable to the Government.

60. Am I right in understanding you that the Government receive  $\frac{3}{4}$  less than the Bank of England rate for money, while at the same time they have an overdraft here?—They do not pay for the overdraft here.

61. But instead of having that overdraft of £200,000 or £300,000, they might be receiving colonial rates?—I should fancy not, according to the Audit Act. The Treasurer, no doubt, can explain that better than I can.

62. *Mr. Pearce.*] When the Bank gets such a sum as £2,600,000, the lender may reasonably say what are you going to do with this? He ought to know for the safety of the money itself how it is invested—whether it is employed in consols or invested in Lombard Street?—It is invested by lending it for short periods on ample securities in Lombard Street.

63. *Hon. W. Fitzherbert.*] Is there any possibility of risk to the lenders in such transactions?—The transactions of the Bank in Lombard Street are amply secured, and there is no risk, unless in such a contingency as would make English consols and other funded securities totally unsaleable.

64. I am supposing such a case. Would there not have been a diminution of risk in such a case, supposing the money had been placed in associated banks?—I can scarcely imagine such circumstances as would warrant me in saying there would be greater safety.

65. Supposing you did imagine them, how would it be?—Well, under such circumstances, I apprehend the condition of the country would be such that the Government would not be in a safe position even in the hands of associated banks, if there was a total stoppage of credit.

66. May I suppose you consider it a matter of indifference as to the resources of any bank with whom large deposits are made?—Certainly not.

67. Well then, am I to consider that there is no additional advantage in having a greater number—a greater distribution of investments?—There is no doubt that if money is divided among a number of banks any risk which may attach to the deposit is diminished.

[General terms of the banking arrangement of the Government, presented to both Houses in Appendix No. 1. 1873, read to witness.]

68. What do you understand by the term “balances” there?—All funds belonging to the Government.

69. Do you understand that, in placing on the market four millions, of which you endeavour to get the proceeds as rapidly as possible, these general provisions prevent the Government from exercising its discretion in the interest of the colony in the investment of the money?—May I ask what you mean by investment?

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70. Supposing it would have been of advantage to have purchased Exchequer bills as the proceeds came in from the sale of the loan, would it have been competent for the Colonial Treasurer to have invested in Exchequer bills?—Under the strict interpretation of the agreement I do not think such an application of Government funds could have been made without the Bank being a consenting party. I feel sure, however, that if it had been advantageous to put a portion of the money into Exchequer bonds or other securities, the Bank would have been a consenting party to it.

71. Do you consider, then, that the terms of this agreement prevent the Colonial Treasurer from consulting the interest of the colony except by permission of the Bank?—I should not like to put it in these words. Any funds belonging to the Government, under the existing agreement, we understand are to be lodged with the Bank.

72. What do you understand by balances to be kept there? Is the Government by these regulations prevented, if they should think proper, from investing in Exchequer bills? I understand you to reply that you think so, except with the consent of the Bank. I put it in another shape: Must the Colonial Treasurer ask for leave before he makes an investment which he thinks advantageous. (Letter from Mr. Larkworthy read to witness, of date 30th March, 1875, included in printed papers.)—I do not think the Bank would put an interpretation on that condition which would prevent a special investment of a particular portion of the loan.

Appendix I.

73. I want to know what it means without reference to permission. Supposing the Government and the Bank to be at issue under this agreement, would you say that the Government had broken the agreement in not depositing the money? Would it not have been competent for the Government to have invested the proceeds of the four millions in Exchequer bills?—I think it would.

74. Would it not have been competent for the Government, in view of an approaching transaction of the magnitude of four millions, to have given notice to the Bank of six months, as required by the last general provision?—Certainly.

75. Supposing that to have been done, would not the door then have been open to make any special arrangement with reference to large transactions?—It would have been quite competent to do so.

76. May I ask what is the largest overdraft, taking the total aggregate at London and here, of the Government this year? In other words, what is the largest amount of the overdraft of the colony here and in England during this year?—I could not answer without reference to the books of the Bank.

77. Mr. Johnston.] Is the disability of the Government to bring the proceeds of the Four Million Loan to the colony caused by the general agreement, or by the agreement made by Sir Julius Vogel?—Under that made by Sir Julius Vogel.

78. Sir F. D. Bell.] By the special arrangement do you refer to the arrangement which is printed in the papers connected with the Four Million Loan?—Yes.

WEDNESDAY, 25TH AUGUST, 1875.

Mr. D. L. MURDOCH, Inspector of the Bank of New Zealand: Examination continued.

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79. The Chairman.] You were to supply the Committee with the largest amount of overdraft. Have you been able to ascertain it?—Yes, but it depends on what view the Committee will take of an advance against debentures. Whether they consider such an advance as an overdraft.

80. They do.—I understand, also, that they wish to know the difference between the amount so advanced and the amount of the credit balance.

81. Yes.—The difference between these two amounts would be, in round numbers, £30,000 during the last twelve months.

82. I thought there was one overdraft of £250,000 secured on debentures?—That is against a credit balance of the same amount.

83. Sir F. D. Bell.] I understood you, in your last answers to Mr. Fitzherbert, yesterday, to qualify the answer you had previously made with respect to the duty of the Government to keep all balances of every account at the Bank; and that, in your opinion, it would have been competent for the Government to have invested a part of the Four Million Loan which they raised in Exchequer bills, without interfering with the existing arrangements with the Bank?—Yes.

84. In point of fact, then, at the time the Loan Agents were negotiating that loan, they had the power, without interfering inequitably with the Bank, to have dealt with the Four Million Loan irrespectively of the general terms of the agreement printed in the papers laid before the Committee?—They had.

85. I understood you also to say that while, on the one hand, it would not be equitable for the Government to have withdrawn any large portion of the money raised in the loan from London, and transfer it to New Zealand in order to get any additional interest, it was, on the other hand, not competent for the Bank to bring out any part of that money in London, for any object, to the Bank in New Zealand. Am I right?—Only partially. I apprehend that, if the Bank decided to bring out any portion of the loan for use in the colony, it would be quite competent to do so; but I cannot imagine that any bank would be so foolish as to adopt such a course. The money must be held at the disposal of the Government at very short notice, and to put it into commercial transactions in the colony would put it out of the power of a bank to meet the demand that might at any moment be made upon it.

86. If that is the case, what was the object of the demand which the Bank made in London, that a million and a half should be fixed for twelve months? I cannot see what object Sir Julius Vogel could have had—so far as the transactions with the Bank are concerned—in undertaking that the average balances during the ensuing year, from April 1875, would certainly not be less than £1,500,000 for the first six months, and £750,000 afterwards?—I certainly cannot explain motives, but I apprehend that the view the Bank took of it was that if they could reckon on having this money on deposit

for twelve months, they could make more profit on it in London than if it was to be on demand from day to day.

87. However, the effect of leaving so large a sum as a million and a half for six months, and three-quarters of a million for the remainder of the term, was to place the Bank in a powerful position in Lombard Street, seeing that that condition itself showed that the Government would not require the money to be held for immediate pressing demands upon the Bank in London?—Undoubtedly.

88. In consideration of the powerful position in which the Bank was placed in Lombard Street, would it not have been quite reasonable to have demanded a higher sum than the  $\frac{1}{4}$  per cent. concession which the Bank made in ordinary cases; and do you think the Bank would probably have yielded further if the Government had demanded it?—I think any further concession would have involved a loss to the Bank, and I do not think that the more powerful position which the Bank might have been placed in in Lombard Street has added materially to the profits of the Bank. The Bank would derive no profit from the greater power that the deposit gave them.

89. Is that because the Bank does no banking business in London, but confines itself to New Zealand?—The Bank does not lay itself out for current accounts and other business in London; its chief business is dealing in exchanges with New Zealand.

90. Of course I am using the word "powerful" with reference to New Zealand amounts, and not with reference to London amounts. Did not the fact that the Bank possessed that amount render the exchange business with New Zealand to be largely extended?—Certainly not; it might have done so if we had chosen to use the Government moneys. In reply to a question put to me yesterday, I said that the balance of the Government money in London was only used in Lombard Street.

91. *Mr. J. Shephard.*] There has been a good deal said outside about the Bank being the holder of such a large amount of Government money. What would be the position of the colony as the creditor of any bank—I do not refer especially to the Bank of New Zealand—if, as Mr. Fitzherbert put it, the worst were to happen?—The shareholders in the Bank are liable for an amount equal to their holdings.

92. But I mean as compared with other creditors. Would it be a preferential claim as a Crown debt?—I think not.

93. Is it not a Crown debt?—Being Government money it would appear to be a Crown debt; but whether it would take precedence or not, I have not had experience to say.

94. *Mr. Pearce.*] The securities held by the Bank in Lombard Street are in no way tacked on specially to the loan, that is, held by the Bank as security to the Government?—In no way.

95. And with regard to the £1,500,000, there was no stipulation that it should be invested in any particular way?—An offer of that kind was made by the Bank, but Sir Julius Vogel declined it.

96. As the arrangement was eventually carried out, there was no stipulation as to how the Bank should invest the money?—No; Mr. Larkworthy, of London, in writing to Sir J. Vogel, pointed out how the money would be used.

97. *Sir F. D. Bell.*] Is the Committee to understand that you do not consider that the three alternative propositions made by the Bank implied the obligation of the Bank, if they received that money, to use it in Lombard Street? Was not that the spirit of the offer?—I hardly understand the question.

98. I wish to know whether the spirit of that offer was not really that the money should be placed in Lombard Street, and not left floating in the Bank?—I do not think there was any stipulation to that effect.

99. You think the Bank was quite free?—Yes.

100. If that was the case, would not that have been rather an insecure position for the Government to hold in your opinion? I will not press the question if you do not wish to answer it.—I do not think so.

101. *The Chairman.*] Do you know anything of the banking arrangements of the Governments of the other colonies with the banks with which they do business?—I do, as regards the Governments of Victoria and New South Wales.

102. Will you state them?—Yes. The arrangement with the Associated Banks of Victoria was made some fifteen years ago, and is in existence now. That arrangement was that the daily balances unexpended of any railway loan—which should be regarded in a manner as a fixed deposit—should bear interest at the rate of 4 per cent.; the balance of Public Account, 3 per cent.; and the departmental revenue accounts, 3 per cent. The exchange on London for interest on railway loan, which is all remitted through the Banks, was  $\frac{1}{2}$  per cent. under the current rates for sixty days' bills. The agreement does not show any rate for advances, and there was apparently no intention on the part of the Government of Victoria to be borrowers from the Banks. Therefore, any arrangements for advances would have to be made afterwards. In New South Wales, the existing arrangement was made in 1873. I have not access to the agreement which previously existed, but at all events it was renewed in 1873, and the interest allowed on the credit balances of the Government up to £150,000 was 3 per cent.; the interest then ceased until the balance rose above £200,000. There was a margin of £50,000 allowed to the Bank, on which they paid no interest. After the balance got above £200,000, there was a special arrangement by which interest was allowed at the rate of  $2\frac{1}{2}$  per cent. up to a further sum of £350,000, with the condition that any reduction in that amount should be a reduction of £50,000. That is to say, if the Government chose to withdraw £10, it would be looked upon, in calculating interest, as a reduction of the original amount by £50,000. There was an additional stipulation on the part of the Bank that fourteen days' notice should be given before £50,000 could be drawn, and one month's notice before £100,000 could be drawn, and that, from the date of such notice, interest would cease on any sum that was so required. On the 10th July, 1874, there was a further agreement made that interest, beyond the £200,000 originally provided for, up to a sum of £680,000, should be  $3\frac{1}{2}$  per cent. on £550,000, and 4 per cent. on the remainder; any reduction to be a reduction of £50,000, and notice of fourteen days and a month to be given as in the previous case. Over and above this sum of £680,000, the Bank of New South Wales had the use,

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*Mr. D. L. Murdoch.* during eleven months, of an average balance of £300,000 for which they paid no interest; and moreover, they had very considerable sums in London on which they allowed interest at the rate of 1 per cent. below the Bank of England rate.

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103. *The Hon. Mr. Stafford.*] I believe you have got the report of the Committee that lately sat in New South Wales, and in which, I think, these terms are incorporated?—I have.

104. Have you any objection to hand that in to the Committee for their information and guidance?—None whatever. [Witness handed the report to the Chairman.]

Appendix 3.

105. *Sir F. D. Bell.*] The statement you have just made tends to show that the terms which the Bank of New Zealand gives to the Government of this colony are far more favourable than the terms which the Governments of Victoria and New South Wales receive?—Very much so. The banks in Victoria, as I stated yesterday, do not perform for the Government of Victoria the service which the Bank of New Zealand performs for the Government here. In fact, the Government of Victoria incur a cost of about £20,000 a year on Paymasters, &c., and the Bank of New Zealand saves this Government the money they would have to expend on such officers. In New South Wales I believe the same system prevails. From my recollection while an officer of the Bank of New South Wales, I do not think that the country accounts of the Government were kept in the Bank. I have not been able to lay my hands on the documents showing the payments to these Paymasters. There may have been some arrangement come to by which the Bank of New South Wales does the work of the Government. My belief is that the system of Paymasters does exist, but their salaries are put in the estimates under another name. A great deal of the work of the Government has been thrown on the Bank of New Zealand during the last three years. I suppose this is owing to the abolition of the paymaster-system. We were asked to undertake the duty, and we did so.

106. *Mr. J. Shephard.*] Taking the receipts you mentioned yesterday was simply getting people to sign cheques?—Yes, and identifying them.

107. Assuming that a payment has to be made at some distance from the seat of Government at Wellington, at a place where there is a branch of the Bank, does the Treasurer's cheque take the form of a cheque upon that branch, or a cheque upon the Government account at Wellington?—Money is remitted to meet the cheque at the place where the money is payable.

108. It is a cheque on the branch?—Yes.

109. It is for the bank to make the payment?—Yes.

110. *The Hon. E. W. Stafford.*] Supposing a payment has to be made, say at Invercargill, the Government have to pay the money into the Bank here, and ask the Bank to pay it at Invercargill. At any rate, the Government does not buy a draft, but simply informs the Bank that the payment has to be made?—Yes.

111. They leave the Bank to find the means?—Yes.

112. *Mr. J. Shephard.*] A great deal of trouble is given to the Bank by that arrangement, but naturally you will see that the whole of the salaries of the Paymasters are not saved to the Government, because it must lead to a considerable amount of work here that was previously done by the Paymasters?—A large portion of it is saved.

#### THURSDAY, 26TH AUGUST, 1875.

*Mr. Bridges.* Mr. BRIDGES, Director, and Acting General Manager of the National Bank of New Zealand, examined.  
6th Aug., 1875.

113. *The Chairman.*] You are the Chief Officer of the National Bank?—I am a Director of the National Bank, but at present am performing the duties of the General Manager. I represent the Bank in the colony.

114. I believe you were formerly Manager of the Bank of New Zealand here?—I was.

115. And you are consequently acquainted with the banking arrangements between the Government and the Bank of New Zealand?—Yes; up to the time I left in January, 1873.

116. At that time were you aware of the arrangements that have been embodied in the return placed before the House?—The agreement was made in August, 1873.

Appendix No. 1.

[The Chairman here handed witness the return, and requested him to read it.]

117. I think there is no material alteration, except that the 1 per cent. on interest in London has been reduced to  $\frac{3}{4}$  per cent. below the current Bank of England rate?—There was no arrangement previous to this.

[In reply to Mr. J. Shephard, witness stated that the reduction in the rate of interest was only of a temporary character.]

118. Looking to that agreement generally, do you consider that a fair and reasonable arrangement exists between the Bank of New Zealand and the Government?—No; certainly not.

119. In what way do you think it is not so? What are the points?—There are two important omissions. One is as to the transmission of money from London to the colony. The present arrangement is a most unfair one. By it drafts are purchased here at  $\frac{1}{3}$  per cent. discount for sixty days' bills.

120. Do you think that an unfair arrangement?—Yes; any bank would deal more favourably.

121. What terms do you think any other bank would give?—At present, in London, the ordinary banking rate for the sale of drafts on the colony—which amounts to the same thing—is 60 days' sight at par, and on demand  $1\frac{1}{2}$  per cent. premium. The money would be paid here on demand at par; and if at 60 days' sight, the Government would obtain  $1\frac{1}{2}$  per cent. premium. Of course they would lose the interest for the time, but that would not be an equivalent. The  $2\frac{3}{4}$  per cent. interest is not so good as the  $1\frac{1}{2}$  per cent. premium for 60 days.

122. Is there any other point in that arrangement which you think is not as fair as it might be?—I do not think it was so intended by this agreement. All moneys received in London are paid into the Bank in London.

123. Do you think that under that agreement the Bank were entitled to the large amount of money they had on hand?—No; I do not think the wording of the agreement would lead any one to suppose that the Bank were entitled to receive so large a deposit.



FRIDAY, 27TH AUGUST, 1875.

Mr. D. L. MURDOCH, Inspector of the Bank of New Zealand: Examination continued.

Mr. D. L. Murdoch.

27th Aug., 1875.

124. *Mr. Murdoch.*] Before proceeding, I wish to state that I observe that, in stating the terms on which the banking business of the Government of New South Wales was transacted, I omitted to name the terms of exchange between London and the colony, and I should now like to add that information to my evidence. Funds are placed in London in one of the three undermentioned ways:—1st. By remitting sovereigns through the Bank at current rates of freight, insurance, and cost of packages. 2nd. By remitting the bills of the Bank at the exchange of the day. 3rd. By placing in the hands of the Bank, Government debentures for sale, the Bank agreeing to advance in London as the Government account may require, to the extent of 90 per cent. on the market value of such debentures; the Bank not to be required to advance at any one time on the deposit of debentures a larger sum than £350,000. The interest payable to the Government in respect of any cash balance in the hands of the Bank to be 1 per cent. below the Bank of England rate for the time being on the daily balance, and the interest payable by the Government for cash advanced by the Bank shall be 1 per cent. above the Bank of England rate, and on such advance shall never be less than 5 per cent. A commission of  $\frac{1}{2}$  per cent. shall be charged on the half-yearly payments of interest on the Public Debt, and  $\frac{1}{4}$  per cent. on the payment of the principal sum of debentures that have expired. Upon application by the Government to transfer funds from the credit of the Government account in London to the credit of the like account here, the money shall, on the day of such application, be made available in the colony, the Bank being paid upon the operation exchange at the rate for sixty days' bills on London ruling at the time of the application. But if the Bank desire a notice of the transfer, then the application, if for £100,000, shall be made available at the expiry of fourteen days from the date thereof; if for £200,000, at the expiry of one month from the date thereof; and for any sum over £200,000, at the expiry of two months from the application for such transfer. I have also to state to the Committee that I have made inquiries on the subject on which Mr. Shephard questioned me, as to the position in which the Government would stand as compared with the public in the event of the worst happening, and I find that under easy proceedings by the Crown it would have priority over any other creditor.

125. *Mr. Shephard*] And probably you might add to that—which I think would be clear—that there would be no difficulty in the process, because, as the moneys held by the Bank are not mixed up with any other account, the process could not be retarded?—No, certainly not retarded. It would be perfectly simple.

126. And this necessarily leads to a very great security to the Government in dealing with any bank?—Almost absolute security, it appears to me.

127. *The Chairman.*] The Committee requested your attendance to-day with reference to your answer to a question which I put to you in the first instance, and your subsequent answer to another question put to you by another member of the Committee. The question I put to you was, Whether, under that agreement between the Government and the Bank, you considered that you were entitled to have all the balances deposited with your Bank, and I understood you to answer, "Certainly." Subsequently—on the following day—a question was put to you by another member of the Committee to this effect: Do you consider that it would have been in contravention of that agreement if the Government, instead of depositing the balance of their loan with you, had invested it in Treasury bills or any other investment? And you were understood to say that you did not think it would be in contravention of the agreement. The Committee wish to know now whether it would have been in contravention of that agreement if the Government, instead of investing the money in Treasury bills, had deposited a portion of it with some bank other than your own?—At the time the agreement was made it was not contemplated that the Government would be so largely in credit as they are by proceeds of the Four Million Loan, and therefore I do not suppose that such a thing occurred either to the Treasurer or the Bank. Under the strict reading of the agreement I should say it would be in contravention of the agreement if such a deposit were made. But if it was the desire of the Government to fix a limit to the credit balance which the Bank should hold, I think the Bank would be willing to agree to it.

128. *The Hon. W. Fitzherbert.*] Supposing the Bank had chosen to stand on its strict rights, could it have demanded that all these sums should be placed with it, and not with any other bank?—I think I have already answered that under the strict interpretation of the agreement I do think the Bank could have done so.

129. *Mr. Shephard.*] You have already said that you thought the Government would be justified in purchasing Exchequer bills as a temporary investment with part of the money, instead of depositing it with the Bank of New Zealand?—Yes.

130. Well, if instead of doing that, they took a part of the money, not to open a new banking account, but to lend to another banker on his receipt, would that be a violation of the agreement?—I cannot see any distinction between lending money to a bank on receipt, and opening a bank account. It would certainly be a lodgment of money with the bank, and therefore a contravention of the agreement.

131. Then supposing that the Loan Agents had lent the money to some private individual, so healthy as to make it perfectly secure, would there have been any objection to that?—I do not think so.

132. Why should there be any objection to lending money to a banker then?—It is a very nice distinction, but I think that in lending to a banker the transaction partakes of the nature of a division of the Government account, which by the agreement is not permissible.

133. I do not mean putting the money into another bank as a current account, which could be operated upon from day to day, but as a loan for a term, say a six months deposit, which is actually a loan for six months?—The agreement might be interpreted in that way.

*Mr. D. L. Murdoch.*  
27th Aug., 1875.

134. The Loan Agents undoubtedly had to adhere to the agreement between the Bank and the New Zealand Government, but yet, in their letter of 20th April, 1875, they suggest placing part of the proceeds of the Four Million Loan with some of the larger joint stock banks, and they name the London and Westminster Bank?—Yes.

135. Probably they had considered this question, and arrived at the conclusion that as it was a loan it could be done. Does not that strike you as being a natural interpretation?—It would appear from that letter as if the Crown Agents and Dr. Featherston had adopted that opinion, but the subsequent letter of Mr. Hall, in the absence of Sir Julius Vogel, I think puts the matter in its proper light.

136. You will observe that Mr. Hall's letter is of two years' earlier date?—Yes, I see that; but I think it puts the correct interpretation on the agreement, and it shows that the warrant under which such a transaction would have been effected was never to be acted upon unless circumstances at any time rendered it expedient to adopt it.

137. In this particular case the Loan Agents and Dr. Featherston appear to have thought it expedient?—I presume they must have thought so.

138. *The Hon. W. Fitzherbert.*] Are the terms of the agreement for conducting the banking business between the colony and the Bank of New Zealand of that strict character that Sir Julius Vogel had no other alternative, notwithstanding his advice, than to continue to place these large sums with you?—I think that question can only be met by my former reply, that under the strictest interpretation of the agreement, except for an investment in Exchequer bills or other securities, the Bank had a perfect right to all the balances of the Government.

139. I want your opinion as to whether, under the terms of the agreement, the Colonial Treasurer had any other alternative than to disregard the wish of his coadjutors, and place the money with you? Are the terms of that strict character that there was no discretion left?—I think that if they had exercised such a discretion the Bank would have had reasonable grounds to complain.

140. In your opinion there was no other alternative than to place these funds in your Bank?—Not by strictly adhering to the agreement.

141. *Mr. Shephard.*] Under the terms of this letter written by Mr. Hall, is there still an opening for those in charge of these large funds to put the money into some other place, the reasons for doing which they are not bound to give?—Yes, under certain circumstances.

142. And for reasons they are not bound to disclose?—Yes.

143. *The Hon. W. Fitzherbert.*] I want to know what is the maximum aggregate amount of overdrafts, whether specially made, and whether secured or not secured, granted by the Bank of New Zealand to the colony (in England or the colony) during the following months:—October, November, and December, 1874; January, February, and March, 1875?—I must ask for time to obtain information from the Bank books to enable me to answer this question.

144. *The Chairman.*] With regard to the £250,000 overdraft which you told us on the day when you were last examined was against a credit of the same amount; was it against an equivalent sum of actual cash held by your Bank elsewhere, or against securities?—Against an equivalent sum in actual cash held here.

145. *Mr. Shephard.*] But in the first instance was it not an advance?—There was a previous transaction against debentures without cash being held at all. I understand that the Committee wants to know the highest total amount of actual overdraft that the Bank of New Zealand has given to the Government, without the Bank having an equivalent amount of Government money in its own hands?

146. *The Chairman.*] Yes.—Then my previous reply answers the question.

147. *Mr. Pearce.*] You are aware that the Government got an advance from the Bank of England, prior to the negotiation of the Four Million Loan, of about £600,000?—I believe they did.

148. Was that money paid into the Bank of New Zealand, and operated on by the Government in the usual way?—To the best of my belief it was.

149. Was it paid in in one or various sums?—By instalments, I believe; I cannot positively state, however.

150. It was paid in by the Government?—By the Loan Agents.

151. And that money enabled the Government to do without obtaining any heavier overdraft than £80,000 from the Bank of New Zealand?—Yes.

152. Can you give the dates when the instalments were paid in?—No doubt the transactions are fully disclosed in the Treasurer's accounts, to which access might be had.

153. *Mr. J. Shephard.*] Was this advance negotiated by the Bank of New Zealand?—No.

154. Directly by the Loan Agents?—Yes.

155. *The Chairman.*] Do you know what that advance was immediately required for?—For the ordinary requirements of the Government account, as far as I know.

156. Was it to pay liabilities which were due to the Bank of New Zealand, or to outside creditors?—Outside creditors.

157. Was it to pay Bank overdrafts?—No.

158. *Mr. Pearce.*] It was not in consequence of any refusal by the Bank of New Zealand to advance funds that they went to the Bank of England?—No.

159. *The Chairman.*] Did they get that advance from the Bank of England on better terms than they could have got it from you?—I should think so, on much better terms.

160. *The Hon. W. Fitzherbert.*] In a general way, would you consider that the Government were breaking the agreement with the Bank of New Zealand if they asked for an advance from another institution?—If we had refused them, I should think they would be justified in doing so.

161. Would you think it a departure from the agreement if a transaction for an advance of large magnitude took place between the Government and another bank?—No; because there is no provision in the agreement for advances.

162. Supposing the Government had £60,000 or £70,000 to invest, and passed by the Bank of New Zealand, and went elsewhere, without saying anything to your Bank, you would, I presume, regard it

as a breach of the agreement?—I would consider it a breach of the agreement if they withdrew money from the Bank of New Zealand and placed it in another bank, but not, as I have already said, for a special investment.

*Mr. D. L. Murdoch.*

27th Aug., 1875

163. Then am I to understand that if the £2,600,000—the proceeds of the loan—at a certain time lodged with you, had never been placed in your Bank, it would not have been a breach of the agreement if they had gone elsewhere and invested it?—No, it would not.

164. Then it was competent for the Colonial Treasurer to have taken those proceeds and invested them as might be best for the colony?—Yes, quite so.

165. I understand now the distinction that you draw to be, that the money once having been placed in your Bank, it could not be withdrawn without a breach of the agreement?—For the purpose of being placed in another bank?

166. Yes.—Exactly. I would have considered it equally a breach of the agreement if the proceeds, not having been placed in the Bank of New Zealand, had been placed in another bank.

167. Do I understand that it would not have been a breach of the agreement, in your opinion, if the money had been placed in any other bank without first coming to you; but that, if the proceeds were not taken to you, it would have been competent for the Colonial Treasurer to invest them as he pleased?—If the Colonial Treasurer had elected to make a special investment before the proceeds reached us he would have been quite justified in doing so under the agreement; but if he had made lodgments in other banks, I would have considered that the Bank of New Zealand had cause for complaint.

168. But in respect of getting advances from any other bank, your agreement was no obstacle in the way?—It was not.

169. Then, whilst the Government were bound to invest with you, they were not bound to receive advances from you?—There was no provision in the agreement for advances, beyond the general provision of the rate of interest on advances.

170. *Mr. Shephard.*] I presume that you consider there is an essential distinction between advances made on security and advances made on the general credit of the colony?—Clearly.

171. And if the Colonial Treasurer, or any one acting for him, obtained an advance from another bank on the general credit of the colony, would it not be in a certain sense a breach of faith with the colony's banker, who would thereby be prevented knowing what the actual state of affairs was?—I do not think so.

172. Take an instance: If a private individual by some means obtains money from another banker while he is in debt to his own, is it not considered unfair, as the state of his affairs is not disclosed to his own banker. It might lead his banker to make advances to him which he would not if he knew the true state of affairs?—The bank, of course, might be at a disadvantage in not knowing the transactions of the Government, but I cannot see that such a transaction as you have mentioned could in any way be regarded as a breach of agreement.

173. It would not be a breach of the agreement, but it would be contrary to the spirit of the agreement.—Yes.

174. Whereas obtaining money on actual security has nothing to do with it?—Nothing whatever.

175. *Mr. Johnston.*] If I understand you, according to the agreement the Bank is not bound to furnish the Government with any accommodation at all?—Not bound to do it.

176. There is, in point of fact, no obligation of that sort?—None whatever.

177. The Government are bound to place all this money with you, but, on the other hand, you are not bound to give any money to the Government?—We are not.

178. *Mr. Curtis.*] Is that the customary character of arrangements between Governments and banks? For instance: You quoted the arrangements between the Government of New South Wales and the Bank of New South Wales, and also between the Associated Banks of Victoria and the Victorian Government. Are the arrangements in those places of the same character with respect to advances as the arrangement between this Government and your Bank?—There is no provision for advances between the Associated Banks and the Government of Victoria. In New South Wales there appears to be an arrangement for advances against debentures to be transmitted to London for sale to the amount of £350,000. This is security for advances to be made in the colony, but there is no provision for a simple overdraft.

WEDNESDAY, 1ST SEPTEMBER, 1875.

The Hon. Major ATKINSON, *Colonial Treasurer*, examined.

*Hon. Major Atkinson.*

179. *The Chairman.*] You are aware of the banking arrangements existing between the Government and the Bank of New Zealand?—I am.

180. Do you consider those arrangements fair and reasonable between the two parties?—I do.

181. How have you found the Bank in practice to carry them out—in a liberal spirit towards you, or have they endeavoured to exact the last farthing?—In quite a liberal spirit, as far as my experience goes.

182. With regard to exchange, the terms have always been, I suppose, below the ordinary rate of exchange? When the exchange has been high, I mean, they have never attempted to exact terms outside the limits of the agreement?—Never, as far as I know.

183. They have never attempted, under the excuse that high rates were ruling, to set aside any portion of the agreement temporarily?—Never, as far as I am aware.

184. With regard to overdrafts and advances, have you found them meet the views of the Government when you wanted such accommodation?—Yes, always.

185. What is the extent of the unsecured advances they have made; I mean ordinary overdrafts?—We have not required any lately.

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186. Within the current year?—I do not think we have required them at all, because we have either drawn on the Crown Agents, or—

187. Mr. Murdoch has said that £30,000 was the highest amount?—I think that was about the amount. Expecting the loan to be raised, and having £800,000 guaranteed debentures in England, we did not think it necessary to arrange for an overdraft. The Bank was always ready to purchase bills.

188. The £800,000 was hypothecated to the Bank of England?—Yes.

189. What was that for?—To meet the expenditure till the loan was raised.

190. Not to pay off anything due to the Bank of New Zealand?—Not as far as I know. I have not examined carefully into that, because I was not Treasurer.

191. The object was to pay the outside creditor?—Yes, and to carry on the Government.

192. Can you tell us how this advance from the Bank of England was made; whether in one sum of £660,000, or in various sums on various dates?—In various sums I think, but I will get particulars for the Committee.

193. What was done with the money when it was received? Was it paid at once to the outside creditor directly, or did it go through the Bank of New Zealand?—I should think it went through the Bank of New Zealand, but I can ascertain definitely. That would be the regular course of business.

194. Then with regard to the large sum of a million and a half, on account of the Four Million Loan, that has been paid into the Bank of New Zealand. In your opinion ought it to have been so paid, according to the strict letter of the agreement?—There has been no such sum as a million and a half. The whole proceeds of the loan were paid in.

195. There was a million and a half which was to remain there for a certain period?—£3,300,000 has been paid in.

196. That has been paid in and out again?—Yes.

Appendix No. 2.

197. Sir Julius Vogel says, in his letter of the 7th April, 1875, to the Manager of the Bank of New Zealand, in reference to the third proposition, "I cannot undertake positively to fix with your Bank £1,500,000 for six and twelve months as proposed; but the proceeds of the loan will only be withdrawn from you to meet the purposes for which the loan is applicable, and your average balance during the next ensuing year will certainly be not less than that which your letter points to, namely £1,500,000 during the first six months, and half that amount during the next six months." You think the strict letter of the agreement requires that to be done?—No, I do not think so. I think that the spirit of the agreement was that the whole of the moneys available belonging to the Government in England should be paid into the Bank of New Zealand, either in London or here, always supposing that in London it was considered a safe transaction, and that the Bank was prepared to pay as much interest as we could get anywhere else.

198. Then am I to understand that you think an arrangement of this kind, under all the circumstances of the case, would be better for the country than if the Government had invested the money in Exchequer bills or any other security?—I am not in a position to state that; it is a matter for calculation. I should take it for granted that Sir Julius Vogel would not have done that unless he was satisfied that he was obtaining more for the colony in that way than he could in any other.

199. *Hon. E. W. Stafford.*] I think I understand you to say that the sum of £3,300,000 has been paid in?—Yes.

200. Are you aware what was the amount of Exchequer bills issued out last year?—I am not.

201. Are you aware they were limited to three millions?—I am not aware of that.

202. *Mr. Pearce.*] What interest did the Bank of England charge the Government for their advance?—

*(Hon. Major Atkinson asked for time to supply answer.)*

203. Do you suppose that the Government got any advantage by taking the money from the Bank of England, instead of their own bankers?—I should suppose the Crown Agents, having made the transaction, would have made it in the most profitable way for the colony.

204. Then it was the Crown Agents who arranged for the advance from the Bank of England?—The Crown Agents would provide the funds.

205. It was through no action of the Government?—The whole proceedings, as I understand, were transacted through the Crown Agents.

206. I want to know what advantage the Government got by pledging their securities to the Bank of England, instead of going to their own bankers?

*(Hon. Major Atkinson was allowed time to supply answer.)*

207. Can you state any reason why the Colonial Treasurer should have engaged to leave a million and a half in the Bank of New Zealand as a fixed deposit?—I suppose—but of course it is only my opinion—that the then Treasurer thought he would by that means obtain more interest for the colony.

208. *Mr. J. Shephard.*] But he does not pledge himself to leave a particular sum?—No, he only agrees not to take it away subject to certain conditions.

209. He declined distinctly to make a fixed deposit for a certain time?—Yes; he states positively that he does not pledge himself to leave that amount.

210. *Mr. Pearce.*] Then, as a matter of fact, the Bank of New Zealand will not have a million and a half for six months, and £750,000 for the same period?—I should think not. Of course it is rather difficult to state absolutely, for this reason: that there are large contracts on account of public works, for rails and rolling-stock, which will probably have to be paid for during this month or next in England, and they will amount to at least £250,000; and there was a balance in the Bank, according to our last accounts, of a little over two millions—the exact amount is £2,013,000. At the present time we have drawn against that to the amount of £1,050,000. There are also bills which we have cashed with the Bank here against the two millions—bills which have already been purchased by the Bank here.

211. That is to say, you have brought a million of it to the colony?—Yes, more than that, because a considerable part of the £660,000, for which we hypothecated the debentures, was brought here.

212. No portion of this million you speak of was for payment in London?—No; for bills drawn here for payment in the colony. And we shall have to continue for some months longer drawing at the rate of from £150,000 to £200,000 a month.

213. For cash payments within the colony?—Yes.

214. At what rate of exchange did you get the bills?—One-eighth discount.

215. For a sixty days' draft?—Yes. The money is placed to our credit on the day that the mail leaves here. We usually give the bill the day before.

216. Do you not think there ought to be some reciprocity between the Government and its banker, so that the Bank should be bound to make advances to the Government, if necessary, at a fixed rate?—Yes, I think there would be no harm in that, certainly; but I presume that, if the Bank did come to some arrangement, it would take it out of the Government in some other form. I mean that, if the present arrangements are fair all round, if we demanded an extraordinary concession from them, we should have to pay for it in some other way.

217. At present there is no arrangement with the Bank for overdrafts—that is to say, the Bank is not compelled to give an overdraft to the Government?—No; except this: that the Government, keeping their account there, have a great pull on the Bank, because they can say, "We will take away our account if you do not treat us fairly."

218. *The Chairman.*] But not without giving six months' notice?—No.

219. *Mr. Pearce.*] Do you not think six months too long to require to cancel the agreement?—Well, I should not have thought so; but if the Government had not found, after the experience of a good many years, that the whole thing had worked satisfactorily, I should have been inclined to say it was too long. No difficulty has yet arisen.

220. *The Chairman.*] Would not such an arrangement as that enable the Bank, if it chose, to embarrass the Government in this way: Supposing you wanted an advance for a particular purpose, and the Bank refused this advance, you, having to give six months' notice of the termination of the agreement, would not be able to go to any other bank, and you might be placed in great difficulty through the Bank not giving you an overdraft which you might want for a particular purpose?—That is possible, but I do not think it is probable, because the Government account is too valuable for the Bank to run the risk of losing it.

221. Supposing that the Bank, instead of being a financial institution, only turned itself into a political institution, it might materially interfere with a Government that it did not happen to like?—I do not think so. I have no doubt that another bank under these circumstances would immediately advance what was wanted.

222. But that would be contrary to the agreement? You could not take away the account?—You could not take away the account, but you could certainly obtain the advance.

223. *Hon. E. W. Stafford.*] If the Bank refused to do a certain branch of business, you could legitimately go to another bank?—Yes.

224. *Mr. Pearce.*] Supposing that the Bank of New Zealand refused to give the Government an overdraft of £100,000, and the Government went to another bank and asked for an advance of £100,000, would you not under the agreement be obliged to pay that £100,000 into the Bank of New Zealand?—Well, that is really a question for the lawyers. For my own part, I should not pay it in. I would take the risk, and ask the House to back me up.

225. But within the strict agreement you would be obliged to pay that money into the Bank of New Zealand?—I should say not. I should say the agreement was broken if reasonable accommodation was not given to the Government.

226. In what way would the agreement be broken if the Bank is under no obligation to give advances?—I take it that the Bank is under an implied obligation. The original agreement has been varied from time to time to a very large extent, and a great deal now is no doubt a matter of understanding.

227. Is there any understanding that the Government shall have advances if necessary?—I cannot say what the Bank understands, but if the Government wanted an advance, I should expect the Bank to make it.

228. But there being nothing in the agreement absolutely binding the Bank to give accommodation to the Government if necessary, would it not be well to make the notice for the cancelling of the agreement between the Government and the Bank shorter?—Perhaps it might; but, as I have said, the experience of a considerable number of years has shown that the Bank has always been prepared to meet the Government in a liberal spirit.

229. *Hon. E. W. Stafford.*] As a matter of fact, has the Government ever asked the Bank for an overdraft and been refused?—Never to my knowledge.

230. You have only been acting as Treasurer for a short time?—Yes, only for a short time.

231. The Bank of New Zealand was not, to your knowledge, asked to make this advance which the Bank of England made?—

232. *Mr. Johnston.*] Can you say on what date the warrants to borrow the £660,000 on the imperially indorsed debentures were sent to the Crown Agents?—

*(The Hon. Major Atkinson asked for time to supply answers to both questions.)*

233. I suppose the Crown Agents have sent out to the Government from time to time very full reports of their negotiations with respect to the raising of the Four Million Loan?—Yes.

234. Did they give any reason for calling up the whole of the loan in such a short time?—The only reason they gave was that the Treasurer (Sir J. Vogel) told them the colony required it; at least that is as far as I know.

235. Does it not seem that a larger price would have been obtained had the time for payment been extended over a longer period?—Of course I am not sufficiently acquainted with the ins and outs of the London money market to know that, but I understand that the best loans are never put on the market in that way.

Hon. Major  
Atkinson.

1st Sept., 1875.

236. As a matter of fact the buyers were asked to pay up the whole of the price of the loans within a very short time. Would it not seem that if they had had a longer time given to them they would have paid a better price?—It is possible, but I could not say it was from my own knowledge. I take it for granted that Sir Julius Vogel obtained the most favourable terms that he could.

237. Then, after the Crown Agents had decided that the money should be paid in this way, in instalments, do you know for what reason the Government offered a rebate of 5 per cent. to anybody who paid up sooner?—No; that was an arrangement between Sir Julius Vogel, the Crown Agents, and the firm that took up the loan.

238. But are not these matters on which the Crown Agents reported to the Government?—Yes, but they have not reported specially on that. These are details which the Government, being represented by the Premier and Crown Agents, would leave to them.

239. Do you not think it an extraordinary thing that the Crown Agents should offer a rebate of 5 per cent. merely that they might get the money to invest at  $2\frac{3}{4}$  per cent.?—I should think they had some other object quite distinct from that. Of course it would be strange if they did it for that object.

240. The Government have no knowledge of the reasons why the Crown Agents offered this rebate?—No.

241. It was not a necessity of the Government requirements that a liberal discount should be allowed in order that the money should be obtained by the Government at once, and paid into the Bank of New Zealand?—No, certainly not.

242. It would have been a better thing for the colony if the buyers had paid their instalments from time to time, rather than that the Government should get the money and lend it out at  $3\frac{3}{4}$  per cent.?—Apparently it would, but I repeat that I believe the terms of the loan were arranged with the view of obtaining the best terms for the colony.

243. After a loan is sold at a certain price on deferred payment, does it not seem that a loss has been sustained by the Government in consequence of offering a bonus to anybody who would make his payments at once?—Yes, but I presume that all these arrangements are part of the inducements to persons buying the loan. A buyer gets the loan practically at a less price by getting this discount, and I suppose that would be taken into consideration.

244. *Hon. E. W. Stafford.*] In fact the Government had no option?—No, it was part of the agreement.

245. *Mr. Johnston.*] Then, the money having been raised, do you concur in the opinion expressed by Sir Julius Vogel in London, that the Government were bound, under the agreement, to pay the whole proceeds of the loan into the Bank of New Zealand?—I do not think that strictly they were.

Appendix, No. 2.

246. Sir Julius Vogel, in one of his letters, says that if he did not do that, the Bank of New Zealand would have a claim against the Government for a breach of agreement?—I take it that the understanding with the Government was that the money was to be paid into the Bank of New Zealand, with these two conditions, viz. that it was safe to do so, and that the Bank gave as much interest as could be obtained from any other Bank. It is clear to my mind that the Crown Agents had authority to place the money in any bank they thought proper, but the Bank of New Zealand had the first claim, supposing it was safe to place it with them, and that they gave as much interest for it as could be got elsewhere.

Appendix, No. 2.

247. Is not it a fact that three out of the four Crown Agents thought it was not safe, and that they considered the money should be placed with the various banks; and that this opinion of theirs was overruled by the Government?—Yes, judging by the correspondence.

248. But, in your opinion, Sir Julius Vogel, in so overruling that opinion, acted under a wrong impression?—No; the Government have the power to direct the money to be placed as they think proper.

249. Then it was a voluntary action on the part of the Government?—Yes, as represented by Sir Julius Vogel. Sir Julius Vogel assumed the authority of the Government to direct how this money was to be disposed of.

250. In opposition to the opinion of the Crown Agents?—Well, partly; but he pointed out to the Crown Agents that if the Bank of New Zealand failed to comply with the conditions I have named, it could be removed.

Appendix, No. 2.

251. Sir Julius Vogel, in carrying out his duty as Colonial Treasurer, having taken the opinion of the Crown Agents with regard to investing three millions of money in this particular way, did he ever write specially to the Government explaining his action in the matter?—He has written the letters which are printed in the correspondence, and of course we have had several private letters from him. I may state that the Government were of opinion—and, indeed, are of opinion—that it would have been better to have left the whole arrangement to the Crown Agents.

252. *Sir F. D. Bell.*] Has your attention been called to the apparent difference between the statement made by Sir J. Vogel and the statement made by the Crown Agents as to the necessity of raising the whole Four Million Loan firm, and do you think that the papers disclose such a difference of opinion?—There is no doubt that in these papers the Crown Agents say that Sir Julius Vogel at one time told them one thing and at another time another thing, and that Sir Julius Vogel denies it; and I may further state that I believe Sir J. Vogel's denial.

Appendix, No. 2.

253. Does the letter of March 19th, printed on page 7 of the correspondence, say that Sir J. Vogel had assured them it was essential that all the money should be raised firm, and is that letter transmitted in Sir Julius Vogel's report to the Government of March 18th, 1875.—Yes.

254. Do you observe whether, in the report of March 18th, with which Sir Julius Vogel transmitted the letter, any reference whatever is made by him to that statement.—I have not the least doubt that he stated it was desirable—and the finances of the colony show that it was desirable—to secure the whole of this money, and that he was quite prepared to accept three millions within the year, and one million at the end of the year, if necessary. That is evident by his arrangement with Rothschild.

255. In Sir Julius Vogel's letter to the Bank of New Zealand, which is printed on page 17 of the correspondence, the following passage occurs:—"Your average balance during the ensuing year will certainly be not less than that which your letter points to, namely £1,500,000 during the first six months, and £750,000 during the next six months." Does not that go far, in your opinion, to show that the necessities of the colony were not such as to require the whole four millions to be raised firm?—I am quite satisfied that the necessities of the colony did require that we should be certain of the four millions. That we did not require the whole of it during this year I have shown, but I think it would have been an exceedingly imprudent thing not to have secured with absolute certainty the four millions.

256. Do you think that the correspondence does not show that two millions might have been raised then to produce, net, about 92, and that in another eight months, by a second transaction, the other two millions might have been raised at something like the same rate?—No; I think it shows that, if a syndicate had been formed, we should not have got more than 90. In fact, my impression from the correspondence is that we should not have obtained that.

257. I request your attention then to the statement that is made by the Crown Agents at page 13 of the correspondence. They say, "That on 18th February, Sir J. Vogel said that a leading member of the Stock Exchange had told him that two millions could be placed at 92 per cent., and another two millions in about eight months afterwards similarly." Do you find that statement contradicted in any letter of Sir Julius Vogel's which is published?—Yes; I think so. Appendix No. 2.

258. Would you point out where it is contradicted?—On pages 32 and 33 of the correspondence.

259. Do you find, in any part of the correspondence, the statement made by the Crown Agents, to which I have called your attention, contradicted by Sir J. Vogel?—I cannot say that I have gone into the unfortunate squabble which occurred between the honorable gentlemen. I have looked at the main facts of the case, and I am satisfied—and that letter which I have referred to shows—that 90 was the most that could be obtained. I therefore take it for granted, that Sir Julius Vogel never made a statement to the effect that 92 could have been obtained. I should like the Committee to understand that I have not gone through these letters with the view of ascertaining all the unfortunate points of difference between these gentlemen.

260. I request your attention to page 27 of the correspondence, paragraph 8, in which Sir Julius Vogel replies to the Loan Agents. [The paragraph was read.] Is not that practically the same as the Loan Agents say in their letter, and is not the denial of Sir Julius Vogel limited to his having said that the colony was in a mess?—Not at all, in my opinion. I understand the Crown Agents carefully to avoid giving any opinion as to what could have been obtained, and we have the direct testimony of Mr. Russell and Mr. Larkworthy, after consultation with Mr. Scrivenger, to show that only 90 could have been obtained. Appendix No. 2.

261. Leaving the past transaction, and looking forward to future transactions, I wish to call your attention to the fact which was stated in the Treasurer's Financial Statement in this Session as to the unraised portions of the already authorized loans. Are you willing to indicate any opinion to the Committee as to whether the Government will consent to undertake that, when that money is raised, it shall not all be paid into the Bank of New Zealand, but that any balance over and above a fair limit for actual necessities to be provided for by the Government, shall be invested in Exchequer bills?—I am not prepared to say that I think the money should be invested in Exchequer bills, but I am prepared to say that the Government are of opinion that the investment of the money should be left to the Crown Agents, or Agents of the Colony, whoever they may be, as appointed by the Warrant of 1873.

262. Then are you willing to indicate the intention of the Government to maintain the authority of the Crown Agents under that Warrant of 1873, printed on page 18 of the correspondence?—The view of the Government is quite clear in this: that the matter should be left in the hands of the Crown Agents. The Government hold the Crown Agents responsible, and they would have left this matter in their hands. Of course, if the Committee want to know anything more respecting the views of the Government, I can consult my colleagues. I know, however, that the view of the Government is that the matter should be left to the Crown Agents. Appendix No. 2.

263. Would you object to consulting your colleagues, before the examination goes on, as to the propriety of giving, either to this Committee or to the House, any definite assurance of the views of the Government with respect to the investment of the unraised portions of the already authorized loans?—Not at all; I will be perfectly willing to do so.

264. *Mr. Curtis.*] I understand you to say you would leave the question of the investment of money to the discretion of the Crown Agents. Did you use the term "Crown Agents" advisedly, or did you mean "Loan Agents"?—I meant Loan Agents.

265. *Hon. W. Fitzherbert.*] Are you prepared to furnish particulars of the liabilities to meet which the Imperial guaranteed debentures were hypothecated to the Bank of England?—I should think there would be some difficulty about that, but I will have the matter looked into fully, and report to the Committee when next it meets.

266. Can you state to-day what remains of the proceeds of the Four Million Loan to credit?—It would be rather difficult to do that. By our last advices from home, there was £2,013,000 to our credit in the Bank of New Zealand.

267. At what date?—28th June, I think; and there is still about £300,000 to come in. Against that we have drawn—and the bills are not yet charged—in round numbers about £1,050,000. These bills are still current, and were cashed by the Bank here. And again, there is a large order for rails and rolling-stock on account of public works, for which about a quarter of a million will have to be paid in London.

268. What was the total amount received as proceeds of the loan?—In round numbers about £3,300,000, which, with £300,000 still to be received, makes a total of £3,600,000.

269. There was £2,013,000 to your credit on 28th June?—Yes, and against that we have drawn £1,050,000, and £250,000 payable in London. That makes £1,300,000, and leaves a balance of about a million.



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270. That to-day, as far as you know, would be the proceeds remaining of the Four Million Loan?—Yes, that would be about it. Perhaps hardly as favourable as that, because there would be the expenses of the Agent-General for immigration purposes.

271. It would be about a million exclusive of charges on immigration?—Yes.

272. What was the date on which the Four Million Loan negotiation was concluded?—7th April, I think.

273. From the date on which the proceeds of the loan were received by your Agents till the present time, the expenditure has left a million exclusive of liabilities for immigration charges?—No, hardly, because there was a liability of about a million on it before we started.

274. How much then now remains?—As I understand, there is about a million left.

275. It being a part of the inducement to take up the loan at a rebate of 5 per cent., could there have been any object for the public benefit attained by such an arrangement, excepting the need any how to obtain money?—I think it is quite clear there was not a need to obtain the money. The reason was, I presume, to obtain the loan on favourable terms. I look upon that rebate as part of the price of the loan.

276. Looking on the rebate of 5 per cent. as part of the price of the loan, and in no way suggested by the requirements of the colony, was that a wise arrangement in your opinion, excepting with the view of investing the money so summarily called up to great advantage. Do you consider that it was wise to call up the money quickly when the colony did not want it?—I could not set my opinion against the opinion of Sir Julius Vogel and the Crown Agents as to the terms on which the loan was raised, but I should look upon this as part of the cost of raising the loan, and as an inducement to purchasers.

277. That being so, the needs of the colony not requiring prompt payment, and there being no consideration to invest advantageously, in reality the colony agreed through its Agents to the incurrence of a greater loss, when they might have at once taken a lesser sum in a direct way than has been entailed upon them in this indirect way?—That is a matter for our Agents to decide, I take it. They obtained, I imagine, the best terms they could for the colony. I could not decide whether it was better to give the 5 per cent. rebate or not.

278. Would it not amount to submitting to a less price?—Yes, no doubt it would. It was one of the advantages that the purchasers received.

279. Then, with regard to the arrangements with the Bank, I think I understood you to hold that if at any time the Bank of New Zealand refused you an advance you would apply for it elsewhere, and after getting it you would lodge it elsewhere?—Yes, I should not allow the Bank, or anybody else, to stand in the way of the Government business.

280. Then, with such views, do you not think it is an agreement nominal—not real—which you are prepared to break? There would be a claim for compensation if it at any time were broken?—No, I do not look at it in that way. It appears to me that the Bank and the Government have an arrangement which is really only an understanding which has grown up. It is assumed on both sides that good faith will be kept.

281. But one party may consider that a certain thing ought to be done, whilst the other may be of a different opinion; when, in fact, you come to put a strain on your agreement it breaks. Under these circumstances, would it not be better to have a shorter term of notice in the interests of the colony?—I do not think the agreement would break; I think experience has shown us that it would not.

282. I ask you to suppose such a case; would it not be better to have a shorter term of notice for terminating the agreement?—Speaking as Treasurer, I should say that the more power the Government could get the better; but speaking from experience, I say that practically we have found the Bank meet us on every possible occasion.

283. *Mr. Curtis.*] Would you expect to get equally favourable terms from the Bank with shorter notice as you get with the longer notice?—I should think not.

284. *The Chairman.*] With regard to the two millions of the old loans still unraised, is that money negotiated for, or would you have to put it on the market to obtain it?—We should have to put it on the market.

FRIDAY, 3RD SEPTEMBER, 1875.

The Hon. Major ATKINSON, *Colonial Treasurer*: Examination continued.

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The witness handed in a statement in answer to questions put at the last meeting, (*See Appendix No.9.*)

285. *Mr. Johnston.*] By the statement which you have just handed in, as an answer to questions put to you when you were last examined, I see that the first amount of money was received from the Bank of England on this security in October 1874. Did the Agent-General borrow this money according to his own notion, or was he directed to obtain it in that way by the Government here?—From the beginning these debentures have been held as a reserve fund, and the Loan Agents have been instructed from time to time, whenever they thought it necessary, to obtain advances from the Bank of England against these debentures, to meet the requirements of the Government or the Agent-General. The debentures were lodged in the Bank originally with that intention. For instance, suppose the Loan Agents had a parcel of debentures to dispose of which could not be disposed of on advantageous terms, an advance could be got against them until they could be sold.

286. If any special instructions went to these Agents at such a date as to cause them to go to the Bank of England in October, such instructions must have gone from the Government here in August last year, while Parliament was sitting. Did the Government know, while the Parliament was sitting last year, that the imperially indorsed debentures were about to be pawned?—I should think there can be no doubt about it. I was not a member of the Government at the time, and cannot, therefore,



speaking positively; but I should say they must have known. Of course the Government had authority to sell the debentures whenever they liked; but they reserved them for the purpose I have stated.

287. *Sir F. D. Bell.*] Do you not consider that, whatever might be the financial proposals of the country, the remainder of the guaranteed loan should continue under any circumstances to remain with the Bank of England in order to serve a purpose of that kind, and that it would be better even to submit to a diminution of the produce of any loan than to use up that reserve?—I take it there should be a limit. I understand that the proposal of the late Treasurer (which, if my memory serves me, was announced many times in the House) was that these debentures should be kept as a “stand-by,” to be used whenever it was inadvisable to place any of our debentures on the market; and that proposal met with the concurrence of the House, and the Government have acted on it. If, however, you ask me, as a matter of fact, whether it would be better to keep them under all circumstances, I should say I think not; but I consider it better to keep them there than to sell our debentures, say, at 80.

288. But not going to so great a depreciation as that, but some depreciation below—for instance, the rate at which the last loan was taken—do you think it would be more advisable to submit to some depreciation with respect to the money that must be borrowed to complete the works now authorized, than to use those guaranteed debentures for this purpose?—I think that would entirely depend on the circumstances of the case.

289. You have not come to any conclusion in your own mind on this subject?—I am quite clear that I should not part with these debentures till the very last; but, of course, the last may arrive at any time.

290. I am speaking with reference to the unraised portions of the authorized loans. In the Financial Statement it appears that a sum of money remains still unraised, but that unraised sum includes the guaranteed debentures, and the money will all be required for the works already authorized. I wish to know whether you have arrived at any opinion as to whether it would be better this Session to propose that financial means be taken to avoid the present disposal of these guaranteed debentures, in order to complete the works for which, according to the Financial Statement, they would be required?—There is no present occasion to dispose of these debentures.

291. But there will be next year?—Possibly. I think, however, we shall hold these debentures till the very last. That is the intention of the Government.

292. Are the Committee to understand that the completion of the present authorized works will not require the raising of the remaining two millions early next year?—The proposal of the Government is, as far as we can make out, to spend the balance by the end of next year; that is to say, to extend our expenditure over a period of two years, commencing from the beginning of the last financial year.

293. But will not a very large proportion of it be required to be raised in preparation?—If you ask me my own views, I say I should endeavour to raise £1,200,000 unguaranteed, whenever an opportunity offered. According to my calculations, we have got at least fifteen months to do that in.

294. From now?—About twelve months from now. By obtaining an advance on these debentures, we can extend that to eighteen months.

295. Then the Committee may understand that the Government would, rather than sell these debentures, obtain, if necessary, an advance from the Bank of England upon them, with the view of making some other financial provision in order to keep them floating?—Not without having regard to the raising of a new loan.

296. *The Chairman.*] Then you practically regard that £800,000 of guaranteed debentures as a reserve fund, as far as it will go?—Yes, and always have done so.

297. In your table, on page 8 of the Financial Statement, you say there is £660,000 available, after having expended all that has been expended of the loans, and after making provision for the liabilities at present incurred?—Yes.

298. Of that £660,000, there is £130,000 of the unexpended balance of the votes set apart for the purchase of Native lands?—Yes.

299. Then, as far as public works are concerned, that has to be deducted from the £660,000 available?—Yes.

300. Leaving £530,000?—Yes, but more would have to be deducted; part of the Defence Loan, for instance.

301. Then, in round numbers, there is left, say, £500,000. In that case your reserve fund has already been encroached upon by £300,000?—No; the whole two millions, according to my statement, is “ear-marked.” My endeavour, in using the word “liability,” was to show that the whole of this money, with the exception of a trifle, would be required to complete these works. To complete the works that are on the schedule, you will want the whole of the remaining two millions. The liabilities are not incurred to an outside person, only to districts, and the Assembly could refuse to vote this money.

302. *Sir F. D. Bell.*] Supposing that it appears on the Estimates that the amount of appropriations made by Provincial Councils exceeds by a million and a-half the estimated revenue, it will be competent for the House of Representatives now to exchange the whole of the authorizations which it has already made, and fulfil these appropriations with the remainder of the loans instead?—Yes, so I understand it.

303. *Hon. W. Fitzherbert.*] Might not that be regarded as breaking faith with the country? Supposing you were to rescind these votes and divert them to another purpose, would the result not be that some parts of the colony would have public works and others not?—Yes.

304. Then it is competent to do a thing and break faith in doing it?—Yes.

305. *Mr. Pearce.*] Did you say, when you were last examined, in reply to Mr. Fitzherbert, that a portion of the unissued loan is hypothecated to the Bank of New Zealand?—Yes, you will find that in the Financial Statement.

*Hon. Major Atkinson.*

3rd Sept., 1875.

Hon. Major  
Atkinson.  
—  
3rd Sept., 1875.

306. Why was that not wiped out with the proceeds of the Four Million Loan?—Because there is no power to do it. You cannot transfer one fund to another. The money under the Public Works Loan of last Session cannot be applied to the General Purposes Loan or Defence Loan. We did practically cancel it by lodging a similar amount at the same rate of interest.

307. Then it is not an overdraft in the ordinary sense, inasmuch as there is a similar amount to credit from the Four Million Loan?—You are perfectly correct.

308. So that your statement is not at variance with that of Mr. Murdoch, when he said there was no larger overdraft than £30,000?—No.

309. *Hon. W. Fitzherbert.*] I think I understood you to say that there was about a million remaining out of the Four Million Loan, subject to liabilities in the Agent-General's Department for Immigration?—Yes.

310. Can you state what is the probable amount of liabilities upon that million?—I think, in round numbers, about a million.

311. With regard to this £250,000 which has been lodged with the Bank, is it to come out of the million now on hand?—We drew bills for that.

312. And they are taken into account in the expenditure?—Yes.

313. Supposing that in five months there has been expended £2,666,000, how long do you consider the other million will last at the same rate? Will it go off at the same rate?—No; according to our calculations, the Four Million Loan will carry us through the financial year.

314. That is to say, though five months have absorbed two and a half millions, seven months will only absorb one million?—Yes.

315. Supposing you could get no aid from the two millions, all you would have to depend upon would be the one million remaining out of the proceeds of the loan, and what you could get out of the revenue?—Yes.

316. *Mr. J. Shephard.*] You said, when you were last examined, that you expected to have to draw from £150,000 to £200,000 a month; for how many months would you have so to draw?—That would depend on how we hurried on the contracts. Our idea is to carry things on steadily in order to extend the expenditure over the two years.

317. *Hon. W. Fitzherbert.*] When drafts are drawn by you here on London, I wish to know whether it would not be, as a rule, always for liabilities incurred in the colony?—Yes, always for expenditure in the colony.

318. Then supposing that for the next few months you would have to draw about £150,000 a month, there would accrue liabilities at home in respect of immigration and so forth?—Yes, but not to a very large extent, because we have limited the number. We have divided our immigration fund—what we had left of it—so that it would extend over two years. Sir Julius Vogel had ordered a very much larger number of immigrants for this year, but we countermanded the order. An extra number had started in the first few months of the year, so that a great part of the expenditure of the year has already been incurred.

319. Then, in fact, you have held your hands with regard to immigration at home, and you will be eased in that respect, and the two millions—the remnants of the loans—will be to complete the works engaged for?—Yes.

320. Am I to understand then from your statement, in general terms, that you have begun already to retrench in the matter of expenditure?—Yes; as soon as we looked at the state of the finance, we determined to extend our expenditure over two years. We have kept the expenditure within the votes with that view.

321. *Mr. J. Shephard.*] It has been part of the contention between the Loan Agents and Sir Julius Vogel that it would have been better to raise two millions in March, and two millions eight or nine months afterwards?—Yes.

322. Well, I take it from your evidence that if Sir Julius Vogel had agreed to that proposition the colony would, long before this, have been out of money altogether?—Not out of money yet.

323. I mean that the proceeds of the loan taken up would not have carried them on without again borrowing?—Yes.

324. And Sir Julius Vogel, in taking up the whole loan at that time, was actuated only by the necessities of the colony, of which he was aware?—I have no doubt that it was an exceedingly wise thing to take the whole of the money at once, even though we did not absolutely want the whole.

325. *Hon. E. W. Stafford.*] Why do you consider that it was wise to take up more than was actually required, when other persons, the Crown Agents for instance, considered that by not taking up the whole amount at that time a higher price might be obtained?—Because there would have been no guarantee. The risk was so great for the colony to run of having all its public works suddenly stopped, and so great was the uncertainty of obtaining the money, that it would have been imprudent not to take the money.

326. *Mr. J. Shephard.*] Had the two millions been raised, with the power of raising the whole sum upon the debentures, by this time you would have been without money?—Yes.

327. And some months would have elapsed before you could get the other two millions?—Yes.

328. *Hon. E. W. Stafford.*] With reference to the question of raising the Four Million Loan at once or in parts, has there been any intimation to the Government here from the Crown Agents, or Sir Julius Vogel, that about the time that this last loan was raised there were apprehensions in London of a general European war, which led to a temporary panic, and which would affect the money market?—We had no official notification of that.

329. Do you think that affected the character of the operation for raising the money firm?—I think so, but I have no precise information.

330. *Sir F. D. Bell.*] When you say there would be a risk of all the public works being stopped if the whole four millions had not been taken firm, is not that in distinct opposition to the two statements made at pages 2 and 8 of the correspondence, where the Loan Agents report their opinion in these words: "Had circumstances permitted us to negotiate the loan in two equal parts, with an

interval of nine or twelve months between them, we believe that we could with success have appealed direct to the public with a very considerable saving to the colonial exchequer, and with the probable advantage that only a very small portion of the loan would have fallen into the hands of the speculators." These words occur at page 2, and they are repeated at page 8. At page 14 you will find the following:—"We frequently discussed with you the expediency or otherwise of raising the money by instalments, instead of dealing with the whole loan by one operation. We are not aware of your having told us that the proceeds of the sale of the four millions debentures would be required to pay for public works to be completed 'during this and the next year.' On the contrary, we endeavoured to elicit from you what the wants of the Government were, which would justify us in consenting to the course you advocated, of disposing of the whole at once; and, although we failed to obtain from you any exact statement of your requirements, you distinctly informed us that negotiations must be conducted on the basis of a fixed or firm price for the whole—three-fourths of the money to be paid at short intervals, ending in August 1875, and the remaining fourth not later than February 1876. Had we been given to understand that the expenditure of the money was to have been spread over two years, we should most certainly have been no parties—in the absence of instruction—to the raising of the whole amount so far in advance; a step which may, and probably will, entail upon the colony considerable loss, inasmuch as we cannot hope to obtain upon proper security, for the temporary loan of the money, the same rate of interest as will be paid for it; the difference between the two rates being, at this moment, upwards of 2 per cent. against the Government." Now, is not that view held by you, that there is so much risk, in opposition to the opinion there expressed by the Loan Agents?—I do not see the conflict. I know that the position of the colony was such that Sir Julius Vogel was bound to make certain of at least four millions.

331. *The Chairman.*] Has not the result shown that Sir J. Vogel's course was the only one that a prudent financier could possibly take?—Yes.

332. Because you see now, that out of the four million loan, in four months three millions are already spent, and you have only one million left to come and go upon; and, therefore, if you had adopted the course proposed by the Crown Agents, of taking up the loan in two operations, you would already have been in difficulties?—Yes.

333. *Hon. W. Fitzherbert.*] Did the circumstances of the colony, in your opinion, imperatively require that the whole of the Four Million Loan should be raised firm by Sir Julius Vogel?—Yes.

TUESDAY, 7TH SEPTEMBER, 1875.

Mr. JOSH. PALMER, Chief Officer of the Union Bank of Australia, examined.

334. *The Chairman.*] This is a Committee appointed by the House of Representatives, to inquire into the conditions upon which the Public Account is kept by the Bank of New Zealand. Are you aware of the conditions or terms of the agreement?—Yes; I have seen them published.

335. Do you think that upon the whole they are fair and reasonable terms; such terms as the Bank ought to give to the Government, and the Government ought to expect from the Bank?—I think it is probable that the Government might have secured better terms.

336. Do you think they could secure better terms now?—I think so, if the Account is anything like what it has been.

337. Upon what points do you think they could secure better terms now?—I think that if the money had been divided between the various banks they could have got a much higher rate of interest; that they would have escaped the charge for exchange on transactions on London negotiated in the colony; and that they could have had much greater security, inasmuch as they could have had the liability of all the banks established in the colony, instead of that of only one.

338. Then in your opinion it would be better if the Account were divided among the various banks, as is the case in Victoria, instead of remaining as at present?—I think so; that is the system in South Australia, and has been for some years; and there is a movement on foot in New South Wales, which, it is generally supposed, will result in a division of the Government Account between the banks there.

339. *Sir F. D. Bell.*] You said you were generally aware of the terms of the existing agreement?—Yes, as published.

340. I will call your attention separately to the various headings: Interest is credited to the Government on the average balance of the Account, at the rate of 4 per cent. upon balances under £50,000, and at 3 per cent. on daily balances above that amount. When you said that the banks could have given higher interest, what rate did you mean to say that the Union Bank, for instance, would have been able and willing to give at that time or now?—I think we should probably have been able to give 5 per cent. I may mention that in Victoria six banks were associated for the purpose of undertaking the negotiation of loans, and upon the proceeds of those loans, when money was less valuable than it is now, they allowed interest at the rate of 4 per cent. By that means, when debentures were put before the public at an unfavourable time, the Government were able, by the assistance of the banks, to hold over the debentures until a more satisfactory amount could be obtained for them.

341. Is the Committee to understand that, assuming the present value of money will exist for a given time (say twelve months), the Union Bank could afford to give as much as 5 per cent. on the current daily balances, conditionally on the account remaining as good as it is?—I am not prepared to say that the Union Bank would give 5 per cent. on a very large sum, but I think it would be to the advantage of the Government and the banks to divide the account. A bank in the colony can use a moderate sum with great profit and safety to itself. It might, out of a large sum of money, have to hold a great portion idle, whereas by division it might employ it profitably and safely and pay better interest.

*Hon. Major Atkinson.*  
—  
3rd Sept., 1875.  
Appendix, No. 2.

*Mr. J. Palmer.*  
—  
7th Sept., 1875.

Mr. J. Palmer.  
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342. Then the Committee is to understand that your opinion is that a higher rate of interest would be obtained if the account were divided, and remained nearly as good as it is?—Yes.

343. In the London account interest is credited on the daily balances at the rate of 1 per cent. below the current Bank of England rate of discount for the time being. Do you think the Bank in London would be able to give better terms? There could be no association of banks there?—There might be. Of course it could only be by banks whose head offices are there.

344. The Union Bank does not carry on general banking business in London?—Some branches only. They receive money on deposit, but do not advance.

345. Do you think a division of the account would produce some increase of interest in London too?—I do.

346. On overdrafts interest is now charged at the rate of 6 per cent. when under £50,000, and 7 per cent. when above that amount, with a proviso relating to the discount rates of the Bank of England. Is it your opinion that the Union Bank would be able to charge less than that upon an overdraft if it had a portion of the account? I refer to an overdraft in the colony?—No; I think that is a very fair rate.

347. Looking at the rates that have been ruling (I do not mean the time when competition reduced the overdraft on private accounts to 6 per cent.),—looking at the matter generally as to the condition of banking business, do you think that the banks could afford to charge less than 7 per cent. for overdrafts exceeding £50,000?—Of course it would be a question of amount, but I think they would consent to 6 per cent. on ordinary amounts.

348. I should like to call your attention to the fact that the amount is not specified if it exceeds £50,000?—Of course it would be quite impossible for me to pledge myself as to what would be the rate for any unspecified amount. No banker could express an opinion on that subject unless he had before him full particulars.

349. That is to say, if the Union Bank held the whole of the Government account, that difficulty of forming a judgment as to an indefinite sum would not exist, because the Bank would know all particulars?—Yes; the amount charged for overdrafts, and the amount of accommodation given is guided principally by what the account is valued at.

350. Now, as to remittances. Remittances to London, under the agreement, are made by draft at sixty days, at par; and remittances at shorter dates at a half per cent. below the current rate, but never below par. What do you think with respect to that, considering the large transactions which are necessary?—I understood from a statement which I saw in the correspondence published, that the rate charged for sixty day bills had been  $\frac{1}{2}$  per cent. discount, and  $\frac{2}{3}$  per cent. discount for ninety day bills.

351. My question referred to remitting money to England?—I think that is a fair thing.

352. And for bringing money from England?—As regards bringing out money. There is no doubt it could be very much better arranged in London. It might be done at par, and there might possibly be a profit of 1 per cent. or more on it.

353. *Hon. W. Fitzherbert.*] The Government of New Zealand raised a loan of four millions, and the proceeds received amounted to about £3,600,000. They deposited the whole of the proceeds with the Bank of New Zealand. I should like to know whether, in your opinion, that was a prudent transaction?—Of course I should not, if I were a very large capitalist, consider it desirable voluntarily to deposit so large an amount in one institution, when I had the option of spreading it over a number of banks. The banks doing business in New Zealand represent a capital of nearly eight millions, and the security would be largely increased by the liability, in some cases, of the shareholders for all the banks' engagements. Therefore, on the question of security alone, it would be manifestly to the advantage of the Government to divide its deposits.

354. If you had such an amount of money would you invest it in any one institution?—Certainly not.

355. The interest paid by the Bank of New Zealand to the Government for the use of this money was, according to agreement, 1 per cent. below the Bank of England rate, but it was reduced by special agreement to  $\frac{2}{3}$  per cent. Do you think that a larger allowance than ought to have been made?—I think that, taking into consideration any amount that might have been transferred to the colony, where, as I have said, 5 per cent. might have been obtained for it, a better price might have been given. I think also that a better rate might have been obtained in London.

356. The colony placed a Four Million Loan on the market, and offered a premium of 5 per cent. to purchasers who paid up promptly. Do you think that, if the Associated Banks had had the loan placed with them, they could have obtained better terms? Do you think they would have obtained more than £90 19s. per cent. if they had been required to find two millions, say, in June, and two millions in November or December?—I could hardly express an opinion as to the advisability of extending the loan over six months, as I do not know the state of the London money market exactly. I think that some influence would probably have been exercised by the ability of the Government to hold over the debentures for a time if the price to be obtained at the moment was not considered favourable; but whether the colony would have benefited by the ultimate price obtained I am unable to say.

357. Do you think the Associated Banks would have been sufficiently strong, and, if so, sufficiently willing to undertake such a negotiation so as to find the proceeds of two millions in June and two millions more in December?—I do not think the banks would have pledged themselves to find the money out of their own capital, but I think they could have raised the money without difficulty. I do not think the banks would have pledged themselves to raise the money in the time you name.

358. *Mr. Johnston.*] Does the fact that the Government keeps the whole of its account with one Bank in any way disturb the monetary accommodation to the public in the colony?—I think it must inevitably do so. When the Bank has a large amount of money to lend out it must unduly expand its advances in order to turn it to account, and when the money is drawn in again it must be attended with some arbitrary contraction which more or less affects the trade of the community.

359. Then, if the Government wanted an advance of £500,000 from its present bankers, is it not probable that the Bank, in order to make that advance, would contract its advances to the public?—*Mr. J. Palmer.*  
Of course that would depend on the position of the Bank. It would be impossible under ordinary circumstances for a bank to do so without unduly contracting its other advances. *7th Sept., 1875.*

360. It is probable, at any rate, that if the account were divided between the Associated Banks such an advance required by the Government could be given without so greatly disturbing the public—Yes.

361. *Mr. Pearce.*] Is the Committee to understand that, in your opinion, if the account were divided the Government could obtain better terms than they have now?—I can only repeat what I have already said: They could, presuming the account to be in the same position as it has been.

362. Is not the possession of the Government account a very great advantage to the Bank in connection with its circulation?—Yes, and in the way of attracting deposits too.

363. I suppose you mean by that that customers are attracted to the Bank by having cheques on it from the Government?—My meaning is this: A Government contractor, say, receives a large amount of money from the Government. He goes to the Bank, and the probability is that he will open an account with the money.

364. Those are two of the main advantages of having the Government Account?—Yes.

365. Would it be reasonable, in your opinion, in any arrangement between the Government and the Bank, that the Government should stipulate that the Bank should give an overdraft in anticipation of either loans or revenue?—To a reasonable amount; yes.

366. Does not the fact that it is optional on the part of the Bank whether they give an overdraft or not materially affect the rate for the advance?—Yes, of course.

367. *Mr. Curtis.*] Do I understand that you mean it would be desirable that the account of the colony should be divided amongst all the banks carrying on business within the Colony?—Yes, I think so.

368. Then the terms for the Account would have to be arranged between the banks as a whole and the Government?—Yes.

369. And the Government in that case would be obliged, I suppose, to take such terms as the banks as a whole might agree upon?—I do not know that they would be bound to accept the terms.

370. I mean that there would be no competition of any kind?—No.

371. They would not be able to say "we do not think these terms sufficiently liberal, and will go somewhere else"?—I do not think I am in a position to answer that question.

372. The only way in which they can deal with the banks to divide the Account, would be, I imagine, by having the same terms with the whole of the banks?—Precisely.

373. And these terms would have to be arranged between the banks, as an associated body, and the Government?—Yes.

374. When the Government keeps its account with one bank, if it does not like the terms of that bank, it is able either to remove the Account to some other bank where better terms can be obtained, or put some pressure on its bank by threatening to do so?—Yes.

375. *Sir F. D. Bell.*] In your opinion, would not the possession of so large an amount of money, in London, by the Bank of New Zealand, place that Bank in a very strong position in Lombard Street?—Yes.

376. Then supposing that no large amount of profit could have been got by placing that money in Lombard Street, did not the mere possession of it, for the purpose of being so placed, give any bank a very strong position in Lombard Street?—Undoubtedly.

377. Do you think that  $\frac{3}{4}$  per cent. under the Bank of England rate was a sufficient concession to make, considering the price of money at the time, of which I suppose you are aware?—I think better terms could have been secured.

378. Do you think that, considering the preponderating power which so considerable a sum of money suddenly placed in one institution must have given that institution, the colony should not have exacted rather more than  $\frac{3}{4}$  per cent. under the Bank of England rate, and do you not think that in the case of any new transaction of the sort, a further concession than  $\frac{3}{4}$  per cent. ought to be exacted?—I think that the Government by confining themselves to one institution, should have been able to exact better terms.

379. Now with respect to the future finance. Your attention has been drawn, I presume, to the understanding which appears to have been come to between Sir Julius Vogel and Rothschild, that no new loans should be placed on the market for some considerable time to come?—Yes.

380. Do you think that if the necessities of the public works should require another million of money to be provided, while on the other hand, it would be undesirable to place another million on the English market,—do you suppose that if there was a division of the account between the Banks, the Banks would be able with the authority of Parliament to make an advance for a year or two years of a million of money, so as to avoid contracting a loan?—I do not think the Banks would pledge themselves, although they might be the means of raising the money. The influence of an association of banks must be greater in London than the influence of only one.

381. I am not referring to the raising of money by placing debentures on the London market. What I wish to know is, whether, in your opinion, the Associated Banks, if the account were divided, would be in a position and willing to advance for a time, a sum of say a million of money, so as to avoid placing debentures on the London market for a year or two?—I do not think the Banks would pledge themselves.

382. Then, practically, the Government could not look to that as an alternative advantage to them with any degree of certainty?—Not to the extent you mention.

383. *Mr. J. Shephard.*] If Sir Julius Vogel, instead of placing this sum (or supposed sum) of a million and a half as he did, had divided it amongst several banks for the sake of getting some temporary advantage, would it be likely that, when afterwards the Government required an advance from the Bank of New Zealand, probably of a considerable amount, the bank might, as against the

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loss of that benefit, exact high terms?—That is quite possible, assuming that the Government, after having divided the deposit, would have to go back to the Bank of New Zealand for an advance.

384. This deposit being only for a short time, might it not be probable that Sir Julius Vogel consulted the permanent interests of the colony by not putting himself on bad terms with the public bankers?—That is assuming that the Government is pledged to the Bank of New Zealand for its account definitely.

385. I am supposing they intended to continue their account with the Bank of New Zealand?—If they intended to continue permanently with the Bank of New Zealand it would probably have that effect.

386. *Hon. Major Atkinson.*] Are you acquainted with the terms upon which the Associated Banks in Victoria keep the Government account?—I cannot say that I am in possession of full particulars, although I know some of the terms.

387. I should like to know whether you consider those terms as liberal as the terms of the Bank of New Zealand?—As far as I know they are more liberal.

388. Would you state some of the points in which they are more liberal?—The deposit rate for loan proceeds is 4 per cent. instead of 3. The Government of Victoria require the proceeds of their loans to be used in the colony, and the money is, therefore, invested in the colony. The New Zealand Government seem to have kept their proceeds in London.

389. And with regard to the question of ordinary accounts?—Interest is allowed on the weekly balance of the Government account in Victoria by the Associated Banks at the rate of 3 per cent., and that arrangement was made at a time when money was of less value than it has been during the last twelve months.

390. Our arrangement has existed with the Bank of New Zealand for the last eight or ten years. Do you think we could have obtained from the Associated Banks better terms over a period of years?—There is no doubt that money was more valuable eight or ten years ago than at the present time.

391. You think that for the future we could obtain better terms by transferring the account to the Associated Banks, over a number of years, than we now obtain from the Bank of New Zealand?—I think so.

392. *Hon. W. Fitzherbert.*] The agreement between the Government and the Bank of New Zealand is to the effect that certain rates are to be charged under certain circumstances, and that six months' notice is to be given before removing the account. There is no stipulation for an advance even of a thousand pounds. Do you think that proper reciprocity?—It is customary in arrangements between the Government and a bank, or banks, to mention a certain sum up to which the bank or banks would pledge itself or themselves to advance.

393. And, I presume, the settlement of that particular amount would vary by the Bank taking into consideration the value of the account in the way of attracting other customers, &c.?—Yes.

394. Are you in a position from your own knowledge to say whether the value of the Government account in the Colony, for the last four or five years, has been such, that a fair advance might reasonably have been asked for; and, if so, what advance?—I do not think a bank would have pledged itself to advance more than £100,000.

395. I understand that that would be an unsecured advance?—Yes. I do not imagine that a bank would pledge itself willingly to an advance of that kind for an indefinite period; but with the prospect of funds coming in, it would be willing to advance so far, no doubt. I think that would have been a fair sum to stipulate for.

396. And regarding the six months' notice that requires to be given to terminate the account, I wish to have your opinion as to whether that is an undue or insufficient time?—Arrangements between governments and banks are, I think, generally for a specified time.

397. *Sir F. D. Bell.*] Do you think an indefinite period with notice, or a definite period without notice, is best for the government or for the bank so dealing?—I think it is better to have a definite period in the interests of both.

398. *Mr. Curtis.*] Would there not be this difficulty in having a definite period, that when the time was about to expire the bank would have to make certain arrangements which might possibly be of a character to cause it to require better terms from the Government than would be the case if the account continued with them on a notice of six months?—I do not think so.

399. *Hon. W. Fitzherbert.*] Supposing that no arrangements with the associated banks were made, would it, in your opinion, be a preferable system to the present (by which six months' notice has to be given), to have an arrangement by which, at stated periods, tenders should be invited from the different banks for the Government account?—I think so.

400. But you are in favour of dealing with the Associated Banks?—Yes.

401. And your opinion is that it would be preferable to invite tenders for a definite period?—I think so.

402. *Mr. Johnston.*] What advance do you think the Associated Banks might be willing to give to the Government say for twelve months?—I cannot say, because I have not had an opportunity of knowing what the account is likely to be.

403. *Hon. E. W. Stafford.*] When you said it was the custom generally to have definite periods instead of indefinite, what Banks and Governments were you alluding to?—The Provincial Governments always arrange with their bankers for a definite period.

404. The Provincial Governments of New Zealand?—Yes.

405. Are you aware of the custom in the Australian Colonies?—In almost every instance in Australia, the accounts are now with the Associated Banks.

406. I understood you to say it was generally the custom?—My answer applied merely to New Zealand and Australia.

407. Are you aware what the custom is in Victoria and New South Wales?—In New South Wales it has been the practice to arrange for definite periods, and I believe it is the same in Victoria.

408. On what grounds are you stating that?—From correspondence I have read, which was laid before the Legislative Assembly in New South Wales.

409. *Hon. E. W. Stafford*.] It is just the other way as to recent arrangements which are for an indefinite period and subject to notice?—It is some time since I read the papers referring to it, but my impression is that the agreement is for a definite period, and that Mr. Shepherd Smith sought to make the extension of the agreement the condition upon which he allowed a higher rate of interest on a special deposit.

410. In Victoria the account is kept with the Associated Banks, is it also for a definite period and not subject to notice?—I believe so, but I cannot speak positively with regard to Victoria.

*Mr. J. Palmer.*  
7th Sept., 1875.

WEDNESDAY, 8TH SEPTEMBER, 1875.

Mr. E. W. MORBAH, Inspector Bank of Australasia, examined.

*Mr. E. W. Morrah.*  
8th Sept., 1875.

411. *The Chairman*.]—Do you represent the Bank of Australasia?—Yes.

412. The Committee desired your attendance to get from you such information as you can give respecting the banking system which exists between the Government and the Bank of New Zealand? Are you aware of the terms upon which the Government account is kept by the Bank of New Zealand?—Only so far as I can judge from a perusal of the published Loan correspondence.

413. You observe the terms set out there?—Yes, but I do not think they can be the complete terms.

414. What is your opinion as to the general fairness of the arrangements made between the Colony and the Government?—As far as the agreement goes, I think it is fair, but I think the agreement is imperfect.

415. In what respect mainly?—In the first place I notice that there is no engagement on the part of the Bank to allow the Government any stated assistance, and further I observe that there is no maximum amount of deposit agreed upon. Again, there is no exclusion of loan money, as there is in almost all other banking arrangements; that there is no arrangement made for “set-offs” by way of interest. There are also one or two other minor matters, which I do not remember at this moment.

416. The general rates for doing business, as far as interest and exchange go, you think are fair?—Yes. There is no rate given for transferring money from London to the colony, but I have seen from certain papers what that rate is, and it appears to me reasonable, although possibly it might be done cheaper.

417. Is it your opinion that the Colony would, or would not, be likely to obtain more favourable terms from other Banks?—That is a difficult question to answer, because I really do not know what terms the colony does obtain. As far as the agreement goes, I think the terms are reasonably fair.

418. In case a Bank took the account and pledged itself to make a certain amount of advance that might be required by the colony, is it probable that terms, even as favourable, might permanently continue?—I think so, were the advance for any reasonable amount.

419. Such as?—Such as £50,000, the amount named here, or more.

420. *The Hon. E. W. Stafford*.]—You used the term “set offs.” Would you explain what you mean?—Setting off interest on a creditor balance against interest on a debtor balance. So far as I can understand from reading up the papers in connection with the Government account, there is only one public account kept, or rather, there are two public accounts kept, one locally and the other in London. The public account here, judging from the averages of the Bank of New Zealand, is always largely in funds, but there is no knowing what the state of the public account in London is. I assume, from what I have read in the Treasurer’s Financial Statement, and other things, that the account in London must at times be overdrawn. If so, there is no provision made for any “set off,” and through its absence interest might be charged on an overdraft in London, and an equivalent rate not allowed as a “set off” on the credit balance here.

421. I hardly understand the answer. The expression “set offs” refers to the possible difference in the balance of the public account in the colony, and the public account in London?—Precisely, assuming as I do (I have only been in the colony a few months, and am therefore unfamiliar with the way of keeping public accounts here), that the whole of the Government moneys go into the public account here, and that it is the sole account.

422. But would there be any difference if the money were kept in one account in the colony?—I say that the Government account should be treated as a whole.

423. Is it the case in the Australian Colonies that the London and Australian accounts are treated as one?—Yes. I believe so; the Government of New South Wales excludes money raised on loans, and therefore their balances are probably never very large in London.

424. Have you seen the papers showing the result of a Select Committee lately appointed in New South Wales to consider the banking arrangements of that colony—papers which purport to disclose the arrangement under which the Government account is kept by the Bank of New South Wales?—I have not seen the papers, but I have read the discussion that took place in the House on the subject.

425. Are you aware what interest is allowed on the credit balances of the New South Wales Government?—Three per cent. up to £150,000.

426. And are you aware that when it exceeded that amount the Bank had the use of a certain amount of money without interest?—The arrangement was that the Bank allowed three per cent. up to £150,000; when the balance amounted to between £150,000 and £200,000 there was no interest paid on the excess over £150,000, but when it reached £200,000 the Government had the right of making special terms with the Bank, or of lodging the money elsewhere to the best advantage.

427. That statement is not in accordance with the published terms in the papers I have referred to. It is stated that interest is paid at the rate of 2½ per cent. on sums over £200,000?—Subsequently such an arrangement was made up to a limited amount.

428. *Hon. Major Atkinson*.]—Are you acquainted with the arrangements existing between the Government of Victoria and the Associated Banks?—Unfortunately it is so many years since I had to do with it that I cannot speak positively.



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429. *Mr. Johnston*.—Do you know as a matter of fact whether the Associated Banks are the agents in London for negotiating loans?—Yes, they are.

430. Do you think they make good agents?—I certainly do.

431. Do you think they have exceptional facilities for putting out debentures among investors—better than the Crown Agents?—I should say better. In fact, if the Chairman would allow me, I should like to submit to the Committee a case in point in connection with the raising of a loan that was attempted to be floated by the Victorian Government, and which was pronounced a failure. I see that even Sir Julius Vogel refers to it by implication as a failure. It was a million and a-half loan, four per cent., and the minimum price, including accrued interest, was fixed at £91 7s. 6d. The Government certainly made a great mistake, as they were told by their agents, in attempting to float a four per cent. loan, and the consequence was that when this loan was placed on the market it did not go off, except to the extent of £900,000; whereupon the Associated Banks, instead of hawking the loan about London, took it up themselves, and the result was that the Colony of Victoria received for this loan, which has been condemned as a failure, upwards of £90 10s. per cent. nett.

432. *Hon. E. W. Stafford*.] Are you aware what was the amount of accrued interest at the time the Associated Banks took up the balance of the loan?—I will read an extract from a letter on the subject. It is as follows:—"The launching of a Victorian Four per cent. Loan of one and half million was confided to the Agency of the Representatives in London, of six Australian banks. It was brought out in November last. The Government of Victoria fixed the minimum at £91 7s. 6d. including the accrued interest on the bonds. A considerable portion was taken at and above that minimum, and finally the balance of £600,000 was taken at the minimum by the Associated Banks. The commission charged was under one per cent., so that the Government of Victoria received something over £90 10s. for each £100 debenture."

433. It has been stated that the amount which the Associated Banks gave was £90 10s.?—The banks took it at £91 7s. 6d., which was the minimum.

434. You are sure the banks took it at the Government minimum?—Yes; the letter I have quoted from is written by an undoubted authority.

435. The accrued interest at the time was  $1\frac{1}{2}$  per cent. which reduced the price received by the Government to 88 $\frac{1}{2}$ ?—The minimum fixed was 91 $\frac{1}{2}$ , and the Government received something over £90 10s. per cent.

436. How could that be if there were accrued interest?—I cannot state, because I do not know, the amount of the accrued interest.

437. I want to know the nett amount that the Government received, less accrued interest?—I cannot say what that was. The letter states the minimum fixed, including accrued interest.

438. Would it be an advantage to the banks to take up that balance?—I think not. It was probably taken up more for the purpose of sustaining the credit of the colony than anything else.

439. *Mr. Johnston*.] What amount did they take up?—£600,000.

440. Do you think that, if the Government of this colony conducted its business with an Association of Banks, the Association would give them an overdraft of say £600,000 or thereabouts on the security of debentures?—It is difficult to answer a question of that kind, as so much would depend on the state of things at the time, but I apprehend there would be no difficulty about it in ordinary times.

441. To hold the debentures over?—I think so.

442. You have no doubt that an Association of banks could do that more easily than a single bank? Undoubtedly.

443. Do you know, as a New Zealand banker, whether the fact of the Government keeping its account in one bank in any way disturbs the monetary accommodation of the colony?—It must have a tendency that way when it comes to a large amount.

444. Could that be lessened if the Government divided its account?—Yes, if the account were spread over the different banks it would have less tendency towards a disturbance in the money market.

445. Do you know, as a matter of fact, whether keeping the Government account in one Bank has caused any disturbance in the money market?—I cannot say that I know it as a matter of fact.

446. One of the conditions of the agreement is that the Government shall not withdraw its account except on six months' notice. Do you consider that a good arrangement?—Well, with some reservation, I think it is. I think the Government should always have power to change its Banker, while the Bank cannot invest its deposits to advantage unless sure of some notice of withdrawal. I do not think, however, that the Government should place itself so much in the hands of the Bank as it does by the six months' notice agreement.

447. Do you think it would be better if the Government were to give its account for a fixed period, or for a time not fixed, with notice? In Australia, do they not give the account for a fixed time?—In Sydney, the account is given for a fixed time. In Victoria, I think there has been a sort of unwritten agreement; it was understood that the six Associated Banks there should keep the Government account, but I think there was no written agreement as to the term. Of late years, however, public opinion has been brought to bear, and now four other Banks are allowed to participate, so that the Victorian Government account is at present divided amongst ten Banks. In Sydney, the arrangement is for three years.

448. You said, I think, that it is ordinarily the case, when a Government makes an arrangement with a Bank, that there is a stipulation for the Bank to give a minimum amount of accommodation, which amount is fixed?—Yes, I think so; and also that some maximum amount of deposit should be stated. I do not think that this Government, in making the agreement with the Bank of New Zealand, considered that so large an amount as a million and a half should be placed in the Bank.

449. In your opinion, would it add to the safety of the Government if the money were divided amongst an association of Banks?—I think so, assuming that they were all sound Banks that were associated. In distributing a large amount of money like this, in manageable sums, a larger amount of interest would be obtained for it.



450. Do you think that the rate of interest at present obtained by the Government, namely,—*Mr. E. W. Morrah.*  
 $\frac{3}{4}$  per cent. below the Bank of England rate, is reasonable?—No.
451. What do you think they might fairly have asked?—I think that considering this was, to all intents and purposes, a fixed deposit for a stated term, the least they should have obtained was 4 per cent. The whole character of the arrangement was changed by Sir Julius Vogel's letter, where, in consideration of a  $\frac{1}{4}$  per cent. per annum, he changes the temporary deposit into one fixed for six and twelve months. Of course the Bank, having that pledge, as it were, from Sir Julius Vogel, could lend the money with very great advantage to itself, and I have no doubt that a very handsome profit has been made by the Bank of New Zealand in consequence of that. It made an immense difference to the Bank having this promise from Sir Julius Vogel. I may state, further, that I feel confident had the money been brought to the colony a still higher rate than I have named would have been obtained.
452. Do you know what rate of exchange for remitting funds from London to the colony is at present charged by the Bank of New Zealand to the Government?— $\frac{1}{2}$ th per cent. for 60 days.
453. Do you consider that a fair rate?—I do; but I think better terms might have been obtained. This is one condition among many—not a sole condition.
454. The terms for sending money to London are 60 days at par. Is that a fair rate?—Certainly.
455. *The Hon. E. W. Stafford.*]—You have said that you think better terms with reference to the rate of exchange from London to New Zealand could have been obtained; do you put no limit in reference to the amount to be exchanged. We have been told that the Government will have to draw at the rate of £200,000 every four weeks for some time?—As one condition among many, I think the Government could have it done at par, even if they drew £200,000 every four weeks.
456. Speaking as to the rate of exchange alone?—I think it is reasonable.
457. You have already stated that you consider the terms themselves fair?—Yes, so far as they appear in the published papers.
458. You seem to qualify your answer. Are you aware of anything that does not appear?—I stated that if this really is the agreement it is an imperfect agreement. I see by this agreement no absolute obligation on the part of the Bank to allow an overdraft; that the terms as regards the Government's bills on London are not named; that the loans are not excluded from this agreement, which I believe they were certainly intended to be; that there is no maximum of amount of deposit which there should be, if only for the protection of the Government, because under this agreement the Bank can compel the Government to put the whole of their funds with them.
459. You interpret the words, "that the banks shall receive all balances" to be a compulsory power on the part of the Bank?—I interpret the words "all moneys" to mean that, and I may be allowed to point out that there is a very objectionable proviso in the agreement. It is this: After the words "all monies received in London are paid into the New Zealand public account at the Bank of New Zealand," occurs the strange expression "whence they are withdrawn for expenditure as required." The Government could not therefore invest the money in Exchequer Bills or otherwise without the consent of the Bank. It is a superfluous and very objectionable provision.
460. Are you aware that there was an instruction to invest some of the proceeds of the Four Million Loan in Exchequer Bills?—I have seen that stated, but the Bank could object.
461. But, as a matter of fact, the bank did not object?—I presume the bank knew there was not likely to be a surplus beyond £1,500,000, and therefore had no reason to object.
462. What do you mean?—Judging from the Treasurer's Financial Statement there was not likely to be more than £1,500,000.
463. The opinions that you express now, are, I suppose, your own, and were not formed after consultation with the Head Office of your bank?—Entirely my own. In fact, I did not know, until a few days ago that I was to be summoned before this Committee. They are my own personal opinions.
464. *Sir F. D. Bell.*] With whom do you consider the advantage lies, owing to what you describe as the imperfectness of the agreement—the Government or the Bank?—The Bank most certainly.
465. *Hon. Major Atkinson.*] How is the advantage with the bank?—Because all the omissions I have mentioned, and all the conditions to which I have referred as objectionable, tend to favour the bank.
466. But have not the Government an advantage of being able to remove the account?—Yes; at six months' notice.
467. But is not that a very great power?—Yes.
468. But you do not think it counter-balances the other?—I think something should have been stated as to the amount the bank would allow the Government in case of need. In the case of the New South Wales Government and the Bank of New South Wales there is a contract for both advances and deposits.
469. As a matter of fact with the power of removing the account, do you not think that the Government could always obtain an advance of that sort?—No doubt the power of removing the account would act as a lever upon any bank.
470. *Hon. E. W. Stafford.*] Would it not be a stronger power than an agreement for a definite period?—Yes.
471. You stated that to deposit so large a sum in one bank had a tendency to disturb public business?—Yes.
472. That was on the assumption that these large deposits were made in the colony?—On the assumption that some portion of them would find their way to the colony.
473. You mean to be remitted by the Bank for use in the colony?—Yes.
474. You make that answer hypothetically? You are not aware whether the Bank did remit any sum?—I cannot state, positively, but I think so, and Sir Julius Vogel speaks of "enlarging the colonial resources of the Bank."

8th Sept., 1875.

Mr. E. W. Morrah.  
8th Sept., 1875.

475. As a matter of fact have you any reason to believe that any portion of the deposits were remitted to the colony?—Judging from the Bank returns I should think a great deal of the money must have been used in the colony.

476. In what way did the Bank returns evidence that?—The principal way I should deduce that would be from the fact that during twelve months the Bank of New Zealand had increased their advances very considerably, and I think the fair inference is that they had increased their advances in anticipation of receiving this money.

477. During which twelve months?—The twelve months antecedent to the 31st of March last. During that time the Bank of New Zealand increased their advances by £700,000.

478. But the authority to raise the loan was not given twelve months before the 31st of March?—No, but that is the increase in their average advances during the twelve months.

479. The Bank could not have calculated upon that loan twelve months before the 31st of March?—I simply say that I deduce all this.

480. *Sir F. D. Bell.*]—If you were the banker, would you not have deduced that from the Financial Statement of that year to raise the loan, and from the action immediately taken in London of raising the Four Million Loan?—The only doubt I should have would be as to whether the loan would float. If I thought it would float I should take measures accordingly.

481. If you thought the loan would be floated, would you not have considered, as the Banker, that it was right to extend your business as the Bank of New Zealand did?—I can hardly say that, one banker might think so and another might not. One is sanguine, another is cautious.

482. You assume that would have been the guiding point?—I think that is a fair deduction to draw.

483. *Hon. E. W. Stafford.*—As a matter of fact the loan was not negotiated till February 1875, and the authority to raise an additional loan was not given till August, 1874. Yet you say that during the twelve months preceding 31st March, 1875, the business of the Bank of New Zealand had been very largely extended?—Their advances in the colony had, with no corresponding increase in their deposits.

484. Have you any figures to lay before the Committee, showing the relative increase in their advances as compared with the twelve months antecedent to that?—No.

485. What was your impression as to the proportionate increase? Was it 50 per cent?—A great deal more than that, I think. It was in the proportion of £20,000 to £700,000. I am speaking of the averages for the year ending 31st March, 1875.

486. The Committee understands you to state that in the twelve months the amount of the increase in their advance was much more than 50 per cent. greater than the amount of their advances in the antecedent twelve months?—I think so, speaking from memory.

487. And with reference to the deposits in the same two periods, you consider that the increase in deposits and circulation taken together bore the relation of £20,000 to £700,000?—Yes, but—

488. I want to know what was the relative increase in the deposits in the twelve months preceding the 31st March, 1875, as compared with the deposits in the twelve months antecedent to that period?—I cannot say without the *Government Gazette*.

489. The increase in deposits and circulation was only £20,000?—That is all.

490. *Mr. Johnston.*]—Have you any idea where the Bank got the money prior to the issue of the loan?—I do not know. Perhaps its advances consisted of advances made to Government in anticipation of raising the loan.

491. *Hon. E. W. Stafford.*]—The Government got an advance from the Bank of England of £600,000?—Yes, but at the same time there is about £340,000 still to be accounted for, and I conclude that is the sum advanced by the Bank of New Zealand.

492. We have it in evidence from the Inspector of the Bank of New Zealand, that the unsecured advances never exceeded £30,000?—I do not know whether it is relevant, but I have taken the trouble to look into the Treasurer's Financial Statement of this year, and I have found that there is £340,000 not accounted for in that statement.

THURSDAY, 16TH SEPTEMBER, 1875.

Mr. BRIDGES, Director and Acting General Manager of the National Bank of New Zealand :  
Examination continued.

Mr. Bridges.

16th Sept., 1875.

(The evidence given by Mr. Bridges at a previous sitting was read.)

493. *The Chairman.*] The Committee is to understand that you think better terms could be obtained by the Government, either by tendering or by employing the Associated Banks?—By employing the Associated Banks, unquestionably.

494. You see no difficulty in the way of employing the Associated Banks?—None at all.

495. That course is pursued in Victoria, I believe?—Yes; and it is found to work well.

496. But the circumstances of this colony differ materially from those of Victoria, in this way: That in Victoria business is more central—it is more confined to the capital town; whilst here it spreads and ramifies into every locality throughout the whole colony, and there is no one particular place where the business of the country generally is done. Would not that make a material difference if the banks here were associated in keeping the Government account, compared with the circumstances of Victoria?—No; the only difference is that there is one large centre in Victoria, while there is not one here.

497. With respect to your own Bank, have you branches in every part of New Zealand, so as to enable you to conduct any considerable part of the Government account if you had it?—No; nor have some of the other banks doing business in the colony; but there would be no difficulty on that score.

498. How do you suppose that a division could be managed—that each bank should take a specific portion of the account?—That would be a matter of arrangement between the banks.

499. And you think there would be no difficulty in making such an arrangement?—No, none. Such arrangements are made in Victoria.

500. The Bank of New Zealand has branches in nearly every part of the colony, I think?—Yes.

501. So that they are enabled to do the business of the Government without any practical difficulty?—Yes; but up to the time I left that bank there were places where they could not do the Government business.

502. Has any other bank doing business in New Zealand as many branches as the Bank of New Zealand?—No.

503. *Mr. Johnston.*] In your opinion, does the fact that the Government keep their account in one bank in any way disturb the monetary transactions of the colony?—Yes.

504. Do you know, as a matter of fact, whether it has done so?—Yes.

505. To the disadvantage of the colony?—Yes; and quite recently.

506. You think it would be a public gain, from that point of view, if the Government account were divided?—There cannot be two opinions as to that, I think.

507. A considerable public gain?—Yes; a considerable public gain.

508. There is one point in the banking agreement which disables the Government from changing its banker except on six months' notice. Do you think that is a good system, as compared with a fixed term?—I do not think there is much difference. When one bank has the whole account, I think it is proper that they should have notice when it is to be closed.

509. But would it not be better for the Government to give its account for a fixed term?—Yes; I think it would.

510. Is not the effect of such long notice somewhat of this character: that the Government being unable to do anything in the shape of shifting its account for six months does nothing at all, as a matter of fact, from year to year?—The Associated Banks would certainly not require notice for such a long period; but it is obvious that if they invest the public funds, it is necessary that they should have time to get the money in.

511. You think that by dividing the account better terms could be obtained?—Certainly.

512. Does the fact of the Government being tied up by six months enable the Bank to have more influence over the Government than would otherwise be the case?—I think so.

513. Do you know of any instance of that, or is it a mere matter of theory?—Will you put the question in another shape.

514. When it was suggested by the Crown Agents at Home that the proceeds of the loan had better be divided among various banks for safety, Sir Julius Vogel said that could not be done without giving the Bank of New Zealand a heavy claim for damages, and, knowing this, it appeared to me that to a certain extent the Government were in the hands of the Bank in consequence of those terms. That is one case; and I can quite imagine that in the history of the colony certain other cases have from time to time arisen of a similar character. I do not know that it is so; but perhaps you know something about it. I shall put it in this way: Do you know of any case where the Bank has constrained the action of the Government to the disadvantage of the Government?—I do not know that I can answer that question, because, if I did so, I might be guilty of a breach of confidence; but I may say that the fact of the Government keeping its account in one bank must necessarily have that tendency, and the Government must be to a certain extent in the power of the bank.

515. Then, in your opinion, if the Government gave its account to an association of banks it would tend to avoid the creation of certain political power which must of necessity be enjoyed by any one bank which possesses the Government account?—Decidedly.

516. Do you think an association of banks forms a good agency for the negotiation of loans in London?—Undoubtedly; that has been proved in the case of Victoria.

517. Better, you think, than the Crown Agents?—Yes.

518. We had it in evidence from Mr. Morrah that when the Government of Victoria tried to negotiate a million and a half loan and failed, the Associated Banks bought £600,000 worth of the debentures themselves. Do you think that, for a reasonable amount, an association of banks would be always ready to do that business?—I think so.

519. The Bank of New Zealand, we have been told, acts as paymaster for the Government. That makes a considerable saving, does it not—a saving of about £20,000 a year?—I do not know. I have never thought on the subject.

520. If the account were divided amongst an association of banks, do you think they would consent to act as paymasters, as the Bank of New Zealand does? Would it be worth their while when each bank had only a fraction of the account?—It would be worth while for an association of banks to do what the Bank of New Zealand does.

521. Do you think the rate of interest received by the Government for moneys held in England, namely,  $\frac{3}{4}$  per cent. below the Bank of England rate, a good one?—No; it is within my personal knowledge that the arrangement made with the Bank of New Zealand was a very bad one for the colony. I allude especially to the million and a half which was lodged with the Bank, and which, it was understood, they would have for a fixed period of six and twelve months.

522. What do you think the Government might have obtained for that money?—From the banks in London they would have got at least 4 per cent. The rate for twelve months' deposits varies from 4 to 5 per cent. The best London banks give 4 per cent., and the Colonial and Indian banks from 4 to 5 per cent. That is irrespective of the Bank of England rate.

523. *Sir F. D. Bell.*] When you say that it is within your personal knowledge that the arrangement was a bad one for the colony, are the Committee to infer that you are able to say that, supposing the million and a half had been placed with the Bank you represent, the financial arrangements of that Bank in Lombard-street would have enabled it to give the Government the amount you have named upon a fixed deposit?—No; I am not prepared to say that.

524. Then what do you mean when you say you speak from personal knowledge?—I mean that I know the London banks' rate for fixed deposits for twelve months varies from 4 to 5 per cent.

Mr. Bridges.  
16th Sept., 1875.

525. Then what is the reason that you cannot say that the Bank you represent could have obtained that rate for the Government?—The Association of Banks could have obtained that interest from the London Banks.

526. But why the Associated Banks; why not any one bank?—Any one bank could have obtained it, but I do not say that any one bank would have taken the whole of the money. I cannot say that a young bank like ours would have taken the whole million and a half.

527. *The Chairman.*] What is the actual amount the Government are getting now, with the Bank rate as it is?—Only  $2\frac{1}{2}$  per cent., in consequence of the fall of the Bank rate. From the Associated Banks they would have got from 4 to  $4\frac{1}{2}$  per cent.

Appendix No. 2. 528. *Sir F. D. Bell.*] Is the Committee then to understand that you express a decided opinion that, supposing the £1,500,000 referred to in the loan papers had not been placed with the Bank of New Zealand for six months certain, but with the banks in Lombard Street, the New Zealand Government would certainly have received something like 4 per cent. for the fixed deposit?—Certainly; at least 4 per cent.

529. But if the arrangement which the loan papers show to have been made was one which did not definitely fix a term, but only gave an assurance that, so far as then known, that amount would be left with the Bank for six months, do you still think that so large a rate of interest would have been certainly received?—No, not unless the money was fixed for a term; but still a much more favourable rate than the Government is getting could have been obtained.

530. The institution which you represent contains a number of wealthy men among its directors and shareholders, does it not?—Yes; some of the first men in the city.

531. Is not Mr. Magniac a gentleman who is largely engaged in financial transactions, and a wealthy man?—Yes, he is the chairman of directors.

532. Supposing, then, that your directors had been placed in the same position by Sir Julius Vogel as the Bank of New Zealand was placed in—that is to say, receiving an assurance that £1,500,000 would remain for six months—do you consider that, notwithstanding that limitation, the rate would have been much more favourable than the one which was obtained?—Much more favourable.

533. And through their standing in England and their own position, notwithstanding the youth of the Bank, they would have been able to see that financial operations based on that assurance were made good?—Undoubtedly.

534. Supposing then that a similar offer had been made to place £1,500,000 with the National Bank, not for six months certain, but with the assurance that so far as then known it would be left for six months, what rate in your opinion could have been obtained on that understanding?—I think a fixed rate could have been obtained. At present you are not getting a fixed rate; you may get only 1 per cent. next month, as the rate varies with the Bank of England rate. I think that a fixed rate of at least  $3\frac{1}{2}$  per cent. could have been obtained.

535. Have you noticed in the loan papers an apparent understanding between Sir J. Vogel and the Contractors for the Four Million Loan that no further loan should be placed on the English market for a considerable time?—Yes.

536. Supposing that within the time which may so have been understood, it should be necessary for the public works now in progress that a sum of, say, a million should be placed at the disposal of the Government upon an arrangement which would allow the time in question to lapse before the debentures were actually placed on the London market, would your Bank and its directors be likely, if they had any share in the Government account, to place at the disposal of the Government such a sum for the purpose I have named; seeing that the money has been authorized to be borrowed, and that the question of placing debentures on the market would be one of time?—Of course any action would depend on a variety of circumstances, but I have no doubt that if the Government account were held by the Associated Banks, the views of the Government would be much more likely to be met than if only one bank were concerned; and with no great change in the circumstances of the colony, there would be no great difficulty in finding funds.

537. Do you consider that if the account were held by the Associated Banks such an operation as that I have described would be capable of being readily carried into effect?—Under ordinary circumstances.

538. Assuming that no serious disturbance of the London money market, and no serious depression of the New Zealand trade existed?—Yes.

539. And assuming that some serious disturbance of the money market was occurring in London simultaneously with a tightness of money here, do you think that the Associated Banks would then be able to make an advance of, say, a million?—They would certainly be in a better position than any one bank.

540. But do you think they would be in a position to make the advance?—It is impossible to say.

541. You do not think, then, that the Government would be able immediately to have the advantage of an operation to that extent in their hand if the Associated Banks divided the account?—I can only say that the Government are much more likely to be assisted by the Associated Banks than by a single bank. In the circumstances to which you allude, as far as I can see ahead now, I can perceive nothing which would prevent the Associated Banks meeting the wishes of the Government. I am quite sure the wishes of the Government would be met by an association of banks.

542. *Hon. Major Atkinson.*] I understood you to say you had no doubt the Government could get better terms from the Associated Banks than they now get from the Bank of New Zealand?—I think so.

543. What better terms?—Those to which I have alluded already, and as regards the transmission of money to the colony.

544. I understood you to say that anybody could make that arrangement?—Yes.

545. What better terms could we have got in the matter of interest on our daily deposits, for instance?—I am sure a better arrangement could have been made.

546. Can you tell us to what extent, and how?—No, I cannot.

547. Could we obtain 10 per cent. more?—I do not know, but I am sure better terms could be got.

548. *Sir F. D. Bell.*] If time were given to you could you tell us?—No; the banks would have to consider the matter. *Mr. Bridges.*

549. *Hon. Major Atkinson.*] Can you point out what terms could be got?—I do not see how you can expect an answer to that question. 16th Sept., 1875.

550. It has been stated that we could get better terms, as is the case in Victoria?—I have not thought of it as a matter of detail, but any bank would object to answer that question. I only express an opinion that better terms could be obtained.

551. Then I understand there are no means by which we could ascertain what better terms could be obtained until we came to an actual arrangement with the banks?—I think not.

552. I understood you to say that you were aware, as a matter of fact, that in consequence of the Government banking with one bank caused considerable disturbance to the mercantile interest?—Yes.

553. Could you state to the Committee some fact?—Just before the loan was raised, and when there was some doubt whether it would be raised or not, the Bank of New Zealand found it necessary to put pressure upon the public, and a great many people were injured in consequence. They were members of the mercantile community of the colony. This was especially the case in Christchurch; it was a matter well known there.

554. Only of notoriety?—No; I could prove it. I will undertake to prove it.

555. I understood you also to say that you were aware that on one or two occasions the Bank of New Zealand has put pressure on the Government to the disadvantage of the colony?—Yes.

556. Will you state the circumstances?—I would rather not, as it came to my knowledge in confidence when I held office as their manager.

557. *The Chairman.*] You say that you can prove that pressure was put upon the mercantile community at Christchurch?—Yes.

558. Why should the Bank of New Zealand, under these circumstances, have put pressure on the mercantile community?—Because their advances were so large that if the loan had not been raised they would have been in a difficult position.

559. Do you know what the highest amount of advance was from the Bank to the Government?—No.

560. They say only £30,000?—I am not alluding to that.

561. What is the connection between the Government account and the pressure that was put on these individuals?—The Bank had made these heavy advances in anticipation of the loan being raised, and when they thought that it might not be raised they put the pressure on.

562. *Hon. Major Atkinson.*] They calculated getting the proceeds of the loan?—Yes.

MONDAY, 4TH OCTOBER, 1875.

Mr. BATKIN, Secretary to the Treasury, examined.

*Mr. Batkin.*

563. *The Chairman.*] Have you the statement which the Committee requested you to prepare at the last meeting?—Yes. 4th Oct., 1875.

[The witness handed in the following statement:—

The questions on which, as I understand, the Committee desire me to express an opinion are,—

1. What is the operation of the agreement with the Bank of New Zealand in respect to the funds of the Government in London, and whether that agreement restricts the Government in the advantageous disposal of its surplus balances in London?

2. Would a division of the Bank account be likely to result in the Government obtaining better terms in the conduct of its business, and how would such a division affect the receipt and disbursement of the Public Funds?

3. What is the nature of the business which the Bank performs for the Government, and what facilities does it afford in the collection and disbursement of the public business?

In reply to the first of these questions, I have the honor to state that the original agreement with the Bank of New Zealand referred only to the colonial balances, to the interest which they should bear, and to the terms on which remittances were to be made to England and the colonies. The arrangement whereby the balances in London were first placed exclusively in the hands of the Bank of New Zealand took place in 1867, and arose out of representations made by the Directors of the Bank in reference to certain moneys of the Government deposited with the London Joint Stock Bank, that, in accordance with the spirit of the arrangement subsisting between the Bank of New Zealand and the colony, the Bank of New Zealand should have the benefit of the deposit of all balances of the New Zealand Government, not only in New Zealand, but in London also. The Government acknowledged the justice of the request, and promised to instruct the Crown Agents accordingly, "on the understanding that the same terms were allowed for these balances as were granted by other banks."

The effect of this concession was, as it appears to me, to require that the New Zealand Government should keep its current Bank account in London at the Bank of New Zealand, and that all sums which it desired to deposit at call, in the ordinary way, should be so deposited with the Bank of New Zealand. It is my opinion that, in making this arrangement, the Government in no way debarred itself from the right to make an investment of its surplus funds either in Exchequer bills or other securities, or even as a fixed deposit in some other bank, should it appear to be desirable to adopt such a course.

With regard to the probability of the Government being able to obtain better terms in the conduct of its business by dividing the account amongst the several banks, I am of opinion that such an arrangement would by no means achieve that end. Any arrangement which gave the banks an equal interest in the account would at once unite them against the Government. It might derive advantage from a healthy competition on the part of the banks, but it certainly would derive none from an equally

*Mr. Batkin.*  
4th Oct., 1875.

interested combination. The rate of interest in such a case would, of course, be determined amongst the banks themselves, and it is quite possible that, in order to obtain even fair terms, the Government might be driven back to its present position of keeping the account with one bank. Such a combination as would inevitably result from a division of the account would, moreover, operate most unfavourably in case the Government should at any time require an advance. If the account were divided equally, then no one bank would advance a larger sum than another, since, by doing so, it would be simply adding to the deposit of the other banks, and thus the amount obtained by the Government would be measured by the resources of the weakest bank; or if the advance was obtained by way of overdraft, in which case the objection as to the increase of the Government deposits in the other banks would not operate, then the overdraft allowed by each would be measured by the indebtedness of the Government as a whole, and no one bank would be inclined to contribute more than its proportion of a total sum, the limit of which would have been previously agreed upon between them. Assuming its funds to be secure, I am of opinion that the Government will be in a position to exact better terms by keeping its account at one bank, than by dividing it amongst many.

As affecting the collection and disbursement of the Public Funds, a division of the account amongst the several banks would, it appears to me, be attended with the utmost difficulty.

The receipts of the colony are now paid in as collected to the Public Account, and the sums so paid in are credited in the Treasury books to the several Ways and Means Accounts. These accounts are now classified in the four funds designated by law:—

The Consolidated Fund,  
The Special Fund,  
The Land Fund,  
The Public Trust Fund.

The Consolidated Fund forms one Ways and Means Account. The Special Fund comprises nine Ways and Means Accounts, the Land Fund ten, and the Trust Fund twenty-seven. The difficulty of dividing the items of receipt appertaining to these accounts amongst several banks will be apparent when it is remembered that there are upwards of 500 Receivers of Revenue in the colony, many of whom receive revenues payable to each of the four funds, and that many of them already pay into several accounts; thus, Collectors of Customs pay into—

The Public Account,  
The Provincial Account,  
The Collectors' Deposit Account,  
The Collectors' Imprest Account.

Receivers of Land Revenue pay into—

The Public Account,  
The Provincial Account,  
The Receivers' Deposit Account.

Receivers of Gold Revenue pay into—

The Provincial Account,  
The Native Deposit Account,  
The Receivers' Deposit Account,  
The Receiver-General's Deposit Account.

Clerks to the Bench pay to—

The Public Account,  
The Provincial Account,  
The Corporation Account,  
The Courts of Law Trust Fund Account,  
The Clerks' Imprest Account.

Postmasters pay to—

The Public Account,  
The Postmaster-General's Account,  
The Postmasters' Deposit Account,  
The Postmasters' Imprest Account.

So that it will be seen that the Receivers as a whole are already required to distribute their collections amongst nine accounts, viz.,—

The Public Account,  
The Provincial Account,  
The Corporation Account,  
The Courts of Law Trust Fund Account,  
The Postmaster-General's Account,  
The Receiver-General's Account,  
The Receivers' Deposit Account,  
The Natives' Deposit Account,  
The Imprest Account.

It is impossible to state the objections to a division of the account in other than general terms, without knowing in what form the division is to be made. A division to take effect at the time of collection would be impossible for many reasons: thus, the Colonial Bank has only seven branches, and the Bank of Australasia only eight; and even if every bank had branches at the same places, it would of course be impossible to divide each day's receipts amongst six banks, and yet in no other way could the deposit in each bank, and the labour of remitting, &c., be equalized; and it must be borne in mind that if the balance deposited in each bank is to be equal, the labour imposed on the banks must be equalized also. It would be manifestly unfair that one bank should bear the cost and trouble of collecting the revenue, and the others share only in the deposit.

If it is proposed that all Consolidated Revenue should be deposited in one bank, all or certain Special Funds in another, Land Fund in another, and so on, then all equality in the deposits is at

once destroyed; and as all the banks have not branches at the same places, the transmission of its particular revenue to a particular bank would result in a large part of the revenue being always in transitu in coin. Again, if Receivers were required so to divide their receipts, most of them would have to divide their moneys among two or three bank accounts, and many into seven or eight, and, unless the receipts were accurately divided, the labour of adjusting the errors would seriously retard the business of the Treasury. Again if the revenue was so divided as to confine a particular Ways and Means Account to any one bank, then the Treasury would be unable, except by some system of advance, to pay moneys out of that account at any place at which that particular bank had no branch.

I can see no arrangement for dividing the lodgments on account of revenue amongst the several banks at the time of collection which would not result in an enormous addition to the cost of collection, which additional cost would again be augmented by the cost attending its disbursement. The Treasury would require to divide its daily transactions into six parts, representing the operations of the day on each bank. It already draws cheques on sixty-two branches of the Bank of New Zealand, and if each branch of the other banks were made a branch of receipt and issue, the number of different forms of cheques to be used would amount to 150. The only division of the account which would in any degree be practicable would be a division of the balance of the current account at Wellington, but it would of course be unreasonable to expect that the Bank of New Zealand would continue to collect and transfer the revenue to Wellington on the same terms as at present, if it were allowed to retain only one-fifth of it as a deposit.

I observe that it is stated by the Managers of the other Banks that the Government might make better terms as to the interest on the credit balances of the Public Account; but in view of the fact that the rates now offered by the Bank for fixed deposits for three months is only  $4\frac{1}{2}$  per cent., I think that 3 per cent. on the unfixed balance of the daily account is, after making allowance for the very great labour which the Government imposes on the Bank in the collection and disbursement of the Public Funds, a very fair rate of interest; and I am quite sure that the Managers of the other Banks who have been examined on this subject have no adequate conception of the labour which the conduct of the Government business imposes on its bankers.

Before proceeding to state in what that labour consists, I may remark that the amount of interest credited by the Bank of New Zealand on the daily balance of the Public Account at Wellington, during the past financial year, amounted to £8,633 3s. 7d., equal to  $4\frac{1}{2}$  per cent. for the year on a sum of £191,848. An examination of the Bank account for the year in respect of which this interest was credited shows that the minimum weekly balance during the first quarter was £205,798; for the second quarter, £429,019; for the third quarter, £162,997; and for the fourth quarter, £61,432. The present rate of interest for fixed deposits is—

For 3 months	...	...	...	...	...	...	...	$4\frac{1}{2}$ per cent.
For 6	..	..	..	..	..	..	..	5 ..
For 12	..	..	..	..	..	..	..	$5\frac{1}{2}$ ..

It will be seen, then, that had the banking arrangements admitted of the investment of the surplus balances as a fixed deposit, the largest amount which it would have been possible to invest for twelve months, at  $5\frac{1}{2}$  per cent., would have been £61,432, being the undisturbed minimum balance of the year. The largest amount which it would have been possible to invest for six months, at 5 per cent., would have been £205,798 for the first half-year, and £61,432 for the second, being the undisturbed minimums for those periods; and the largest sums which it could have invested for three months, at  $4\frac{1}{2}$  per cent., would have been £205,798 for the first quarter, £429,019 for the second quarter, £162,997 for the third quarter, and £61,432 for the fourth quarter of the year. As the average of these four sums is £214,811, and as it has been shown that the interest actually credited was equal to  $4\frac{1}{2}$  per cent. on a fixed deposit of £191,848, renewed quarterly throughout the year, it will be seen that, within £23,000, the undisturbed balance of the account yielded interest at the same rate as though it had been invested at  $4\frac{1}{2}$  per cent. interest. It may be argued that all sums in excess of the undisturbed minimum of each quarter might, under the plan of investing the fixed surplus in fixed deposits, have been made to yield interest as at present; but that argument leads back at once to the object of the present inquiry: Can better terms be had for the conduct of the banking business of the Government than those which are now obtained.

I will now state what is the nature of the business performed for the Government by the Bank of New Zealand in the collection and disbursement of the Public Revenues.

In the collection of the revenue the Bank receives at each of its branches—sixty-two in number—the daily collections of every Receiver of Revenue whose office is in the neighbourhood, crediting these collections to the Public Account, the Provincial Account, the Corporation or Borough Fund Account, the Court of Law Trust Fund Account, the Postmaster-General's Account, the Receiver-General's Deposit Account, the Receiver's Deposit Account, or the Natives Deposit Account, as directed in the Bank slip. For all sums lodged the Bank signs two receipts, one in a form for transmission to the Receiver-General, and the other in the office pass-book of the Receiver by whom the lodgment is made. The forms of Bank Account transmitted to the Receiver-General number about 110,000 yearly.

At the close of business on every Saturday each branch transfers the total sum at credit of the Public Account in its books to the credit of the Public Account at Wellington, and at the same time forwards to the Treasury a detailed statement of the several lodgments comprised in the amount transferred.

Each branch transfers to Wellington daily any sum deposited for credit of the Receiver-General's Deposit Account.

Each branch receives, or is liable to receive, deposits made by Receivers of Revenue, to be kept in separate accounts in the name of, and to be operated on by, the depositing officer. The Bank gives duplicate receipts for all such deposits, and furnishes a certificate monthly of the balances at credit of each such account. The Receivers making such deposits are—Collectors of Customs, District Registrars of Land, Receivers of Gold Revenue, Receivers of Land Revenue, Judicial Officers, Postmasters.



Mr. Bakin.  
4th Oct., 1875.

The Wellington branch of the Bank receives, by registered letters, all remittances made by Receivers at places where there is no branch of the Bank, and furnishes two receipts for each such remittance, one being sent to the Receiver-General, and the duplicate to the remitting officer. There are about sixty officers so placed.

The Wellington office supplies daily, pass-books of the Public Account and the Receiver-General's Deposit Account, made up to the close of the previous day; and it also sends in, weekly, a detailed statement of the lodgments made by the local Receivers, and of all remittances received by post.

It also receives and forwards to the Treasury all orders on the Public Account from officers authorized to retain fees in lieu of salary. It supplies to the Commissioners of Audit, every Monday morning, a balanced statement of the receipts into, and withdrawals from, the Public Account during the previous week; and it supplies, half-yearly, a detailed statement of the daily balances at credit of the Public Account and of the Receiver-General's Deposit Account.

The Bank issues all drafts on Government account, for remittances within the colony, free of charge. These drafts represent remittances to and from the Receiver-General's Deposit Account, the Postmaster-General's and Chief Postmasters' Accounts, &c.; and of late years these remittances have largely increased in number.

In the disbursement of the Public Funds, the Bank receives daily from the Treasury one, and sometimes two or three, schedules of sums for which the Bank is required to provide coin at its several branches for cheques drawn thereon, as set forth in a sub-schedule for each bank, giving the number and amount of each cheque, and the name and office of the person on whose countersignature it is payable. Each of these cheques is practically a draft, requiring that the Bank should see before paying it, that the number, amount, and countersignature correspond with the advice received from the Wellington office. The number of cheques drawn in this manner on the Public Account is from 55,000 to 60,000 per annum. During the month of September last, the number drawn was 5,257. At the close of business on Saturday, each branch of the Bank forwards to the Paymaster-General a statement of the cheques paid by it during the week, and of the balance in its hands to cover cheques outstanding.

Remittances by telegraph are made by the Bank, whenever required, at a charge of one shilling per cent.; and it also, when required, makes payment of sums so remitted, taking receipts from the payee in the form prescribed in each case, and forwarding the receipts for such payments to the Treasury.

The Bank pays all dividends on Government securities, payable at its branches in the colony, free of charge.

The Bank is required to keep an account in its books with all persons receiving imprest advances; receiving sums lodged to credit, and paying cheques drawn thereon, by the imprestees.

The number of imprest accounts opened by the Bank each year would probably be 300.

I feel bound to state that, in its conduct of the Government business, the Bank of New Zealand fulfils the duties it has undertaken with the most satisfactory promptitude and regularity, and that, in all its intercourse with the Treasury, it has of late years manifested the strongest desire to assist the department by every means in its power.

I have perused the minutes of evidence placed in my hands by the Committee, but I see no points therein which call for remark except those which are hereunder referred to:—

I observe that Mr. Bridges, in his evidence (page 6), appears to state, in answer to the question No. 121,—“At present, in London, the ordinary banking rate for the sale of drafts on the colony—which amounts to the same thing—is sixty days' sight, at par, and on demand,  $1\frac{1}{2}$  per cent. premium. The money would be paid here on demand at par; and if at sixty days' sight, the Government would obtain  $1\frac{1}{2}$  per cent. premium. Of course they would lose the interest for the time, but that would not be an equivalent. The  $2\frac{1}{2}$  per cent. interest is not so good as the  $1\frac{1}{2}$  per cent. premium for sixty days.”

There appears to be some error here. What is, I suppose, intended to be said is, that at present the banks in London are selling demand drafts on New Zealand at  $1\frac{1}{2}$  discount, and sixty-days' drafts at par. Mr. Bridges states that the selling price in New Zealand of drafts on London, and the selling price in London of drafts on New Zealand, amounts to the same thing. Assuming this to be the case, the mode of remittance suggested by Mr. Bridges, as compared with the mode now adopted, and the terms recently acted on, will result as follows:—

A remittance of £100 to New Zealand on the terms stated by Mr. Bridges would cost—			
Discount at $1\frac{1}{2}$ per cent. on demand draft	...	...	£1 10 0
Interest on £100 for 2 months at, say, 3 per cent.	...	...	0 10 0
<b>Total loss</b>	...	...	<b>£2 0 0</b>

A draft of £100 on London on the terms obtained by the Government gives—			
Interest received in colony on proceeds of draft for £100, at 3 per cent. for 4 months	...	...	£1 0 0
Interest on £100 at credit in London till maturity of draft, say 3 per cent. for 4 months	...	...	1 0 0
			£2 0 0
Less $\frac{1}{2}$ per cent. discount on draft	...	...	0 2 6
<b>Total profit</b>	...	...	<b>£1 17 6</b>

Thus it will be seen that, under the plan suggested by Mr. Bridges, the Government would lose 2 per cent., instead of gaining, as it now does,  $1\frac{1}{2}$ . In other words, the existing arrangements with the Bank of New Zealand is  $3\frac{1}{2}$  per cent. on the transaction better than that suggested by Mr. Bridges.



I must, however, remark that the discount of  $1\frac{1}{2}$  per cent., quoted by Mr. Bridges, appears to me at least  $\frac{1}{2}$  per cent. too high. I know that in August last the Bank of New Zealand, London, was selling 60 days' drafts on New Zealand at par, and, taking that as a guide, I should say that demand drafts could then have been obtained at 1 per cent. discount.

It may be that I have misinterpreted the answer given by Mr. Bridges, as above referred to; but, as I have already stated, I know that in August last the Bank of New Zealand, London, was selling sixty days' drafts on New Zealand at par; and I am also aware that the Bank of New Zealand has within the last year imported gold to a very considerable amount. In the face of these facts, I can scarcely suppose that other banks in London are giving a premium of  $1\frac{1}{2}$  or even of 1 per cent. to purchasers of drafts on New Zealand. I will, however, assume for the moment that that is the case, and, if it be so, the premium must be given for sixty days' drafts, and not for drafts payable on demand.

The purchase of drafts in London on the terms referred to will result as follows:—

Premium on sixty days' draft for £100, at $1\frac{1}{2}$ per cent.	...	...	£1 10 0
Less loss of interest on London Account, at 3 per cent. interest			
for two months	...	...	£0 10 0
Do., do., on Colonial Account for sixty days	...	...	0 10 0
			1 0 0
Profit	...	...	£0 10 0

Under the system adopted by the Treasury, the result, as previously stated, is a profit of £1 17s. 6d., or  $1\frac{3}{4}$  per cent. better than the plan of drawing on London on the terms stated; with the additional advantage that, while under the last-mentioned plan the sums remitted by the English Agent might be very much less or very much more than was wanted at the time of their arrival, the plan now followed enables the Government to provide from time to time the exact sum required to meet its engagements.

Mr. Palmer, in his evidence, states, in answer to question 352, that arrangements for the transmission of money to the colony could be best made in England, that it might be done at par, and there might possibly be a profit of 1 per cent. upon it. The remarks I have already made on Mr. Bridges' evidence on that point show that the Government actually does make a profit of  $1\frac{3}{4}$  per cent. on all moneys it obtains by drawing at sixty days' sight for  $\frac{1}{2}$  per cent.

It will be observed that the answer given by Mr. Palmer to the question No. 378 entirely confirms the opinion I have expressed in my statement—that, by keeping the account in one bank, the Government is in a position to make better terms than by having to deal with an association of banks; for he states that the Government, “by confining itself to one institution, should have been able to exact better terms” than  $\frac{3}{4}$  per cent. below the bank rate for deposit of the £4,000,000 Loan.

In the evidence of Mr. Morrah, I may point out that the document from which he quotes, in answer to the question No. 459, is not the agreement made with the Bank, but a memorandum written by myself explanatory of the banking arrangement. The actual arrangement in respect to the London account is, that the Bank should have the benefit of the deposit of all balances of the New Zealand Government not only in New Zealand but in London, provided “that the same terms were allowed for those balances as were granted by other banks.”

Mr. Morrah states, in his reply to questions Nos. 491 and 492, “that there is a sum of £340,000 (part of the proceeds of the £4,000,000 Loan) not accounted for in the Financial Statement.

I have ascertained that the sum referred to is the difference between the sum of £3,167,571 12s. 4d., quoted on page 2 of that Statement, as the amount which had been paid into the Public Account up to the 31st May, and the sum of £2,056,716 11s. 8d., referred to in page 3, as remaining in the Bank on that date, after deducting the £660,000 repaid to the Bank of England, and £110,000 for commission and discount. As the difference of £340,000 between these sums is a minus quantity, it can scarcely be accounted for by concluding, as is stated in the answer to question 491, that it had been “advanced by the Bank of New Zealand.”

The misapprehension into which Mr. Morrah has fallen arises through his having brought into immediate juxtaposition figures which are but distantly connected with each other, and drawn from them a conclusion they were not designed to supply. Each is a substantive statement, and each is correct in itself. The sum of £2,056,716 remaining in the Bank on the 31st May was the balance of proceeds of the loan after having provided for all expenditure to that date. The sum of £660,000 repaid to the Bank of England was the most notable item of that expenditure, and the Hon. the Colonial Treasurer, in making his Financial Statement, considered it, no doubt, as worthy of special notice.

WEDNESDAY, 6th OCTOBER, 1875.

Mr. Bridges, Director and Acting General Manager of the National Bank of New Zealand, re-examined.

564. *The Chairman.*] On a former occasion the Colonial Treasurer put the following question to you:—“I understood you also to say that you were aware that on one or two occasions the Bank of New Zealand has put pressure on the Government to the disadvantage of the colony?” and your answer was, “Yes.” Then came this question, “Will you state the circumstances?” and your answer was, “I would rather not, as it came to my knowledge in confidence when I held office as their manager.” These answers were considered to be very important by the Committee, and the Committee thought they should take steps to obtain leave for you to make a more distinct statement on the subject; and, at the request of the Committee, I wrote to Mr. Murdoch, the Inspector of the Bank, and received the following reply from him:—“Bank of New Zealand, 28th September, 1875.—SIR,—I have the honor to acknowledge receipt of your letter, dated 23rd instant, calling my attention to certain questions put to Mr. Bridges by a member of the Public Accounts Committee, together with the answers thereto, and requesting that the ‘Bank will permit Mr. Bridges to give the fullest and most detailed information upon the particular point referred to that the Committee can desire.’ My directors quite concur in the opinion you express, that general statements, such as appear to have been made by Mr. Bridges, are prejudicial to the interests of the Public Service, and not only relieve Mr. Bridges from any secrecy on the subject, but desire me to express a hope that you will compel

*Mr. Baskin.*  
4th Oct., 1875.

*Mr. Bridges.*  
6th Oct., 1875.

*Mr. Bridges.*  
8th Oct., 1875.

him to make the fullest disclosure.—I have, &c., D. L. MURDOCH, Inspector.—Reader Wood, Esq., Chairman Public Accounts Committee, Wellington.”—That, therefore, gives you full permission to state distinctly what you really referred to in this matter. Perhaps you would have no objection to do so?—No; but previously I should like to ask you a question. There is an axiom in law that the greatest truth may be the greatest libel. Am I open to any action at law on the part of the Bank?

*The Chairman.*] No.

565. *Witness.*] My answers will be exceedingly restricted and limited unless I understand that I am free from any action.

[Mr. Bridges was here requested to withdraw whilst the Committee deliberated. After a short interval he was recalled.]

566. *The Chairman.*] We have just been looking at the Act on this question to see what powers we have and what we can do, and we find that we have the power to protect a witness if a suit is instituted against him, but we have no power to give any indemnity beforehand. The view of the Committee, as I understand it, upon this question is this: That we think we ought to get all the information from you on this subject that you can give, and if, after having given that evidence, a suit is instituted, and the Committee are of opinion that the evidence is such as to render it proper on their part to give that indemnity, there will not be the slightest difficulty about giving it.—That is quite satisfactory.

[Witness was then sworn in the usual manner.]

567. You are now relieved from secrecy by the Bank. Will you state the circumstances?—The first case goes as far back as the time of the Weld Ministry, when they were on the point of leaving office. I forget whether there was a vote of want of confidence proposed or not, but perhaps Mr. Stafford knows. The Government had to make a remittance to London, to meet the interest on the loans, of I think, between £60,000 or £70,000. Five of the directors of the Bank of New Zealand were here at the time—being members of the House of Representatives—sitting as a Board of the Bank. This application was made by Mr. Fitzherbert, the Treasurer, for an advance by the Bank. I, as usual, saw Mr. Fitzherbert for the purpose of hearing the proposal he had to make, and on reporting it to the directors as they sat in the Board-room, they declined Mr. Fitzherbert's proposition. I was to see Mr. Fitzherbert again, but I was not to agree to any proposition of his. Mr. Russell said to me that they would not make the advance to the Weld Ministry at all. On my way to Mr. Fitzherbert, I was met by several members of the House, who made the remark to me, “Oh, the Bank won't make the advance, and let the honor of the country be kept, to the Weld Ministry, but will to Mr. Stafford,” or words to that effect. I saw Mr. Fitzherbert, and he modified the proposition to such an extent that I thought it ought to be accepted by the Bank. I told him that I must consider it, in accordance with the instructions I had received from my Board. Mr. Fitzherbert declined that, and said, “No, that means referring it to your Board, who are our political enemies.” All the five directors were voting against the Weld Ministry. The five directors were, Thomas Russell, James Williamson, William Buckland, Thomas Henderson, and, I think, James O'Neill. I think the fifth was James O'Neill, but I am not certain, nor am I quite certain as to Mr. Buckland. I am quite certain as to the other three, and I know there were five directors. I was proceeding to say that Mr. Fitzherbert said I must give him a decided answer, and that I must say yea or nay to the proposition. He sent for his colleagues, and all the gentlemen except Mr. Weld were there; and then the proposition was made, to me again for an answer, Yes or No. Bearing in mind what I had heard as to the Bank being used for political purposes (of which I was ashamed, I must confess), I agreed to Mr. Fitzherbert's proposition. That is a case of evident pressure on the part of the Bank.

568. You agreed to Mr. Fitzherbert's proposition?—Yes.

569. In opposition to the instructions of your directors?—Yes.

570. *Hon. E. W. Stafford.*] Did the directors confirm or object to the arrangement?—They confirmed it, but in a way that evidently showed they were displeased.

571. Accompanied by a censure of your conduct?—No.

572. Then, in fact, you do not seem to have done anything that they very much disapproved of, after all?—I think circumstances showed that they did disapprove of it.

573. How; they had previously told you to consult them before giving a final reply, and you gave a final reply without consulting them?—Yes, I did.

574. And they did not censure you for doing so?—No.

575. *Hon. Major Atkinson.*] Then the fact is that the Bank did not put pressure on the Government?—Yes; the Ministry had resigned at this moment, when the advance was made.

576. I understand the fact to be that the directors ordered the Bank to put pressure on, and the local manager took upon himself to set aside the orders of the directors, so that the Bank did not practically put pressure on. The Government knew nothing about the pressure?—It was stated to members that the advance would not be made to the Weld Ministry, but that it would to the Stafford Ministry.

577. *Hon. E. W. Stafford.*] Was that statement made to the Government or to you?—To me.

578. Did you inform the Government that that statement had been made?—No.

579. Then where was the pressure?—Because the Bank did not accept it at first.

580. Then the Government at this time were unaware of this pressure?—No; it must have been perfectly evident to them, although not stated in words.

581. *Hon. Major Atkinson.*] You say that the Government were never told of it?—Not by me.

582. *Hon. E. W. Stafford.*] You have said that there were two propositions; one made by Mr. Fitzherbert, which was submitted to the Board, and refused by the Bank?—I think the proposal was made by the Bank, and refused by Mr. Fitzherbert.

583. Then the proposal Mr. Fitzherbert made subsequently was accepted by you on the part of the Bank, and allowed by the Bank, and you were not censured for making it?—Yes, it was accepted by me, and I was not censured.

584. And the Government were not informed?—Not by me.

585. *Sir F. D. Bell.*] In what way do you hold that the Bank had put pressure on the Government to the damage of the colony, in that first instance?—By the statement that the advance would not be made to one Ministry, but that it would to another. I believe that influenced the result.

586. But if that statement was not made to the Government, how could the pressure be put upon the Government?—It was known that this payment had to be made by the mail leaving on a certain day—on the very day on which they applied for the advance. The mail left on the evening of the day on which it was granted to them, I think.

587. Then was the mail, by which the remittance had to be made, allowed to go without the remittance?—No; it was only just in time. The mail closed that night. If I remember rightly, it was the Panama mail.

588. *Mr. J. Shephard.*] I understand you to mean that this statement by the Bank, as to the course they would adopt as between the Weld and Stafford Ministries, influenced votes in the House of Representatives?—I do think so.

589. *Hon. E. W. Stafford.*] Influenced the votes in the House of Representatives to do what?—To vote against the Weld Ministry.

590. This was in the Session of 1865, I think?—I do not remember.

591. As a matter of fact, are you or are you not aware that the whole of the Auckland members were, all through that Session, voting against the Weld Government, on account of the removal of the seat of Government?—I am not aware.

592. Although many of them were not connected with the Bank at all?—That I do not know.

593. *Sir F. D. Bell.*] Do you mean the Committee to understand that, if it had not been for your interposition, the directors of the Bank of New Zealand, who were then members of the House of Representatives, would have refused to make the advance, and would have prevented the remittance being made by that mail?—I believe it.

594. *Hon. Major Atkinson.*] Supposing the Treasurer had said to you at this meeting, "If this money is not forthcoming, we will remove our account to-morrow to the Union Bank of Australasia," would they have got the money from your Bank?—I do not know that that would have affected me at all.

595. But would it have affected your directors?—Yes, perhaps.

596. Suppose you had not been so public spirited an individual as to take upon yourself the responsibility of accepting the proposition, would there have been any other way of escape for the Government?—I was not actuated by public spirit, but only for the good name of the Bank.

597. Would there have been no other way for the Government to escape in making remittances? If they had said, "If this money is not forthcoming we shall get it from the Union Bank," would you have done it?—No; I should have reported it to the Board.

598. Suppose you had had the option there and then to decide?—I was simply actuated by the good name of the Bank.

599. Not the advantage, but simply the good name?—Yes; I was ashamed of the Bank being talked about as being used for political purposes.

600. *The Chairman.*] I understood you to say that, in the first instance, the Bank made a specific proposal to the Colonial Treasurer, which the Colonial Treasurer objected to. Could you state what that proposal was?—No; I have no recollection of the details now. I made many of these arrangements; I was in the habit of making them whenever required.

601. Were those terms so hard that the Treasurer could not possibly accept them?—One was reasonable, and the other was unreasonable. The proposition of Mr. Fitzherbert was reasonable, and the Bank's proposition was unreasonable.

602. And you accepted the reasonable proposition of Mr. Fitzherbert?—Yes.

603. *Sir F. D. Bell.*] Then do the Committee understand that the object which the Bank had in making that unreasonable proposal was to force the Ministers into resignation?—I firmly believe it. That is my belief in the matter, and that is why I think that the Bank used pressure.

604. *Hon. E. W. Stafford.*] You are aware that there was an arrangement made by the Weld Government, Mr. Fitzherbert being the Treasurer, under which the banking business was done at the time the seat of Government was removed?—Yes.

605. There was at that time some such system as this: That the Government had what was called a Government Account at Wellington, on which they directly operated for payments, but that at the same time the Bank held Government money at all the great receiving ports, such as Dunedin, Auckland, Lyttelton, &c.—separate accounts. There was not one general account at that time?—For a time that system existed.

606. I mean during the whole period of the Weld Ministry?—I do not remember whether it was so for the whole period. I know it was only for a short time. The arrangement was made from month to month.

607. I am speaking of the accounts kept in the colony. The arrangement of the Weld Government was that the Government could only operate on the Wellington account, and not on those at Auckland and elsewhere; and upon the Wellington account, which was for the most part overdrawn, interest was charged against the Government. Do you remember that?—Yes.

608. While these other accounts in other places, which were all credit accounts, not being operated upon by the Government, no interest was allowed to the Government?—Yes, I recollect.

609. Do you remember that one of the very first things I did when I took office was to alter this position, and determine that there should be only one account, and from that time the Government ceased to pay interest to the Bank in consequence of having credit balances?—Yes.

610. Then in point of fact the Bank was really injured by my taking office?—Yes, decidedly.

611. Had the Bank had hypothecated to it in London something about £1,000,000 of bonds by Mr. Wood, acting for the previous Government as Treasurer. Have you any knowledge of the position the Bank was in with regard to the £3,000,000 Loan in London?—No.

612. You are not aware whether or not the Bank was the agent of the Government for putting that loan on the market?—No; my belief is that the Bank had nothing to do with it.

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613. They did not hold any bonds at all then?—No; my impression is they did not.
614. At no time did they hold bonds of the £3,000,000 Loan?—Not that I am aware of.
615. *Sir F. D. Bell.*] I want to know whether the statement that you were just telling us was made by those five directors, to the effect that the Bank would not give accommodation to the Weld Government, but would give accommodation to the possible Stafford Government—whether that statement was made by the directors with instructions to you to communicate it in any way to the Government?—No.
616. And do you know whether any of these five directors did themselves communicate it to the Government?—I do not.
617. Then for all you can tell the Committee, Mr. Fitzherbert, as the Treasurer, was quite unaware of the view which the directors were taking?—I do not think so, from his remark to me. When I told him I would consider his proposition, he said, "Oh no, that means referring it to your directors, our political enemies, and I won't have that," or words to that effect.
618. *The Chairman.*] Are there any other circumstances?—Yes, there is the purchase of the Port Chalmers Railway by the Vogel Government. I think it was in Mr. Vogel's Premiership. I think that purchase would not have been made at the price it was made, but through pressure put by the Bank on the Government, the Bank being largely interested in it. The railway would, perhaps, not have been made but for the Bank.
619. *Hon. E. W. Stafford.*] The railway was a private undertaking, was it not?—Yes; the money, or a large portion of it, being advanced by the Bank. I heard Mr. Bathgate, who was a member of the Ministry at the time, say he would not consent to such an exorbitant price being given for the railway or words to that effect; and it was generally considered in the Bank that it was one of the most profitable operations the Bank had had.
620. You heard Mr. Bathgate make that statement. Did that statement affect the ultimate price?—I do not know.
621. You have made a distinct statement that you heard Mr. Bathgate say he would not consent to a certain price as being exorbitant. Was that price, which he considered exorbitant, the price which was given or not?—I cannot say.
622. And for all you know it might have been another price than that given?—Yes.
623. And Mr. Bathgate might also have withdrawn his opposition?—Yes, he must have done so. If I remember rightly, the first price was obtained. I do not think there was any alteration. I think the price first named was the only one. He said he would not consent to the price demanded.
624. But you do not know whether that was the price given or not?—No, but I believe it was.
625. Then that virtually would show that Mr. Bathgate had consented after all?—To pressure.
626. From whom; his colleagues or the Bank?—That is impossible for me to say.
627. *Hon. Major Atkinson.*] How do you know there was pressure then?—I only infer it; I suppose he gave way on account of the pressure.
628. *Sir F. D. Bell.*] How do you show that the question of price that was given by the Government for the Port Chalmers Railway depended upon some pressure that was brought upon the Government by the Bank?—The Bank being largely interested, the negotiation was managed by the Bank; and the Bank held the debentures for the railway.
629. Are we to understand you to mean that the Bank endeavoured to get the utmost price for the benefit of the customers whose operations it had been conducting?—For their own benefit chiefly.
630. Would you consider that an endeavour by the Bank to get the best price they could for the completion of a transaction was anything in the shape of political pressure upon the Government of the day?—That is my opinion certainly.
631. Then if the Bank were engaged in any transaction with its customers about a private enterprise, you would always think, if the Bank was doing the best for itself and its customers, that it would be putting pressure upon the Government?—That is a different matter altogether.
632. *Hon. E. W. Stafford.*] Applied to the Port Chalmers Railway, where was the pressure?—Because the Bank had so much to do with it, and was so interested.
633. *Sir F. D. Bell.*] How do you illustrate that this brought political pressure upon the Government?—The price at first was resisted by the Government.
634. *Hon. E. W. Stafford.*]—Where was the political pressure to make the Government succumb?—That must be left to imagination. It is a matter of opinion.
635. *Mr. Pearce.*] What consideration did the Government get for giving this high price?—That is a question of opinion.
636. *Hon. E. W. Stafford.*] You cannot tell the Committee where the pressure was brought to bear. You have stated the fact that in your opinion the Government yielded to political pressure; can you form any idea of how that political pressure was exercised?—Yes.
637. What is your idea?—I shall decline to state that.
638. You have only made half an answer to the question?—I hear one of the Ministers characterise the demand as an exorbitant one; I know that it is the general opinion out of doors; I know it is the opinion in the service of the Bank; and I afterwards find that the demand is yielded to.
639. You say you are not aware that what Mr. Bathgate said was an exorbitant sum, was the exact sum paid?—Yes, I think the first demand was eventually acceded to.
640. *Sir F. D. Bell.*] How would the Government have been damaged by the pressure of the Bank, to which you are referring, if they had not yielded?—By paying the difference between a reasonable price and an exorbitant one; the country is damaged by the difference of price.
641. It appears to me that by your answers you would lead the Committee to believe that your opinion is, that by some corrupt attempt the Government were induced by the Bank to give a higher price for the line than they otherwise would have given. In what way would the Government have been damaged if they had refused to yield to that corrupt attempt?—I should have no hesitation in answering that question, but, as I stated at the beginning, I must be quite clear whether I am open to any consequences on the part of the Bank or any individuals. My answer to that would extend beyond the Bank.

THURSDAY, 7TH OCTOBER, 1875.

Mr. BRIDGES, Director and Acting General Manager of the National Bank of New Zealand, examination on oath continued.

Mr. Bridges,  
7th Oct., 1875.

642. *The Chairman.*] When you left yesterday, you objected, I think, to give some specific information, because your answer "would extend beyond the Bank," and you wanted to be quite clear as to the course the Committee would adopt with reference to your evidence in that respect. The Committee have deliberated, and their opinion is that all the protection they have the power to give you will be given.—I understand. I do not think that is sufficient to protect me, and, therefore, I have no further evidence to offer. Perhaps you will allow me to withdraw the last answer I gave yesterday.

643. *Sir F. D. Bell.*] I cannot consent to that.

644. *Witness.*] In answer to the question put to me yesterday, I meant that pressure was used on the part of the Bank, but not political pressure. Pressure was used to obtain a higher price than the property was worth, the Bank being interested.

645. *Sir F. D. Bell.*] Are we to understand that upon taking away the expression "political pressure," you are willing to give any further explanation of what you mean by the word "pressure" without the addition "political;" or are we to understand that you have no further evidence to offer?—I have no further evidence to offer.

646. Do you not see that your evidence, so far, would lead to the inference that very improper transactions had taken place?—Yes; I regret making that answer; but, in justice to myself, I say clearly that the statements I may make here may subject me to an action for libel on the part of the Bank. In a Court of justice, where the production of papers and books could be insisted on, it would be different; but as it is, I should put myself in a false position by making any such statement before this Committee. I had no intention of making that answer, and I ask permission to withdraw it.

647. Do you not think that you should either be prepared to say there is no foundation for your statements, or to carry those statements to their conclusion?—All I can do is to ask you to let me withdraw that answer. If that question were put to me now it would be answered differently.

FRIDAY, 8TH OCTOBER, 1875.

Mr. BRIDGES, Director and Acting General Manager of the National Bank of New Zealand, examined.

Mr. Bridges,  
8th Oct., 1875.

648. *The Chairman.*] The Committee desire me to tell you that they consider your answers to the questions that have been put to you of a very important nature, as they involve practically the character of some of our public men. The Committee do not think the answers ought to rest where they are, and they consider it their duty to press the matter further, and to endeavour to obtain from you more precise answers than you have yet given to those questions. Whilst the Committee are desirous of giving you every protection that lies in their power, they must leave it to you to determine as to what the nature and the character of that protection is, that is to say, whether it is sufficient to cover you as completely as you wish to be covered under the circumstances of the case?—As far as I am aware, no. I have looked at the Act, and it appears to me quite unreasonable to expect that I should make any statement that would render me liable to a lawsuit.

649. At the same time the Committee are of opinion that these answers cannot remain where they are, and that you must be more explicit. Would you state to the Committee, under the circumstances, what the nature of the pressure is to which you alluded with regard to the purchase of the Port Chalmers Railway?—With all respect to the Committee, I must decline to answer any questions that I think would render me liable to a lawsuit.

650. Then the Committee are to understand that you decline to answer that question?—Yes.

651. Or any other question in connection with it?—Any other question that I consider would render me liable to a lawsuit.

652. That is to say, any other question that would elucidate more clearly the answers you have given?—I asked yesterday that I might be allowed to modify my last answer of the previous day. It did not clearly express my meaning.

653. After reading the answer referred to: In what way would your answer extend beyond the Bank?—I can only say I should like either to withdraw that answer or modify it.

654. Do you mean by saying that, that you did not intend to say that your answer would extend beyond the Bank?—I did not intend to say that. If the question were put to me now I should answer it differently.

655. Are the Committee to understand, then, that the answer is a hasty one, and does not contain that which is in itself correct?—The construction of the sentence is such that I cannot say it is not correct, but I can say it is a hasty answer, which would be different if the question were put to me now.

656. *Hon. E. W. Stafford.*] Is it substantially correct?—That is a question which I must decline to answer. It was a hasty answer, and an answer that I regret having made.

657. *Hon. W. Fitzherbert.*] Is it a hasty answer in regard to your own position, or is it hasty in regard to the truth?—That depends upon what construction is put upon the answer.

658. Do you ask to withdraw the answer upon the plea that upon reflection you find that you stated beyond what are facts, or upon the plea that you were hasty in your answer?—It is altogether hasty.

659. *Sir F. D. Bell.*] Do you mean to say that your answer is untrue, or that you have made a mistake, and withdraw it?—I am quite prepared to admit that, as a matter of opinion, it is incorrect as to extending beyond the Bank.

660. But, as matter of fact, was there a transaction of any corrupt kind between the Bank and the members of the Government of the day?—Not within my positive knowledge.

*Mr. Bridges.*  
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661. Then the statement you made of this is not a true statement of the facts?—As a matter of opinion it is.

662. But you are giving evidence about what you told us were facts?—It is a question of opinion. If I answer that question I am subjected to a flat denial on the part of the Bank, and I should appear to the public as a libeller.

663. *Hon. W. Fitzherbert.*] But if it is founded on fact, would not the books of the Bank show it, as you stated yesterday?—I do not know it was a fact; it was simply a strong opinion of my own.

664. *Sir F. D. Bell.*] Then what did you intend when you said in evidence yesterday that it would be different in a Court of justice, where the Bank books and papers could be produced; what was your meaning in referring to them?—That would be the only way in which it could be ascertained whether it was a fact or not. I understood the question as one of opinion. I stated that in my opinion pressure was put by the Bank upon the Government to get a larger price.

665. *The Chairman.*] Do you mean the Committee to understand that you cannot substantiate it as a matter of fact?—I do not know.

666. *Sir F. D. Bell.*] But do you believe that you can or that you cannot?—I think I must again, with all due respect, unless I am fully indemnified, refuse to answer.

667. *Hon. W. Fitzherbert.*] Is it your opinion that such an allegation is capable of substantiation, if full reference to books is obtained?—I would rather not answer any further questions unless I have an indemnity.

668. *Sir F. D. Bell.*] Then the Committee are to understand definitely that, having given evidence which would lead the Committee to believe that improper pressure had been brought by the Bank on the Government in the last case which you mentioned, you now refuse to give the Committee the evidence which is required to trace the truth or otherwise of the inferences which your evidence conveyed?—I object to answer any question that will render me liable to a lawsuit, without a full indemnity. I should like it to be recorded that I have not volunteered any information, but have simply answered questions

669. *Mr. J. Shephard.*] But the information about the Port Chalmers Railway was voluntary?—That was in answer to a question asking me to name instances.

670. Yes; but the special fact was from your own knowledge?—In answer to questions.

[Witness withdrew, and Committee deliberated, and he was shortly afterwards recalled.]

671. *The Chairman.*] Would you have any objection to inform the Committee what books and papers, and what bank officers, would be required to enable the Committee to obtain that information from the Bank officers and books instead of from yourself?—I would rather not answer any questions of that sort.

672. But by giving the Committee a clue you could do yourself no harm, and you would enable them to ascertain the facts?—No, I could not do that.

673. *Hon. E. W. Stafford.*] You expressed a belief that there were books and papers that would prove your statement?—That might confirm my opinion. As I have said before, it is only an opinion.

674. But you stated distinctly that as a Bank manager you had in confidence obtained certain information; and in answer to question No. 556, you said you could state the circumstances, but would rather not, as they came to your knowledge confidentially?—I can only repeat my last answer, that I must decline to give any further evidence.

675. *Sir F. D. Bell.*] You are probably aware that the custom of Parliament, in the case of a witness refusing to answer a question, is, that his refusal should be reported to the House, in order that the House should take such steps as it may think proper?—I am not aware of the custom.

676. I should like to know whether you think of leaving Wellington; because, if the Committee should take the usual course, and report your refusal to the House, it is necessary to know what your intention with regard to leaving Wellington may be?—I shall be leaving probably next Monday. I should have gone yesterday.

677. At any rate until Monday you have no intention of going. Can you assure the Committee that you will not leave Wellington before Monday?—I think so. Having stated my desire to leave on Monday, perhaps you will give me an intimation in writing (if you require me) that I am not to leave.

678. *Sir F. D. Bell.*] If the House should not come to any decision, the Committee will let you know whether they discharge you. The Chairman will, meanwhile, give you a letter to the effect that you cannot leave Wellington until you are discharged.

WEDNESDAY, 13TH OCTOBER, 1875.

The Hon. Mr. WATERHOUSE, M.L.C., examined.

*Hon. Mr. Waterhouse.*  
13th Oct., 1875.

679. *The Chairman.*] The Committee has been informed that you have certain information with reference to the negotiation of the Four Million Loan which some members of the Committee thought it was desirable that you should be asked to afford to them, if you had no objection; and, as far as I am aware, that is the sole question which you are desirous of giving evidence upon?—I may state that I had an authorized communication from Mr. Rothschild on the subject, and that I had the opportunity of testing the accuracy of that statement by conversations with Sir Penrose Julyan and Dr. Featherston. In conversation, at the Reform Club, with a member of that Club—a gentleman well known in political circles in England, Mr. Clarke—I had discussed the subject of the New Zealand loans, which he felt considerable interest in, and without my sanction (in fact, I was not aware at the time that he was in any way connected with Rothschild) that conversation was related to Mr. Rothschild. Mr. Rothschild informed my friend that he was acquainted with me—a circumstance which I thought he had probably forgotten by that time—and as he said there was considerable misapprehension abroad as to the negotiation of that loan, he desired to place him in full possession of the circumstances connected with it, and authorized him to repeat the conversation to me. I need not go into the details of the conversation, other than that he

stated that the loan had been negotiated on what was said to be a promise that no further loan should be placed on the market for a period of probably three but of at least two years. I took exception to the term "promise," and my friend said those were not the exact words used by Mr. Rothschild. The exact words were, "the strongest assurance that no fresh loan should be brought out for a period of at least two years." He said that Mr. Rothschild regarded that statement as being of the nature of a promise. I was somewhat astonished at this circumstance, because I was sufficiently acquainted with the finances of the colony to know that an actual necessity for a fresh loan would arise before that period of time had elapsed. On the next day I had an opportunity of seeing Sir Penrose Julyan, to whom I repeated the conversation, and I asked him whether the statement was correct. He said that there had been no written promise made to Mr. Rothschild, but that undoubtedly an assurance (which he would probably regard in the nature of a promise) had been made to him that no fresh loan should be brought out. I then saw Dr. Featherston, with whom in my communication I was extremely guarded, as I did not wish to put him in a false position, and in those communications I confined myself to stating what I had heard, giving him the opportunity of confirming or correcting those statements. However, in this case I went a little further, and asked him directly whether the statement was correct that something amounting to a promise had been given to Rothschild that no fresh loan should be brought out for a period of at least two years. He stated, as Sir Penrose Julyan had done, that no written promise had been given to Mr. Rothschild, but that an assurance had been held out that no fresh loan should be brought forward for at least two years. To complete the statement, I may add that the matter created in my mind a considerable amount of disquietude, for I felt satisfied it would involve the credit of the colony to an unpleasant extent, and perhaps complicate future attempts to raise a loan. In looking into the matter, it occurred to me that there had probably been a misapprehension, and that what Sir Julius Vogel wished to convey to Mr. Rothschild was, that no fresh loan to be authorized by Parliament would be brought into the market within that time.

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680. You mean no new loan?—Yes. I stated this to Mr. Clarke, telling him that, doubtless, there had been that reservation, and that Sir Julius Vogel did not intend to preclude the Government from borrowing on the loans already authorized to be raised. That was communicated to Mr. Rothschild; and shortly afterwards Mr. Clarke informed me that Sir Julius Vogel had told Mr. Rothschild that he had exhausted his powers of borrowing. I was somewhat taken aback by this statement, and I said it was something I could scarcely credit, and that Mr. Rothschild need only refer to Sir Julius Vogel's Financial Statement of the previous year, and he would see it distinctly stated there that Sir Julius Vogel had an unexpended power of borrowing to the extent of two millions. I added that I was aware that he had been attempting to raise a loan in the Australian colonies, and that a portion of that loan had probably been raised, and that the amount had thereby been reduced. This conversation and this reference to the Financial Statement of 1874 were repeated to Mr. Rothschild, and I received from Mr. Clarke a note of a private character, the first paragraph of which I will read:—"The unexhausted powers are, I understand, limited to those of the guaranteed loan, and some £300,000 or £400,000 unplaced balances of former loans." I saw Mr. Clarke on this subject, and he repeated to me what he said in the note. With feelings of dismay for the future, I saw the Treasurer's Financial Statement here, in which my original statement of the two millions still in existence was thoroughly confirmed. I may further state that Mr. Clarke told me (within a fortnight of my leaving England) that Sir Julius Vogel still assured Mr. Rothschild that there would be no necessity for bringing out a fresh loan until the end of 1877, adding that he had telegraphed to the colony to draw in the expenditure, and that he calculated that the expenditure would not exceed more than £150,000 a month.

681. The difference, according to the statement conveyed in that private note, would be somewhere between £500,000 and £600,000?—Between £800,000 and £900,000.

682. Was the final conclusion left in your mind that Mr. Vogel's assurance referred to the balances of the loans already authorized, or that there should be no fresh loan?—The words, as far as I can remember, were, "Sir Julius Vogel still assures Mr. Rothschild that there will be no necessity for a fresh loan until the end of 1877."

683. But Mr. Rothschild became aware, by the communication to which you have referred, that there were still unraised balances of existing loans?—Yes.

684. And what was the final conclusion in your mind after you knew that he was aware of those unexpended balances—whatever the amount would be?—I concluded that he believed there would be no necessity for borrowing any fresh money in the English market until the end of 1877.

685. Not even the unexpended balances?—No.

686. *Hon. W. Fitzherbert.*] Are you aware whether there was a final disclosure made to the Contractors for the Four Million Loan, before closing their contract, to the effect that the Government of New Zealand held authority at that date to negotiate and issue nearly two millions of debentures over and above the four millions then under offer?—I can state distinctly that, so far as Mr. Rothschild was concerned, he appears to have been ignorant of that circumstance, although it came to his knowledge through this communication to myself.

687. Was he made acquainted with it before closing the contract?—He could not have been. The contract was closed before I arrived in England. I arrived in England on the 5th April, and the contract was entered into in March.

688. *Hon. Major Atkinson.*] But you expressed your astonishment that he did not know it, as it had been publicly stated by Sir Julius Vogel last year?—I did not express astonishment at his not knowing it, but at the statement made. When I was told that Sir Julius Vogel had denied the existence of this, I referred Mr. Rothschild directly to Sir Julius Vogel's own Financial Statement.

689. And then, I understand, an explanation took place, by which it appeared that between £1,100,000 and £1,200,000, including debentures, was all that could come into the market?—Yes.

690. *Sir F. D. Bell.*] Did you have any conversation with any one else on the subject in England, which has led you to understand that that was the impression generally prevailing?—I only saw Mr. Westgarth and Mr. Donald Larnach, the latter of whom may be known to the Committee as the Managing



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Director of the Bank of New South Wales. I had conversations with both of those gentlemen, and they laboured under the impression (I do not know how they had arrived at it) that no fresh loan would be required for two years; and, indeed, they went so far as to say that if a fresh loan were brought out within two years it would be an utter and absolute failure. Upon that point I may say that I was informed by Sir Penrose Julyan that Mr. Rothschild himself had assured Sir Julius Vogel, at the conclusion of the negotiations, that if a fresh loan were brought out within two years the credit of the colony would be "damned." This expression I can distinctly remember as having been used by Sir Penrose Julyan.

691. *Hon. W. Fitzherbert.*] What did those gentlemen understand the meaning of the term "fresh loan" to be?—A fresh loan brought out in the English market.

692. Debentures floated, whether authority was given subsequent to that date or not. Then I understand that "fresh loans" meant any debentures floated in the market beyond those already quoted?—Yes, I understand so.

693. *Sir F. D. Bell.*] Is the Committee to understand that your own impression, from the conversations to which you have been referring, was that those persons who had been invited to subscribe to that loan under Rothschild's contract would have been led to believe that no further loan would be placed on the market within that time?—I can say nothing with regard to those parties. When Rothschild brings forward a loan, parties take it up in the hope or belief that it will be a profitable investment, because it is brought forward by Messrs. Rothschild. The loan was still in the hands of the dealers, and I was informed in two different quarters that, as regards Messrs. Rothschild, they had sent over to Paris £250,000 of the two millions of the loan, which they reserved in their own hands for sale there, but that they were entirely unsuccessful in negotiating the bonds there.

694. *Hon. W. Fitzherbert.*] Is it your opinion that supposing a holder or purchaser of any portion of these four million bonds contracted for by Rothschild were to have it brought to his knowledge that additional debentures—other than those issued—were put on the market, he would have any right to complain?—The statement has not been made to the public at all. It was made to Mr. Rothschild, and he would have only a right to complain so far as he was influenced by a repetition of the statement by Mr. Rothschild.

695. I want to know whether, in your opinion, brokers when they sell to customers are not in the habit of stating reasons in favour of the purchase of their bonds, and whether they are likely to be kept in the dark as to any promise given by the agent in England, or any fact which would make them more negotiable?—Undoubtedly.

696. *Sir F. D. Bell.*] Are we to understand, then, that your own impression is that Mr. Rothschild would consider that something like a breach of honorable understanding would occur if the Government were now to carry out the course which the Treasurer has announced in the House of Representatives, that the remaining £1,200,000 unguaranteed would be placed in the market on the first favourable opportunity?—I am quite sure of it. I may state that I have, with the parties to whom I have referred, Messrs. Westgarth and Donald Larnach, discussed what the effect would be of bringing forward a fresh loan in the face of the distinct understanding entered into, and we were of opinion that the effect would be that we should have Rothschild's influence brought distinctly to bear adversely upon the colony, and that of itself would be sufficient to damage most seriously the credit of the colony.

697. Are we to understand, then, that your own impression of the meaning of that phrase which you repeated as having been used by Mr. Rothschild, that the credit of the colony would be damned, is, that that would be the feeling that would be entertained by those persons to whom you have been referring if this transaction were to be made?—Undoubtedly. Mr. Westgarth is intimately associated with colonial loans, and he went so far as to say that if we brought out a loan in less than two years, he believed there would not be a single tender for it. I then said it would be simply a question of price, and he said it would, and that if bonds reached a speculative price, buyers would of course be found.

698. *The Chairman.*] Then is the Committee to understand that Messrs. Westgarth and Mr. Larnach were aware of this understanding, or assurance as it has been termed, given by Sir Julius Vogel to Mr. Rothschild?—I do not know to what extent they were aware of it. They knew of it from me, but I cannot say to what extent they were aware of it prior to their getting some distinct knowledge from myself.

699. You referred to it in conversation with them?—Yes.

700. And it did not appear to you that they heard it as for the first time from you?—No; there was nothing to lead me to believe that they had heard it for the first time; but at the same time I think that they did not get the reliable information previously, but that they were only aware of the general feeling which existed.

701. *Hon. W. Fitzherbert.*] In your conversation with these two gentlemen, was an adverse opinion expressed by them respecting New Zealand loans if they were put out within two years, based upon the breach of promise or supposed honorable engagement, or from the quantity there were in the market?—I think the two together. They said it would be a considerable time before the market could absorb this large sum of four millions, and that a great deal of dissatisfaction had been created by this loan being brought in so speedily after the former loan of a million and a half; and they further stated that the holders of the former loan had in many cases not been able to place their debentures, and were indignant at the action of the Government. I may state that, in the first conversation to which I have referred—I mean that with Mr. Clarke—when I saw that there was a feeling on Mr. Rothschild's mind that something in the nature of a promise had been made, I stated distinctly that it would be well that Mr. Rothschild should understand that no person was authorized to tie the hands of the Legislature or to control their action, and that it would be absolutely necessary for the colony to borrow to meet its requirements; and that, so far as the Government were concerned, the colony and the Legislature could not be bound by any unauthorized statement which would have the effect of preventing their going into the market.



702. *Mr. Pearce.*] Are we to understand that Messrs. Rothschild had not had possession of the Financial Statement of 1874 at the time that they negotiated this loan?—It was never referred to at all until I referred to it myself. *Hon. Mr. Waterhouse.*

703. Is it conceivable that they did not consider it worth while to look at the Financial Statement of the colony?—I think you will find, as a matter of fact, that persons going into these transactions are influenced by the opinion they entertain as to the readiness with which they could get rid of their bonds. They go in simply with the view of realizing a profit.

704. It must have been known to dealers in New Zealand bonds that a large portion of the authorized loans had not been raised; was it not so?—I do not know, nor do I believe, such was the case. The extent of knowledge on these matters in England is not great. I do not think you will find that persons in England are in the habit of reading through our Financial Statements.

705. *Sir F. D. Bell.*] Speaking generally, would you suppose that any one, even if he had read the Financial Statement, would be influenced by that in any way compared to the way in which he would be influenced by a statement from the Colonial Treasurer himself in England?—Undoubtedly not. do not think it is the practice of persons in England to read the Financial Statement of New Zealand.

706. *Hon. Major Atkinson.*] Not among business men who are dealing in these matters?—No; how utterly impossible it would be in Mr. Rothschild's case that he should read the Financial Statement. If the bonds are in fair request, and the credit of the colony is good, he will go in simply with the view of making a profit. He has a general notion of the credit and resources of the colony, and on that he acts.

707. What you mean is that if Rothschild, the contractor, is satisfied that the Government have legal authority to place bonds on the market, he does not look to the time at which they can do so?—Certainly.

708. Then does he know nothing of the power of borrowing which the colony possesses?—Yes, undoubtedly. He will inform himself that any particular loan he is asked to negotiate is duly authorized. I cannot state as a positive fact that Mr. Rothschild, before the negotiation of the loan, was not made aware of the existence of these unexpended borrowing powers. I only infer it from what took place.

709. Supposing that Mr. Rothschild had been made acquainted of these particulars prior to this conversation that took place between him and you, through Mr. Clarke, is it conceivable that the negotiation would be prolonged?—The whole circumstances, I think, clearly show that he had not that information. Of course I cannot say that as a positive fact. There was not the slight doubt in my mind about it.

710. *The Chairman.*] Were you Premier at the time when the Government initiated the negotiation for the purchase of the Port Chalmers Railway?—Yes.

711. Are you acquainted with the character of any negotiations that might have been carried on?—I am only acquainted with the character of the negotiations carried on during the time that I was Premier. The negotiations were concluded subsequent to my leaving office, and consequently I am entirely ignorant of their nature.

712. Do you know any price that was named in connection with the negotiations up to the time that you left office?—I will state exactly what took place. The Ministry were authorized by the Act of 1872 to purchase the Port Chalmers Railway. Directly after the conclusion of the session, negotiations were placed in the hands of the Hon. E. Richardson, who proceeded to Otago to see what could be done in the matter. Our idea at the time was that we should act liberally towards the Contractors, and should not refuse to give them a fair profit, rather than use the power which Government did possess, or if they did not possess that they should get, to construct rival works. The Hon. E. Richardson went over the works, and formed his own estimate of their value, and saw the Contractors there. The matter was very much pressed on by Mr. Macandrew, who was very anxious that the Government should obtain possession of these works on behalf of the Public Works policy. On the Hon. E. Richardson coming to Wellington, the question was discussed. At the same time Mr. Murdoch came up, and had some conversation with Sir Julius Vogel upon the subject. We found that the amount asked for was much greater than we should be justified in paying, but at last I proposed, and the Cabinet adopted, a suggestion that we should limit our offer to whatever amount the provincial authorities were prepared to sanction. This suggestion was made by me, because at that time the provinces were responsible for the interest on the railways, and I thought we should not assume responsibility of this character, which would have the effect of entailing pecuniary responsibility upon the provinces, except with the concurrence of the provincial authorities. We telegraphed to Dunedin, and found there was a difference of opinion between Mr. Macandrew on the one side, and his Executive on the other. They telegraphed back to say that £150,000 was the highest amount that they would consent to our giving on behalf of the provinces.

713. Do you mean that a difference of opinion existed between Mr. Macandrew, the Superintendent, and his own Executive, or the Colonial Executive?—His own Executive. Mr. Macandrew personally was desirous that we should obtain the railway at any price, while his Executive were strongly of opinion that no more than £150,000 should be given. The question came up again. Mr. Murdoch came to Wellington and resumed negotiations with Sir Julius Vogel, in the course of which it appeared that we could get the railway for £185,000, while Sir Julius Vogel arrived at the conclusion that we would succeed in getting it for £175,000; but I took a decided stand that we should not depart from the principle laid down that we would not take the railway at a higher price than the provincial authorities authorized us to give. Negotiations were, therefore, altogether suspended. A short time after I left office I heard that the Government had acquired that railway, but up to the present time I have not heard upon what terms, or whether it was with the concurrence of the provincial authorities.

714. *Hon. Major Atkinson.*] Do you know whether the Bank of New Zealand were negotiating to effect the sale?—Mr. Murdoch had three interviews with Sir Julius Vogel, and pressed the matter very much upon him; and I know from other sources that the Hon. E. Richardson's great difficulty was the hardness of dealing with Mr. Murdoch. At that time I had no idea whatever that Mr. Murdoch had any

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*Hon. Mr. Waterhouse.* interest, either personally or as representing the Bank of New Zealand, in the matter, except perhaps as the holder of bonds; but subsequently I learned, from the annual report published by the Mercantile Loan Agency, that they had an interest in the matter, and that the profit which they had derived from it had rendered their year's operations unusually profitable.

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715. You think the owners of the railway were anxious to sell to the Government?—I cannot say anything of the holders down at Dunedin. Mr. Murdoch was undoubtedly anxious to sell.

716. *The Chairman.*] What amount did the Loan Company hold; do you know?—I do not know. The price originally asked for the railway was, I think, £200,000, but Mr. Murdoch came down to £185,000, and then Sir Julius Vogel was under the impression that he would get it for £175,000.

717. *Hon. Major Atkinson.*] If the Provincial Executive had recommended £200,000 should be given, would you have acceded to that?—In accordance with the principle I laid down, I should most probably have given way to their recommendation.

THURSDAY, 14TH OCTOBER, 1875.

*Mr. Bridges.*

Mr. BRIDGES, Director, and Acting General Manager of the National Bank of New Zealand, examined.

14th Oct., 1875.

718. *The Chairman.*] You are aware that the House of Representatives have ordered this Committee to continue the inquiry in the line of examination on which you were examined before. This being a new examination, it is necessary that you should be re-sworn.

[Mr. Bridges was then re-sworn.]

719. *Witness.*] Before you proceed with my examination, I should like to say that recently, when I saw the direction in which the inquiry was tending, I thought it necessary to decline to answer questions which would render me liable to a lawsuit. Now, however, I am quite willing to answer any questions you may put to me which are within my knowledge. I also wish to point out that there are errors in the printed report of my examination on the 6th October, and I wish to take objection to the evidence that was given by me on that date, having been printed without being first submitted to me. They are simple errors, and do not affect the evidence at all. I desire to be allowed to correct my answer to question No. 618, by adding the words, "or words to that effect" to my observation that I had heard Mr. Bathgate say that he would not consent to the price. I also wish to be allowed to explain my answer to question No. 624, by saying that I did not intend to imply that Mr. Bathgate had been subjected to any personal pressure upon himself. I think the printed evidence is calculated to mislead in that respect.

720. *The Chairman.*] The Committee will now proceed with the examination. Have you read the Act which has just been passed, by which you are fully protected for the evidence you will give before this Committee?—I have.

721. Now, Mr. Bridges, the Committee will expect you to make a full statement of the grounds on which you gave evidence before the Committee on the previous occasions, to the effect that pressure had been brought upon the Government by the Bank in the purchase of the Port Chalmers Railway, and they will hear any statement you may have to make in the first instance?—The opinion was founded on a variety of circumstances, some of which, I find, were not facts, as I stated to the House.

722. But what were the grounds on which you made the statement? You must tell us what it was that led you to make the statement?—I say it was a floating opinion from a variety of circumstances.

723. What were the circumstances?—If you will ask me any particular question as to upon what the opinion was founded, I am prepared to answer it.

724. It is for you to inform the Committee what the circumstances were?—I am advised by my counsel that the Act passed is not full, and that if I say anything that may be construed into malice, I am not protected, and I should not be protected in the Supreme Court. Therefore, I suggest that you should question me. I had no positive knowledge of the fact. The opinion was founded, as I said before, upon circumstances which I find were not correct; the chief fact being that it was not the Bank but the New Zealand Loan and Mercantile Agency Company. I also received a communication from a member of the House that I was under a mistake, and that the pressure had not been put by the Bank, but by the Superintendent of the province.

725. *Mr. J. Shephard.*] Would you name that member?—Mr. Luckie.

726. *Hon. Major Atkinson.*] You say you were informed that the pressure had been used by the Superintendent—which Superintendent?—Mr. Macandrew, Superintendent of Otago.

727. *The Chairman.*] I must recall your attention to this: that you must inform the Committee what the circumstances were that made you give the original evidence?—I can only state a variety of circumstances.

728. What were those circumstances? It is my duty to tell you that the House has decided that these circumstances must be fully disclosed; and the Legislature has given you now exactly the same protection that you would have in a Court of law. A Court of law would compel you to give answers to such questions, and you must give the answers here. You must tell the Committee fully what the circumstances were that led you to make the statement?—It will be a long statement that I must make. I shall have to call your attention to a variety of matters. The first of these is, that there is a Company called the New Zealand Loan and Mercantile Agency Company, which is affiliated to the Bank of New Zealand, and so closely allied to it in the colony, that the Directors of the Company are also Directors of the Bank; and the Company is managed by the Manager of the Bank in London, and by the Chief Manager of the Bank in the colony. The operations in the colony are often of a mixed character, partly done by the Bank and partly by the Loan Company, and, in consequence, I have been in the habit of looking upon them as one concern. I have already stated what I heard Mr. Bathgate say. In January 1873, I went to England, where I was in frequent communication with Mr. Larkworthy, who is the Manager of both the Bank and the Company, in London. I heard him speak of the purchase of the Port Chalmers Railway; and it was he who first gave me a strong

impression that pressure had been put upon the Government, by saying it had been an advantageous operation altogether, and by expressing his desire for more such operations. I think that is all I have to say.

*Mr. Bridges.*  
14th Oct., 1874.

729. But, Mr. Bridges, you must tell the Committee what "the circumstances" were to which you were referring when you said that certain circumstances had come to your knowledge in confidence while you were Manager of the Bank?—I concluded, as I have said, that pressure must have been put on the Government, or the price would not have been given, having heard that that price was generally considered excessive. I also have an impression that I have heard (though this is only hearsay) that the previous Ministry had determined that they would not give more than a certain price.

730. Then the Committee are to understand that what was in your mind when you gave your former evidence was this: that whether it was the Bank or the Mercantile Loan Agency Company that was immediately interested, you held that the circumstances, whatever they were, were either between those institutions or by both together?—Yes.

731. Well, what were those circumstances?—I do not quite understand you.

732. So far it appears that the two institutions are to be taken together, instead of the Bank alone, as having put pressure on the Government. Now, I again ask you what the circumstances were under which pressure was put on the Government?—The circumstances by which I came to my opinion are these: I heard Mr. Bathgate make a certain statement. I heard Mr. Larkworthy say it was a very good operation, and he left the impression on my mind that it was a very profitable operation indeed. I felt very little interest in the matter, and I do not remember putting any questions to Mr. Larkworthy respecting it. I also heard that the Ministry had given more than the previous Ministry determined to have given. These are sufficient circumstances to prove that pressure had been put on the Government.

733. Then, are the Committee to understand that it was from this conversation that you had with Mr. Bathgate that you were led to make imputations such as those which are contained in your previous evidence?—I had no intention of making imputations. If you remember, I requested to let me withdraw or modify that answer, stating that it was a hasty one.

734. Are the Committee, then, to understand, by your present evidence, that it was not your intention to cast any imputation upon anybody?—Yes.

735. And are the Committee to understand that you have no other information to give on the question of the purchase of the Port Chalmers Railway?—I have no other information to give. On the advice of my counsel, I have no further information to give, but I am prepared to answer questions as to facts within my knowledge. My counsel says the Act does not protect me.

736. *Hon. Major Atkinson.*] Then you have information to give?—I do not know that I have any information to give.

737. *The Chairman.*] I will ask you again, are there any circumstances whatever, which as a matter of fact, came to your knowledge in a confidential way, and are there any account books, or papers, or any officers of the Bank, or otherwise, with respect to which you are able to give any information whatever to the Committee?—As a matter of fact I do not know.

[Witness was here requested to withdraw while the Committee deliberated, and the usual hour of adjournment having arrived, he was not recalled, but was ordered to attend at half-past 11 o'clock next day.]

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FRIDAY, 15TH OCTOBER, 1875.

Mr. BRIDGES, Director, and Acting General Manager of the National Bank of New Zealand:  
Examination continued.

738. *The Chairman.*] Mr. Bridges, in your original examination you said at different times that pressure had been exerted by the Bank upon the Government. The term "pressure" in reference to any action taken by a bank has a well-understood meaning among all persons acquainted with banking transactions?—Yes, I suppose so; it is generally understood.

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15th Oct., 1875.

739. In fact it means that any arrangement which may exist as to overdrafts or accommodation generally will not be continued to the same extent at all events?—Yes, that is the usual mercantile acceptance of the term.

740. Then, when you said that you did not mean that political pressure had been exerted by the Bank in the instance you mentioned, but simply that pressure had been exerted, you meant pressure in the ordinary sense?—Pressure may be described in other ways.

741. What is the other way?—I meant it in the ordinary way.

742. At the time the purchase of the Port Chalmers Railway was completed, the following persons were members of the Ministry:—Sir Julius Vogel, Sir Donald McLean, Hon. E. Richardson, Mr. Bathgate, Mr. O'Rorke, Mr. Reynolds, and Dr. Pollen. To which of those gentlemen did you mean to refer to as upon whom the pressure had been exerted?—That is a matter of opinion.

743. Was it Sir Julius Vogel?—I do not know that Sir Julius Vogel had any accommodation from the Bank at the time.

744. I am not asking you about the express amount of accommodation, but about the word "pressure"—the influence, in fact, which you designated by the term "pressure." Do you think it was exerted on him?—I have said that I had no knowledge that any member of the Government had an overdraft at that time. I was in England.

745. The word "overdraft" has not been mentioned.—Well, advance or accommodation.

746. Did you mean Sir Julius Vogel as one of the members of the Government when you said that pressure had been exerted?—I do not think I am permitted to answer that question, because I do not know it as a fact that he had any accommodation or advance.

747. As a matter of opinion, was he in your mind when you used the term?—I am advised by my counsel that I must say nothing as a matter of opinion; it must be only as a matter of fact.

748. You have distinctly stated that you believed pressure was exercised by the Bank on the

*Mr. Bridges.*  
15th Oct., 1875.

Government?—I have requested my counsel to give me his opinion in writing, which I have here, and which shows my course quite clearly. I will lay it before the Committee.

749. I do not think the Committee have any right to see the advice you get from your counsel at all. The duty of the Committee is to get from you the grounds on which you stated previously that pressure had been exercised by the Bank on the Government.—Yes; but unless those grounds are facts, I am prohibited by law from answering these questions. I can give no opinions, or I am liable to be criminally prosecuted as showing malice, or what might be construed into malice.

750. *Hon. Major Atkinson.*] Did you refer to Sir Julius Vogel when you said that pressure had been put upon the Government?—I have said that my opinion was from a number of inferences. I do not think I can answer that question.

751. Do you refuse to answer?—Yes, I refuse to answer that question.

752. *Mr. J. Shephard.*] Was Sir Julius Vogel involved in those inferences? That is not criminating yourself in any way?—Yes.

753. *The Chairman.*] Was the Hon. E. Richardson?—No.

754. Was Sir Donald McLean?—No.

755. Was Mr. Bathgate?—No.

756. Was Mr. O'Rorke?—No.

757. Was Mr. Reynolds?—No.

758. Was Dr. Pollen?—No.

759. *Hon. Major Atkinson.*] How was Sir Julius Vogel involved in those inferences?—From the fact that, up to the time of my leaving Wellington for England, Sir Julius Vogel's account was nearly always overdrawn at the Bank.

760. Then you think that any man who has an overdrawn account is subject to this influence?—Yes.

761. *The Chairman.*] You have stated more than once that your answer would extend beyond the Bank. To whom would it extend beyond the Bank?—To Sir Julius Vogel.

762. Sir Julius Vogel was then a member of the Government, and the Committee rather infer that, outside the Government and outside the Bank, your answer would extend to some third parties?—No, I have been misapprehended.

763. *Hon. Major Atkinson.*] Have you, since your last arrival in the colony, said to any person that you would or could make such revelations of the doings of the Bank of New Zealand, or the Loan and Agency Company, as would make the Bank of New Zealand glad to give your Bank a share of the Public Account, or words to that effect?—No, I have not said words to that effect. That is incorrect. As regards the last portion, certainly not.

764. *The Chairman.*] That is the portion which refers to getting a share of the Government account?—Yes.

765. *Hon. Major Atkinson.*] Then you have talked about making revelations?—No, I have no recollection of that. What I have said is to this effect: That if it was known what I know, the Bank would lose the Government account. It was to that effect, but not as you put it.

766. To whom did you say that?—I mentioned it to several.

767. Can you name any one?—No.

768. Then will you state what the revelations are that you meant?—I have done so.

769. *The Chairman.*] The Committee is to understand, then, that the statements you have made heretofore in your evidence were what you meant by the term "revelation," as used by you in private conversation?—Yes

770. With reference to the statement which you made, that pressure had been exercised by the Bank of New Zealand, is it not a fact, speaking of the private customers of the Bank, that pressure has been put, within the last twelve or eighteen months, by more than one Bank on individuals?—Yes.

771. By the Bank which you are managing, for instance; has it not been found necessary to put pressure on individuals by that Bank?—Yes, it is a matter of every-day occurrence. If an overdraft is found to be too large, it is required to be reduced.

772. *Mr. J. Shephard.*] In answer to question No. 566, with reference to the transaction with the Weld Ministry, you said, "Mr. Russell said to me that they would not make the advance to the Weld Ministry at all." I understood that remark to have been made by Mr. Russell to yourself, not in the presence of the Board, but in private conversation. However, there seems to be some difference of opinion about it; perhaps you will state how it was?—I forget. Most likely I was alone with Mr. Russell at the time. I have little doubt it was said to me alone.

773. *Witness.*] I should like, before the Committee release me from attendance, to call attention to the fallacies and misstatements contained in the memorandum of Mr. Batkin, with respect to my evidence?

774. *The Chairman.*] You mean with reference to the general banking arrangements?—Yes.

775. Well, when you attend again, you may perhaps make a statement on the subject, if you wish to do so.

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MONDAY, 18TH OCTOBER, 1875.

*Mr. Bridges.*  
18th Oct., 1875.

Mr. BRIDGES, Director, and Acting General Manager of the National Bank of New Zealand :  
Examination continued.

776. *The Chairman.*] Mr. Bridges, in your evidence on Friday, you stated that, up to the time you left the Bank of New Zealand, Sir Julius Vogel's account was nearly always overdrawn?—Yes.

777. The Committee desire me to ask whether you are aware that that account was ever exceptionally treated by the Bank?—Yes, exceptionally treated in this way: The account was allowed to be overdrawn in Wellington up to a certain amount—I think it was £200—and then it was transferred to Auckland by his own cheque on the Bank of New Zealand.

778. Which, in fact, wiped off the overdraft from the Wellington account?—Yes.

779. Do you know whether that cheque which extinguished the overdraft at Wellington was placed to the debit of his account in Auckland?—I do not know. Not within my personal knowledge.

780. That question has been put to you at the request of the Committee generally, and the Committee also desire to know how you connect the fact of the overdraft in Sir Julius Vogel's account with the purchase of the Port Chalmers Railway?—The accommodation granted by the Bank was so excessive that the Bank would have great power over him.

781. You have stated £200 as the amount of overdraft he was allowed in Wellington?—Yes.

782. Do you call that an excessive amount of accommodation?—No, that was a frequent occurrence. I mean the transfer of his account to Auckland.

783. Then this operation of transferring his account, when the overdraft reached £200, was an occurrence that took place frequently?—Yes.

784. *Mr. J. Shephard.*] You knew nothing of the state of Sir Julius Vogel's account in Auckland?—No.

785. Nor did you at the time you were Manager?—No.

786. At what intervals was this overdraft cancelled in this way?—At irregular intervals.

787. About what intervals?—I cannot trust my memory to make any answer to that question. They were very frequent.

788. Four or five times in a year?—I should say much more than that, but I really cannot tax my memory.

789. *The Chairman.*] You stated, when you were last here, that you wished to give some further evidence with respect to Mr. Batkin's memorandum. Before you do that, I wish to ask you some questions in elucidation of evidence you have given in reference to the general banking arrangements. In question 495, you stated that the course pursued in Victoria of employing the Associated Banks worked well. How would you propose to make the receipts and payments to the different accounts in New Zealand? Are there any such separate accounts kept in Victoria, and any such payments made there?—I believe so. I was in Melbourne, on my way to this colony, in September, 1874, and I consulted two of the Bank Managers there on the subject. I asked them whether there would be any difficulty in the matter, and they said, "No." I asked Mr. Curtayne, the Manager of the Union Bank of Australia, how it was done, and he said "Easily enough; there is no difficulty in the matter." Something called away his attention, and I did not get particulars; but I believe the difficulties pointed out by Mr. Batkin are visionary.

790. Do you know whether the Government of Victoria has any local paymasters?—I do not.

791. Did those Bank officers whom you conferred with in Melbourne know or were they aware of the accounts kept by the New Zealand Government when they gave you their opinion?—No, I should think not.

792. You do not know anything about the matter yourself?—No.

793. In answer to question 522, you said that you knew the London bank rate for fixed deposits for twelve months varies from 4 to 5 per cent. What London banks were you referring to? Were you referring to Colonial banks having offices in London, or English banks?—English, Colonial, and Indian banks.

794. Name some of those that give from 4 to 5 per cent.?—All the London banks give from 3½ to 4 per cent. The London and Westminster and Union Bank of London give from 4 to 5. It is a matter of advertisement that they give 5 per cent. for deposits for twelve months.

795. Did the National Bank of New Zealand offer to take any part of the loan?—Not that I am aware of.

796. Mr. Magniac, in a recent report of the National Bank of New Zealand, states that they had a share of the loan. How did they obtain it?—By tendering, I suppose.

797. To your knowledge they did not make any offer to the Loan Agents to place any of the loan?—I am not aware that they did.

798. You never heard that it was their intention to make an offer?—No.

799. You stated, in answer to question 554, that you could prove that the Bank of New Zealand put pressure on the public?—Yes. There are so many cases within my knowledge of persons being pressed that could be proved. There is no doubt in the mind of any banker on the subject.

800. But the Committee wishes to have your own knowledge—not what you may think was in the mind of any banker?—I have heard many persons mentioned, whose names I do not remember, upon whom pressure had been put by the Managers, who stated they must have money.

801. You have said that your own Bank found it necessary to put pressure on different individuals?—That is a different matter. We have not put on pressure because we wanted money, but because we thought the overdrafts were too large. The tenor of my evidence was that the Bank of New Zealand had anticipated receiving the proceeds of the loan, and had, consequently, made larger advances than prudence justified; and when there was a doubt as to whether the loan would be raised, they began pressing their customers.

802. But according to the returns of the different Banks, as gazetted, the Bank of New Zealand had increased its advances in March 1875?—Up to March, yes. That includes the three months from January to March.

803. And when was the pressure put?—About the time that news was received in the colony from various quarters that doubts existed as to whether the loan would be floated.

804. *Hon. Major Atkinson.*] What was the time?—My own impression is that it was, about February—no earlier than that.

805. Then pressure was put on while they were still increasing their advances?—No, not at all. The returns are averages.

806. *The Chairman.*] But in the quarter ending 31st March there was a decided increase in the Bank of New Zealand advances. The pressure to any great extent could not, therefore, have occurred in that quarter?—The pressure might have occurred without affecting the figures at all. It does not follow that because a bank presses its customer it gets the money.

*Mr. Bridges.*  
—  
18th Oct., 1875.

Mr. Bridges.  
18th Oct., 1875.

807. But if it did not get the money, how did it injure individuals?—I did not say that they had got the money, but it is a matter of notoriety that they did put pressure on.

808. You have stated that your Bank did not want funds to make advances. Had not your Bank made advances to the extent of £345,000, over and above the paid-up capital and deposits, in the June quarter of this year?—No; I think not.

809. The returns published in the *Gazette* show a difference of £345,000?—It was owed to the London branch.

810. The balances of advances over and above the paid-up capital and deposits was due to the London branch?—Yes.

811. Will you state what you want to say particularly with regard to Mr. Batkin's memorandum?—First of all, I should like to call your attention to the fact that, on the subject of my charge of pressure on the Weld Ministry, some of the members of the Committee appeared to think that there could not be much pressure when they could have obtained the advance from another bank. That impression was entirely erroneous. They could not have obtained the money in time to send by the mail from any other bank.

812. How do you know?—I am certain that no bank would be prepared to give drafts on London for £80,000 at a few hours' notice. They might do so in these days, but not then. There was no Inspector with the powers then.

813. How many hours' notice had the Bank of New Zealand?—They knew the money would be required.

814. How did they know that?—They knew when it was due in London, and always prepared for it. There was an understanding between the Bank and the Government that the Bank was to find the money.

815. Then, if there was that understanding, how did there come the necessity for special negotiations on the subject?—You must understand that the special arrangements were made from time to time as the money was required.

816. *Hon. Major Atkinson.*] Do you mean to state, as a matter of fact, from your own knowledge, that such a bank as the Union Bank of Australia could not, in a case of emergency, have bought £80,000 worth of our bills?—I am perfectly sure that no bank would have granted such an advance at a few hours' notice.

817. That is your opinion?—I know it as a matter of professional knowledge. It would be considered an utter absurdity.

818. *The Chairman.*] What other banks were doing business in Wellington at that time?—The Bank of New South Wales and the Union Bank.

819. *Mr. Pearce.*] Do you mean to say that if the Hon. Mr. Fitzherbert had gone to the Union Bank and asked for the money, the Manager would not have advanced it?—He would have said, "It is out of my power." He would have been dismissed immediately if he had done it. A manager cannot issue drafts unless there is money to meet them.

820. *The Chairman.*] You think that an old-established Bank like the Union Bank of Australia, with a very wealthy English proprietary, could not have given drafts for £80,000?—Oh, yes, they could have given them, but I mean that the Manager would not have had the power to do it.

821. *Mr. Pearce.*] Then if you had not taken the action that you did, the Government would have had to submit to it?—Decidedly, unless the Directors had given way at the last moment. The Government could not otherwise have made the remittance. Either Mr. Palmer, the Chief Officer of the Union Bank, or Mr. Morrah, of the Bank of Australasia, will tell you what I have told you. No manager is intrusted with such power. It would upset the financial arrangements of the Bank in London.

822. *Mr. Curtis.*] With respect to the rate which you say the Government could have got for the million and a half which was lodged with the Bank of New Zealand, being part of the Four Million loan, you stated that the Government could have got 4 per cent. at least?—Yes, if the money was absolutely fixed for twelve months.

823. Do you know what was the rate given for money at call by the banks in London at that time?—Some small amount probably.

824. Not so much as  $2\frac{3}{4}$  per cent., the Bank of England rate being 3 per cent at that time?—At call they would have got 2 per cent.

825. Was not this money lodged with the Bank of New Zealand at call?—No; I understood not. One million and a half was lodged for at least six months, and it might be twelve months.

826. With the power of withdrawal at any time?—I did not so understand it. I think Sir Julius Vogel stated practically that the money would be in the Bank for the period I have referred to.

827. Sir Julius Vogel stated that in all probability it would remain in the Bank, but there was no undertaking that it would remain in the Bank for a single week?—But the probability was that it would be as I have said.

828. Do you think any English bank would take money with an understanding of that kind—that it would *probably* remain for twelve months on the same terms as for a fixed period?—Not on the same terms.

829. The full amount did not remain for twelve, nor yet for six months, as a matter of fact?—Well, with that correspondence of Sir Julius Vogel in mind, I still maintain that the Government would have got at least  $3\frac{1}{2}$  per cent.

830. *Hon. Major Atkinson.*] Did your Bank endeavour to obtain any part of this money as a deposit?—I do not know.

831. Did you receive any instructions to endeavour to obtain a portion of the Government account?—No, none. Of course the Bank desired to have a portion of the Government account. I knew that, but I had no instructions on the subject, nor any instructions whatever as to any course to take.

832. Do you know whether that statement, which appears in the newspapers as coming from Mr.

Magniac, that the Bank were making a great effort to obtain half the Government account, is correct?—He says “a portion of the account,” I think; and I infer that the communication with Sir Julius Vogel may probably have led him to think so. There are other portions of his speech which will show that that is the clear inference.

*Mr. Bridges.*  
18th Oct., 1875.

833. I thought it related to instructions to you?—No; nothing has been done here. My action in this matter is entirely voluntary, without instructions or any communication from the Board.

TUESDAY, 19TH OCTOBER, 1875.

Mr. MACANDREW, M.H.R., examined.

*Mr. Macandrew,*  
*M.H.R.*  
19th Oct., 1875.

834. *The Chairman.*] The Committee have been informed that you wish to make a statement in connection with the purchase of the Port Chalmers Railway?—Observing in the printed evidence taken before the Committee, a statement by Mr. Bridges, to the effect that certain pressure had been brought to bear on the Colonial Government by the Bank of New Zealand, whereby the former were induced to acquire the Dunedin and Port Chalmers Railway, I desire, as one who was fully cognizant of the whole outs and ins of the transaction, to place on record my firm conviction that the statement of Mr. Bridges had not the slightest foundation in fact. The idea of purchasing the railway was first mooted by myself, and it was not until after much persuasion on my part, as Superintendent of Otago, that the Government was induced to treat for the purchase. After the Government had made up its mind on the matter, I was requested to undertake the negotiation, in conjunction with the Provincial Executive. This I declined to do, on the ground that I had some time before publicly committed myself to an opinion as to the prospective value of the railway, which probably I should not have done had I anticipated the possibility of so shortly after being employed in negotiating its purchase. The Hon. Mr. Bathgate was therefore deputed by his colleagues to treat with the Railway Company, and as they could not come to terms, the Government were disposed to allow the matter to drop. It was only after repeated and urgent representation from me, setting forth the absolute necessity in the public interest of acquiring the line, that the Government again took the matter up, through the Hon. E. Richardson, who visited Dunedin especially on the subject, and concluded the purchase on terms which, in my opinion, were by no means extravagant under the circumstances. It may be well to add that, under the agreement between the Railway Company and the General Government, it was optional with the former whether or not they should sell for five years; that is to say, they could not have been compelled to do so earlier, and it required almost as much persuasion on my part to induce them to sell as it did to induce the Colonial Government to purchase. I believe it has been to the Company a matter of regret ever since that they parted with the line at the price they did. In my opinion, the province is a gainer by the transaction of at least £150,000, a circumstance which amply justifies my action in the matter.

Hon. EDWARD RICHARDSON, M.H.R., examined.

835. *The Chairman.*] You have just heard the statement made by Mr. Macandrew. Have you any evidence to offer in respect to it?—No doubt it is quite correct as far as it goes, but I have heard (I have not had time to study the other evidence given before the Committee) that it has been stated that pressure was brought to bear on Sir Julius Vogel, and on that ground, and for that reason, the Government paid more than they ought to have paid for the Port Chalmers Railway. Now, almost from the very day on which I joined the Government in 1872, I was mixed up in that matter, and had a great deal more to do with it than Sir Julius Vogel had.

*Hon. E.*  
*Richardson.*  
19th Oct., 1875.

836. When was the purchase finally completed?—In the early part of April 1873.

837. Will you state what you know of your own knowledge of the matter?—As soon as the session of 1872 was over, the Government had decided on purchasing the railway, in consequence of representations made to them by Mr. Macandrew. Mr. Bathgate, who was going down to Dunedin, was authorized by the Cabinet, in conjunction with the Provincial Executive, to endeavour to negotiate the purchase of the line. A great deal of correspondence then took place, and eventually the negotiations fell through, in consequence of Mr. Bathgate having one idea as regards price, Mr. Macandrew another, and the Company another—totally different. The Company insisted on receiving £200,000 in the first instance. Soon afterwards, in making my usual journey round the colony, I went to Dunedin, and found that the first section of the Clutha line was approaching completion. I saw that if this line was not immediately purchased, the Government would have to reclaim land for the second terminus, and put up double buildings, &c. I immediately urged the Cabinet to prosecute the negotiation, and to endeavour to complete the purchase. I gathered as much information as I could on the subject in Dunedin respecting the value of the line, taking all attendant circumstances (the concessions, &c.) into consideration. I had a tolerably good idea of what the line had cost the Company, and I put my own value on the concessions they had, and then I recommended to the Cabinet not to let the negotiation slip through if they could get the line for £175,000. A great deal of correspondence took place amongst the Ministers between December and March. I was in Auckland the beginning of March, and it was then suggested to me from Wellington that I should try and negotiate with Mr. Murdoch, who was very largely interested in this concern, on behalf of the Loan Agency Company. I could not remain to do this, and consequently I suggested that Sir Julius Vogel, who was shortly expected back from Australia, should remain there and take the matter in hand. Sir Julius Vogel did so, but he did not see his way clear to go as far as I considered it right to go as regarded the price. After negotiating for some time, he offered them £170,000, which they refused to take, and the negotiations were then broken off altogether. I immediately telegraphed to him that he was doing wrong, and that his action would put the Government to a very much larger expense, and that he ought to reopen the negotiation, so that the thing should not pass away. After some time he did reopen the negotiation, and he intimated to me that if I would consent to pay £180,000 he thought the affair could be managed. I did not recommend that, but stood out for the £175,000. The Port Chalmers Wharf was not completed at the time, and the Company wanted to



*Hon. E.  
Richardson.*  
19th Oct., 1875.

make it a condition that, if they accepted £175,000, they should get an additional sum for what had been spent beyond a particular date in completing the wharf. I had taken into consideration the completion of it, and advised Sir Julius Vogel not to submit to their demand. I found then that the matter was likely to come about, and as it was only the question of a few thousand pounds difference I drew up a series of conditions which Sir Julius Vogel submitted to Mr. Murdoch, who was in Auckland at the time. They found that they had not the requisite technical knowledge, and, at all events, it was settled that the matter should be placed in my hands for settlement. I went down to Dunedin with Mr. Murdoch, and I had a *carte blanche* from the Cabinet to settle it. When I got there, I found that the Company were doing all they possibly could to break off the bargain, and I knew from other sources that it was their interest to do so. I was thoroughly aware that there was a company prepared to give them very considerably more than the Government were prepared to pay for the line. The matter was concluded by me in Dunedin, and the Superintendent expressed himself very well pleased at the time with the arrangement that I made. The price finally agreed upon was £175,000—£75,000 in cash, and the Government taking the responsibility of £100,000 worth of debentures, which had been issued in London by the Company wherewith to construct the railway. The Company had a concession of 8 per cent. on £70,000 guaranteed from the Provincial Government; but the Company elected to issue £100,000 on 5 per cent. debentures.

838. *Sir F. D. Bell.*] At that time had you any information with respect to the selling price of the debentures in London?—No.

839. You were not aware that they were being quoted at a considerable discount?—No.

840. *Hon. Major Atkinson.*] In your calculations, you valued them at par?—Yes. At the time the purchase was absolutely completed, we had been informed that the Loan and Mercantile Agency Company held nearly the whole of them.

841. *Sir F. D. Bell.*] If the debentures had been quoted at the time in London at a large discount, the effect of the arrangement would have been to place the difference between the discount and par in the pockets of the Loan and Agency Company?—I presume it would.

842. *The Chairman.*] If the debentures were handed over at less than par, the Company would virtually have had to receive more than £75,000?—I suppose they would.

843. It was understood that you were to take the debentures at par?—Yes.

844. The value of the line, then, was £175,000 cash?—Yes. Of course, that means valuing all the concessions as well. There were one or two extraordinary concessions granted by the Provincial Government of Otago, such as I had never heard of before being granted to any company, and it was owing to these concessions that so large a value was put upon the concern.

845. *Sir F. D. Bell.*] Then did it not occur to you to make it a condition that the debentures should be assigned to the Government?—No.

*E. W. Morrah.*  
19th Oct., 1875.

See Letter from Mr. E. W. Morrah in Appendix No 14.

## APPENDICES—BANKING ARRANGEMENTS.

### APPENDIX No. 1.

Produced at Meeting 24th August, 1875.

1873.

New Zealand.

### BANKING ARRANGEMENTS OF THE GOVERNMENT.

(Presented to both Houses of the General Assembly by Command of His Excellency.)

No. 1.

MEMORANDUM of the Arrangements under which the Banking Business of the New Zealand Government is conducted by the Bank of New Zealand.

THE arrangements under which the banking business of the New Zealand Government is conducted by the Bank of New Zealand are as follow:—

#### THE COLONIAL ACCOUNT.

All moneys lodged to credit of the Public Account at the several branches of the Bank of New Zealand throughout the colony are transferred every Monday morning to the credit of the Public Account at the Wellington Branch, whence they are withdrawn for expenditure as required. Interest is credited on the average balance of the account at the rate of 4 per cent. when the balance is under £50,000, and at 3 per cent. on the daily balance when above that amount.

#### THE LONDON ACCOUNT.

All moneys received in London are paid into the New Zealand Public Account at the Bank of New Zealand, whence they are withdrawn for expenditure as required. Interest is credited on the daily balances of this account at the rate of 1 per cent. below the current Bank of England rate of discount for the time being.

#### OVERDRAFTS.

Interest is charged on debit balances at the rate of 6 per cent. when such balance is less than £50,000, and 7 per cent. when above that sum; with proviso that if the discount rate of the Bank of England shall continue for two months in excess of 6 per cent., then an increase in the above rate shall be allowed for the whole period during which such excess is maintained equal to the difference between 6 per cent. and the Bank of England rate.

#### REMITTANCES.

All remittances on Government account between the provinces of New Zealand are made at par. All remittances between New Zealand and the Australian colonies are made by draft at fifteen days' at par. Remittances at shorter dates at one-half the current rates charged to the public.

All remittances to London are made by draft at sixty days' at par. Remittances at shorter dates at a half per cent. below the current rate, but never below par.

GENERAL PROVISIONS.

The Bank is to be the bankers for the Government until the arrangement be determined by six months' previous notice. All balances belonging to the Government are to be kept at the Bank of New Zealand.

Treasury, 2nd August, 1873.

C. T. BATKIN,  
Secretary to the Treasury.

APPENDIX No. 2.

Produced at Meeting 24th August, 1875.

CORRESPONDENCE relative to the negotiation of £4,000,000 Loan. (*See Appendix to the Journals of the House, B. 5, 1875.*)

APPENDIX No. 3.

Produced at Meeting 25th August, 1875.

REPORT from the Select Committee of the Legislative Assembly of New South Wales, on Removal of Public Money from Bank of New South Wales, together with Proceedings of the Committee. Minutes of Evidence, and Appendix 22nd June, 1875.

*N.B.—The above document will be found in the Library of the House, or can be obtained from the Government Printer at Sydney.*

APPENDIX No. 4.

THE following document, from Mr. D. L. Murdoch, was handed in on the 31st August, 1875 :—

*Question,—*

The maximum aggregate amount of overdraft, whether specially made, and whether secured or unsecured, granted by the Bank of New Zealand to the colony (in England or the colony) during the following months, viz., October, November, and December, 1874, and January, February, and March, 1875 :—

*Answer,—*

1874.									
October,	} £150,000, specially made secured by £160,000 scrip for debentures, General Purposes Loan Act, due June 1877.								
November,									
December.									
1875.									
January.	£150,000		ditto		ditto		ditto		
	£3,830, Postmaster, casual.								
February.	£200,000, scrip	£210,500, General Purposes Loan Act.							
March.	£200,000	ditto	ditto						
	£270, Postmaster, casual.								

In view of the interpretation put by the Committee on what is meant by an overdraft, viz. that it includes advances specially made against specific securities, the above figures supply the information required by Mr. Fitzherbert.

D. L. MURDOCH.

APPENDIX No. 5.

Produced at Meeting 3rd September, 1875.

BANK OF ENGLAND.—ADVANCES AMOUNTING TO £660,000.

ADVANCES.			RENEWED.			RENEWED.			ULTIMATE DUE DATE.	AMOUNT.
Date.	Rate.	Days.	Date.	Rate.	Days.	Date.	Rate.	Days.		
1874.			1875.			1875.			1875.	£
October 31 ...	4	92	January 31 ...	3	33	March 5 ...	3½	7	March 12 ...	120,000
November 17 ...	5	90	February 15 ...	3	89				May 15 ...	40,000
November 30 ...	6	91	March 1 ...	3½	38				April 8 ...	50,000
December 14 ...	6	91							March 15 ...	60,000
December 30 ...	6	31	January 30 ...	3	34	March 5 ...	3½	7	March 12 ...	10,000
1875.										
January 5 ...	6	25	January 30 ...	3	34	March 5 ...	3½	7	March 12 ...	40,000
January 14 ...	4	32	February 15 ...	3	89				May 15 ...	150,000
January 30 ...	3	33	March 5 ...	3½	7				March 12 ...	50,000
February 15 ...	3	89							May 15 ...	40,000
February 24 ...	3½	29							March 25 ...	100,000
									Total ...	660,000

Treasury, 3rd, September, 1875.

## APPENDIX No. 6.

Produced at Meeting 8th September, 1875.

(Memo. from Mr. Palmer.)

Union Bank of Australia, Wellington, 7th September, 1875.

WHEN under examination this morning, I stated my belief that the agreement between the Government of New South Wales and the Bank of New South Wales was one for a definite period, and the correctness of my statement was questioned by a member of the Committee. I have since referred to a paper laid before the Legislative Assembly of New South Wales, and find a copy of the agreement appended thereto, which provides that the agreement was "to commence on the 1st July, 1873, and to remain in force up to the 30th June, 1876, inclusive," which fully confirms my statement.

J. PALMER.

The Chairman of Committee on Public Accounts.

## APPENDIX No. 7.

Produced at Meeting 16th September, 1875.

Bank of Australasia, Inspector's Office Wellington,  
8th September, 1875.

SIR,—

Having referred to the Government *Gazette* on my return to this office, I desire at once to correct a statement made by myself when avowedly quoting from memory this morning. I then said that the increase in the average advances of the Bank of New Zealand, was to the best of my recollection 50 per cent. greater in the year from 1st April, 1874, to 31st March, 1875, than in the corresponding period of the previous years. This I find is very far from being the case, and would therefore ask the permission of the Committee to receive as my answer that "the increase was not so great as for the preceding year." The other portion of the statement, to the accuracy of which I pledged myself according to the Bank returns, namely, as to the actual increase in the average advances on the one hand, and the average deposits and circulation on the other, still holds good.

I have, &amp;c.,

E. W. MORRAH,

Inspector.

The Chairman of the Public Accounts Committee.

## APPENDIX No. 8.

Produced at Meeting 4th October, 1875.

House of Representatives, Wellington, 23rd September, 1875.

SIR,—

I have the honor to draw your attention to certain questions put to Mr. Bridges by a member of the Public Accounts Committee, together with the answers thereto (copies of which are enclosed). It will, I think, be obvious to you that general statements of this kind are prejudicial to the interests of the Public Service, and that Mr. Bridges should not be confined to secrecy, but should be permitted to state, for the information of the Committee and of Parliament generally, the precise facts to which he refers.

With this object, I now request that your Bank will permit Mr. Bridges to give the Committee the fullest and most detailed information upon the particular point referred to that the Committee can desire.

I have, &amp;c.,

READER WOOD.

The Inspector, Bank of New Zealand, Auckland.

Enclosure.

*Question.*—I understood you also to say that you were aware that on one or two occasions the Bank of New Zealand has put pressure on the Government, to the disadvantage of the colony?

*Answer.*—Yes.*Question.*—Will you state the circumstances?

*Answer.*—I would rather not, as it came to my knowledge in confidence, when I held office as their Manager.

SIR,—

Bank of New Zealand, 28th September, 1875.

I have the honor to acknowledge receipt of your letter, dated 23rd instant, calling my attention to certain questions put to Mr. Bridges by a member of the Public Accounts Committee, together with the answers thereto, and requesting that the "Bank will permit Mr. Bridges to give the fullest and most detailed information upon the particular point referred to that the Committee can desire."

My directors quite concur in the opinion you express, that general statements, such as appear to have been made by Mr. Bridges, are prejudicial to the interests of the Public Service, and not only relieve Mr. Bridges from any secrecy on the subject, but desire me to express a hope that you will compel him to make the fullest disclosure.

I have, &amp;c.,

D. L. MURDOCH,

Inspector.

Reader Wood, Esq., Chairman Public Accounts Committee,  
Wellington.

## APPENDIX No. 9.

Produced at Meeting 8th October, 1875.

(Memorandum received from Mr. Murdoch, Inspector, Bank of New Zealand.)

In New South Wales there are no paymasters, the Government adopting the same plan as in New Zealand; but with this important difference, that one-eighth per cent. exchange is allowed on all payments out of Sydney, which for 1874 amounted to £1,586 1s. 6d.

## APPENDIX No. 10.

Produced at Meeting 13th October, 1875.

Bank of Australasia, Inspector's Office, Wellington,  
12th October, 1875.

SIR,—

Having returned from Christchurch, I am prepared to attend the Committee again at any time most convenient to them during the present month, after to-morrow.

W. A. Thomas, Esq.,  
Clerk to the Committee on Public Accounts.

I have, &c.,  
E. W. MORRAH,  
Inspector.

## APPENDIX No. 11.

Produced at Meeting, 14th October, 1875.

The National Bank of New Zealand, Limited, Wellington,  
13th October, 1875.

SIR,—

I have just received a summons to attend the Committee to-morrow morning. If it is intended then to proceed with my examination, I beg to point out to you that I am without a copy of the Act of Indemnity, which I should like to submit to my counsel before giving further evidence.

The Chairman, Committee on Public Accounts.

I have, &c.,  
J. BRIDGES.

## APPENDIX No. 12.

Produced at Meeting, 18th October, 1875.

(Memorandum, with reference to Mr. Batkin's statement contained in the Minutes of Evidence, 4th October, handed to the Committee by Mr. Bridges.)

PARAGRAPH 1 states agreement with Bank of New Zealand respecting London Account to be "on the understanding that the same terms were allowed for these balances as were granted by other banks." This understanding has not been carried out, and it now appears that the paper submitted to Parliament as embodying the agreement is merely a memorandum by Mr. Batkin.

Mr. Batkin would evidently wish it to be inferred that the Bank of New Zealand, not only at Wellington, but at all its branches, keeps separate accounts in its books for all the various public accounts to which he refers; but I understand such is not the case, that being done at the Treasury, and not at the Bank.

Mr. Batkin evidently feels called upon, not to devise means for facilitating the business of the country, but raises every possible objection, either reasonable or otherwise, to any change in the present system.

It is observed that the Bank charges 1s. per cent. for remittances by telegram within the colony. This is not according to agreement, and is a charge not made to private parties having accounts at various places.

Mr. Batkin's figures with regard to the difference between selling bills in London and causing funds to be transmitted to the colony are erroneous. The following is a more accurate mode of stating the case:—

Cost of transmitting money from London: Payment in London of £98 10s. 5d. will purchase a bill on New Zealand at sixty days' sight for £100; add interest for four months, £1; actual cost, £99 10s. 5d. To negotiate bills in the colony on London: Bills to produce £100 must be drawn for £100 2s. 6d.; less interest on funds in England, four months, £1; actual cost, £99 2s. 6d. In favour of process by bill, 7s. 11d.

But it must be borne in mind that these calculations are based on the assumption that the postal term between London and New Zealand is sixty days, whereas it is a fortnight less; and it must also be considered that Mr. Batkin has chosen to calculate at the rate of interest in London 3 per cent., whereas at the present moment it is only  $1\frac{3}{4}$ , and when he wrote it was either  $2\frac{1}{4}$  or  $2\frac{3}{4}$ . These circumstances would reduce the advantage of the present system by at least 5s. per cent. It may be pointed out also that Mr. Batkin seems to ignore the use of the telegraph for such purposes, which would make a considerable difference. Mr. Batkin's reference to Mr. Morrah's evidence regarding the sum of £340,000 apparently unaccounted for in the Financial Statement is misleading, and seemingly intentionally so. The inference Mr. Morrah drew was that the £340,000 had gone to the Bank of New Zealand in payment of previous advances, and that is not denied. On the contrary, it may be reasonably concluded that such repayment formed a part of the "expenditure" to which Mr. Batkin refers, but of the particulars of which he is careful to avoid giving any information.

## APPENDIX No. 13.

Produced at Meeting, 19th October, 1875.

(Put in by Mr. Batkin, Secretary to the Treasury.)

I HAVE the honor to submit the following memorandum, in reply to certain remarks by Mr. Bridges, on a statement made by me at the request of the Public Accounts Committee:—

With regard to the observation that the original understanding as to the rate of interest on the London balances has not been carried out, I have to remark that the question to which my statement replied referred in no way to the rate of interest, but was an inquiry as to whether the agreement with the Bank operated to restrict the Government in the advantageous disposal of its surplus balances in London. In answering that question, I stated that the Bank took the account originally on the understanding that “the terms allowed were to be the same as those granted by other banks;” and I made that statement, not with any view to setting forth what those terms were, but simply to show that the only condition attaching to the arrangement was one which in no way restricted the Government “in the advantageous disposal of its surplus balances in London.”

With reference to the remark that “it now appears that the paper submitted to Parliament as embodying the agreement is merely a memorandum by Mr. Batkin,” I may state that I am unable to perceive the point of the observation. If it be the case that Mr. Bridges supposed that paper to be other than a memorandum by myself, I can only express my regret that he did not make himself more perfectly acquainted with the document.

I do not know on what ground Mr. Bridges takes upon himself to assert that I evidently wish an incorrect, and therefore improper, inference to be drawn from my remarks as to the division of the account. The assertion is absolutely untrue, and therefore quite unjustifiable. The statement contained in the succeeding paragraph is an uncalled-for impertinence, which I decline to notice further.

The charge of 1s. per cent. for moneys remitted by telegraph is a recent modification of an old, though unrecorded, arrangement. The statement that such a charge is not made to private individuals is erroneous; since I learn that it is the practice of the banks, when remitting by telegraph for private individuals, to charge exchange rates in addition to all telegraph charges.

Mr. Bridges’ illustration of the cost of transmitting money from London agrees with the statement made by myself, but his illustration of the cost of negotiating a bill on London is erroneous. Mr. Bridges states it thus:—

For negotiating a bill on London at 60 days’, you must pay	...	£	s.	d.
Less interest on funds in London, 4 months	... ..	100	2	6
		1	0	0
		<hr/>		
		£99	2	6
		<hr/>		

But this sum must be reduced by a further sum of £1 for the interest accruing on the Colonial Account during the currency of the draft, making the amount £98 2s. 6d., or  $1\frac{3}{4}$ ths better than the plan of drawing in London, as stated in the illustration given in my memorandum (page 31).

Mr. Bridges’ answer, as printed, to the question No. 121, is so unintelligible that it is impossible to argue from what he said, or appears to have said; but his answer certainly implied that it was more profitable to draw in London on New Zealand, than to draw in New Zealand on London; but in the memorandum by Mr. Bridges now under reply, he admits that the plan of negotiating a draft in the colony is more favourable by  $\frac{3}{4}$ ths (7s. 11d.) than drawing on New Zealand, and had he allowed credit, as he should have done, for the interest on the proceeds of the draft credited to the Colonial Account from the date of drawing to the maturity of the draft, say four months, at 3 per cent.=£1, his calculation would have agreed with mine in this case likewise.

Mr. Bridges’ remarks as to the course of post being forty-five and not sixty days are incorrect, the time occupied by the San Francisco mails for the past ten months being—

	Inwards.	Outwards.
Maximum length of voyage	59 days	61 days.
Minimum	47	46,,
Average	51	52,,

Taking the average at fifty-one, and adding sixty-three days for the currency of the draft, the result is 114 days. I have, however, in my calculation, adopted the same terms on both sides, and the difference of time would disturb the calculation very slightly. In answer to the remarks as to the rate of interest in London being now only  $1\frac{1}{2}$ , I need only say that when I wrote it was  $2\frac{1}{4}$ . I might argue that in November 1873 the Bank rate was 9 per cent., and in November 1874 was 6 per cent., in which case the Colonial Account under the arrangement now subsisting would have borne  $8\frac{1}{4}$  and  $5\frac{1}{4}$  per cent.; but it appears unnecessary to inform the Committee that, in a calculation based upon a fluctuating rate of interest, the profit on these transactions would fall or rise with that rate.

I pass over Mr. Bridges’ comment as to the character of my remarks on the evidence of Mr. Morrah. I do not know what “inference Mr. Morrah drew” from the answer he gave to the Committee. The statement I commented on was Mr. Morrah’s answer to the questions 491–2, that there was a sum of “£340,000 not accounted for in the Financial Statement;” and I pointed out that this apparent deficiency could not be accounted for by the conclusion that it was a sum “advanced by the Bank of New Zealand.” I now perceive that Mr. Morrah had assumed that the Government had obtained an advance of £340,000 from the Bank of New Zealand, and had concluded that the apparent deficiency in the cash balance on the 31st May was caused by that sum having been repaid to the Bank of New Zealand, not advanced by the Bank, as stated in his answer. I feel it due to Mr. Morrah to say that I was myself misled by his answer, and I believe he will acquit me of any intention to misrepresent him.

Mr. Bridges' statement, that it is not denied that an advance of £340,000 was made by the Bank, is scarcely reconcilable with the positive evidence of Mr. Murdoch on that point, supported as that evidence is by the memorandum published as Appendix No. 4. The unworthy suggestion that in my memorandum I had avoided giving any particulars of that sum will require no explanation to the Committee, who will remember that I was requested to make a statement with a view to being examined thereupon, and who are no doubt aware that the Hon. Major Atkinson was in possession of the fullest information on the subject.

Treasury, 19th October, 1875.

C. T. BATKIN,  
Secretary to Treasury.

APPENDIX No. 14.

Produced at Meeting, 20th October, 1875.

Bank of Australasia, Inspector's Office, Wellington,  
19th October, 1875.

SIR,—

When attending the Committee, by appointment, this morning, I learned with regret that time did not permit of their examining me further, but that I was at liberty to put in writing any additional information that I might wish to give regarding the banking arrangements of the Government, and that any communication would appear as an Appendix to the evidence, if sent in within a few hours.

I avail myself of that permission to make hurriedly a few observations.

First.—As to my evidence hitherto, as printed, many of the questions and answers at the end are evidently confused, and I think it necessary to refer to my letter printed in the Appendix, in order to set myself right with the Committee; and, further, now to append, without comment, a statement, (extracted from the *Government Gazettes*) showing certain average balances at the Bank of New Zealand for the quarters ending March 1873, 1874, and 1875, respectively, which will afford the information asked for at my hands. See Appendix No. 7.

BANK OF NEW ZEALAND AVERAGES, extracted from *Government Gazette*.

Quarter ending	Circulation.	Government Deposits.	Public Deposits.	Total Deposits and Circulation.	Advances.	Coin and Bullion.
	£	£	£	£	£	£
March 1873 ...	346,266	508,620	1,611,116	2,466,002	2,239,100	587,003
„ 1874 ...	414,232	1,151,004	1,831,525	3,396,762	3,463,776	665,825
„ 1875 ...	461,613	925,065	2,028,941	3,415,618	4,168,134	459,904

Secondly.—I wish to draw the attention of the Committee to the extraordinary fact that the memorandum of agreement, which has been presented to both Houses of Parliament, to the Committee themselves, to witnesses, and also to counsel in London, as embodying the arrangements under which the banking business of the New Zealand Government is conducted by the Bank of New Zealand, differs from the actual agreement existing between the parties, in one particular, at least, of vital importance to the proper conduct of this inquiry—namely, as pointed out by Mr. Batkin in reviewing my answer to question 459, the actual arrangement in respect to the London account is, that the Bank should have the benefit of the deposit of all balances of the New Zealand Government, not only in New Zealand but in London, provided “that the same terms are allowed for those balances as were granted by other banks.”

One of the chief, if not the chief, points remitted to the Committee in the order of reference is whether the conditions with the Bank “imperatively required that so large a sum as between three and four millions should be deposited with one institution,” and the most important of all the questions put to me was No. 459, above referred to. Through ignorance of the provision now disclosed, I answered that the Bank could compel the deposit of all Government moneys. I should, of course, answer very differently now. I notice also that many questions bearing on the same point were put to Mr. Murdoch, day by day, and his answers to No. 7, 13, and others would certainly lead to the inference that he likewise was unaware of the provision. And other witnesses expressly stated that their knowledge of the arrangements was confined to the terms shown in Mr. Batkin's memorandum, otherwise they would probably have given different expression to their views. The importance of this omission will thus, I am sure, not be under-estimated by the Committee when summing up.

Thirdly.—Mr. Batkin, in criticising my answer to No. 491—which of course was intended to refer to a repayment and not to an advance—states, by implication, that no portion of the amount of £340,000, unaccounted for in the Treasurer's Financial Statement, was devoted to the repayment of money advanced by the Bank of New Zealand prior to the floating of the Four Million Loan; but Mr. Murdoch, in answer to question No. 45, states that the Government's (unsecured) drafts on the Loan Agents for £200,000 or £300,000 had been negotiated prior to the negotiation of the loan; and, I think, the Committee would find, if looking into the matter, that the £110,000 for commission and discount, stated by Mr. Batkin to have been deducted from the £3,167,571, was not so deducted, but that at least £200,000 for repayments to the Bank of New Zealand was so. If this prove the case, it would seem, by Mr. Stafford's question No. 492, that the Committee have been under a misapprehension as to the amount of unsecured advances made by the Bank of New Zealand; and that at least £230,000, instead of £30,000, had been so advanced before the floating of the loan. By their numerous

questions on this point, it would appear as if the Committee attached considerable importance to obtaining correct information, and it might be worth while to inquire further.

Fourthly.—Mr. Murdoch states, in answer to No. 178, that in the Government banking arrangements in New South Wales there is no provision made for a simple overdraft; but, I think, it will be found that the printed report, handed in by himself, shows that “the Government may occasionally overdraw to the extent of £150,000.”

Fifthly.—Mr. Murdoch speaks of the Bank of New Zealand doing gratis the work of paymasters, who, he says, cost Victoria from £15,000 to £20,000 a year. The fact is that the country paymasters in Victoria discharge multifarious duties, such as those of Gold Receivers, Land Officers, occasionally Sheriffs, and many others, so that the comparison is not a fair one. The value of similar work done in New South Wales is apparently assessed at not more than £1,586 a year, and practically very little trouble is entailed on the Bank.

Sixthly.—As to the difficulty apprehended by Mr. Batkin in dividing the account, there is really very little, beyond an alteration in the book-keeping. It would occupy too much space here to point out in what form the division should be made, but Mr. Batkin has failed to hit on the right one; and as to the onerous nature of the business performed for the Government, I am quite sure that any other bank or banks would gladly undertake it on the same terms.

Seventhly.—Mr. Palmer, in reply to Major Atkinson, No. 387, expresses his opinion that the terms allowed by the Associated Banks in Victoria are more liberal than those allowed here by the Bank of New Zealand, and he gives his reasons; but one most important point of difference has escaped him—viz., that while Government money paid in at Melbourne, which forms the great bulk of the whole Government lodgments in the colony, bears interest at once, and that paid in at the out-districts generally from the next day (owing to superior railway and mail arrangements), here it is only the money collected at Wellington—probably not one-twentieth of the whole—which bears interest at once, and the remainder not until one to perhaps three weeks afterwards—a matter of considerable moment in calculating the rate of interest to be allowed.

Eighthly.—The question raised in Nos. 91, 92, and 93, as to the position of the Government as a preferential creditor, is fraught with importance to the public generally, and specially to the depositors in and note-holders of any bank intrusted with large sums of Government money; and I do not think that the answers to Nos. 124, 125, and 126 can be regarded as disposing of it satisfactorily. The doctrine laid down is a new one to many, and it would be satisfactory if the Committee, in their report, would enlighten them on what authority it is to be accepted.

I have, &c.,  
E. W. MORRAH,  
Inspector.

The Chairman of the Public Accounts Committee.

#### APPENDIX No. 15.

Produced at Meeting, 20th October, 1875.

The Hon. E. W. STAFFORD to Mr. D. L. MURDOCH.

(Telegram.)

Government Buildings, Wellington, 19th October, 1875.

IN evidence taken before the Public Accounts Committee, Mr. Bridges has stated that Sir Julius Vogel's account with the Bank of New Zealand at Wellington was nearly always overdrawn. Also, that it was exceptionally treated by the Bank in the following way—namely, that whenever such overdraft had reached £200, it was transferred to Auckland by Sir Julius Vogel's cheque on your Head Office; that the accommodation so given was so excessive that the Bank would have great power over Sir Julius Vogel; that the transfer of overdraft from Wellington to Auckland was of frequent occurrence, and, as Mr. Bridges thinks, much more often than four or five times a year.

The Committee desire me to ask you whether Mr. Bridges' statement that Sir Julius Vogel's account was exceptionally treated is correct? Reply at once.

D. L. Murdoch, Esq.,  
Inspector, Bank of New Zealand, Auckland.

E. W. STAFFORD,  
Chairman of Public Accounts Committee.

D. L. MURDOCH to Hon. E. W. STAFFORD.

(Telegram.)

Auckland, 19th October, 1875.

AT time Mr. Bridges was in Bank Sir Julius Vogel was resident in and kept his operative account in Auckland, where he had valuable mining and other interests yielding considerable revenue. His Wellington account was for family expenses while obliged to reside there; and at his request, instead of his drawing each cheque on Auckland, the balance was allowed to accumulate till it reached about £200, and he then drew a cheque on his Auckland account. In no way was the account treated in an exceptional manner. The imputation apparently meant by Mr. Bridges is simply a wicked and malicious invention.

The Hon. E. W. Stafford, Wellington.

D. L. MURDOCH.

#### APPENDIX No. 16.

Produced at Meeting, 20th October, 1875.

(Correspondence between the Bank of New Zealand and the Treasury relating to the conduct of the business of the Government by the Bank.)

Mr. THOMAS RUSSELL to the Hon. the COLONIAL TREASURER.

SIR,—

Bank of New Zealand, Christchurch, 29th March, 1867.

Referring to the recent interview I have had with you, and to the correspondence that has already passed between this Bank and yourself, relative to the conduct of the Government Account



by the Bank, and also taking into consideration the altered and improved position in which the Government Account will shortly be placed by the sale of the Treasury bills for £150,000, I have now the honor to submit the following terms for your approval as the terms upon which the Bank of New Zealand proposes to manage the banking business of the Government:—

1. That the charge to be made by the Bank for interest on any debit balance of the Government not exceeding £50,000 pounds shall be at the rate of £6 per centum per annum.

2. That, in the event of such debit balance exceeding £50,000, the rate of interest shall be £7 per centum per annum on the whole amount while such excess exists.

3. That, in the event of the Bank of England discount rate continuing for two months in excess of 6 per cent., an increase of the rates provided by clauses 1 and 2 shall be allowed the Bank for the whole period such increase has been maintained, equal to the difference between 6 per cent. and the Bank of England rate.

4. That interest shall be credited to the Government upon the average balance of the Government Account kept at Wellington, known as "The Public Account," at the rate of £4 per centum per annum so long as that average shall be under £50,000, and when above that amount the interest shall be credited upon the whole amount at the rate of £3 per centum per annum.

5. That all remittances between the provinces of New Zealand on Government account be made at par.

6. That all remittances between New Zealand and the adjoining colonies be made by fifteen days' sight drafts at par; by drafts at shorter currency, at one-half the ordinary drawing rate charged to the public.

7. That all remittances to London be made by sixty days' sight bills at par; by drafts at shorter currency, at one-half per cent. below the current rate, but never below par.

8. That the Bank of New Zealand shall continue bankers for the General Government until the present proposed arrangement be determined by six months' previous notice.

9. That all past arrangements shall be considered rescinded from the date of the acceptance of this proposal, except for such transactions under existing agreements as have not matured at such date.

In proposing the foregoing terms, the Directors have made their proposals upon such a scale as to leave to the Bank only a very moderate margin of profit; and the Directors of the Bank refer with confidence to the past dealings of the Bank with the Government as a guarantee that at all times the requirements of the Government will be met with the utmost liberality that prudent management on the part of the Bank will allow.

I have, &c.,

THOMAS RUSSELL,

For the Directors of the Bank of New Zealand.

The Hon. the Colonial Treasurer, Wellington.

The Hon. W. FITZHERBERT to Mr. THOMAS RUSSELL.

SIR,—

Treasury, Wellington, 1st May, 1867.

In reply to your letter of 29th March last, submitting certain terms for my approval as the terms upon which the Bank of New Zealand proposes to manage the banking business of the Government, I have the honor to state, for the information of the Directors of the Bank of New Zealand, that I have submitted these proposals to my colleagues in Cabinet, and that I am authorized to inform you that the terms as proposed are regarded by the Government as just and liberal; and that I accordingly, on the part of the Government, accept them without any modification as from this date.

I have, &c.,

Thomas Russell, Esq., Bank of New Zealand, Auckland.

W. FITZHERBERT.

Mr. THOMAS RUSSELL to the Hon. the COLONIAL TREASURER.

SIR,—

Christchurch, 5th August, 1867.

Referring to the arrangement existing between this Bank and the Government of New Zealand for the conduct of the banking business of the Government, I have the honor to direct your attention to the fact that, from papers recently printed, it appears that balances of funds remaining in the hands of the Crown Agents belonging to the Government of this colony have been kept by the Crown Agents in other banks in London, and have not been deposited with the Bank of New Zealand there. I refer, by way of example, to an item remitted for investment on account of sinking fund, which, it appears, remained in the hands of the London Joint Stock Bank.

Looking to the spirit of the agreement existing between the Government and this Bank, and seeing that it is a part of the business of the Bank of New Zealand to keep current and deposit accounts for its customers in London, I am sure you will agree with me that this Bank should have the benefit of the deposit of all balances of the New Zealand Government funds, not only in New Zealand but in London.

I, therefore, respectfully submit for your consideration my request that the Crown Agents may be instructed to keep all balances under their control belonging to the Government of New Zealand with the Bank of New Zealand in London.

I have, &c.,

THOMAS RUSSELL,

For the Directors of the Bank of New Zealand.

The Hon. the Colonial Treasurer, Wellington.

The Hon. the COLONIAL TREASURER to THOMAS RUSSELL, Esq., Wellington.

SIR,—

Treasury, Wellington, 16th September, 1867.

I have the honor to acknowledge the receipt of your letter of 5th ultimo, in which, for the

reasons set forth, you request that that the Crown Agents may be instructed to keep all balances under their control belonging to the Government of New Zealand with the Bank of New Zealand in London. The Government acknowledge the fairness of your request, and will, by the outgoing mail, have the necessary instructions conveyed to the Crown Agents accordingly, it being understood that the Bank of New Zealand will allow the terms for Government balances in London that are allowed from time to time by the other banks.

Thomas Russell, Esq., Wellington.

I have, &c.,  
WILLIAM FITZHERBERT.

The Hon. the COLONIAL TREASURER to the MANAGER, Bank of New Zealand, Wellington.

SIR,— Treasury, Wellington, 12th June, 1868.

I have the honor to submit for your consideration a proposition with respect to the supply of funds by your Bank in London, for the payment of interest and sinking fund on account of the various loans of this colony.

The enclosed schedule will show the amounts that require to be provided, the days on which the respective payments have to be made, and the parties to whom the money is to be paid.

The Government wishes that the Bank should provide these sums on the days on which they are required, without any further notice being given; and I therefore request that I may be informed of the terms on which the the Bank would undertake to do this.

In conversation with the Inspector of the Bank of New Zealand, I suggested that the Bank should furnish a schedule similar to that now enclosed, showing the days on which it would require to be placed in funds to meet these payments; and that prior to those days the Manager of the Bank in Wellington should apply to the Treasury for a Controller's order, authorizing the transfer of the required sum from the Public Account to the Bank, including the charge for remittance according to the scale at present in force. I understood from Mr. Murdoch that the Bank would be willing to enter into such an arrangement, when the terms should have been mutually agreed to.

As the first payment that has to be provided for requires to be made on the 1st November, I hope to receive your answer in such time as to cause that payment to come under the proposed arrangement.

The Manager, Bank of New Zealand, Wellington.

I have, &c.,  
JOHN HALL.

Mr. T. M. STEWART to the Hon. the COLONIAL TREASURER.

SIR,— Bank of New Zealand, Wellington, 24th June, 1868.

I have the honor to acknowledge receipt of your letter of 12th instant, proposing that the Bank should provide funds in London for the due payment of interest and sinking fund on account of the various loans of this colony, according to the dates specified in an accompanying schedule.

In reply, I have to state, on behalf of the Bank, that we shall be glad to meet the views of the Government in this matter, and will arrange for the transmission of funds to meet the payment due on 1st November, subject to the terms hereafter to be agreed upon.

As the settlement of these terms will require careful consideration, I am under the necessity of consulting with the Inspector of the Bank before submitting any definite proposal to you; but I trust that before the departure of the mail on 8th proximo, I shall be able to lay before you a statement of the different dates on which it would be necessary to place the Bank in funds here to meet the payments in London, and the terms on which we can undertake to make these remittances.

I have, &c.,

T. M. STEWART.  
Acting Manager.

The Hon. the Colonial Treasurer, Wellington.

Memorandum for the Hon. the COLONIAL TREASURER.

Bank of New Zealand, Wellington, 7th July, 1868.

THE Bank will undertake to comply with the request made in the Colonial Treasurer's letter of 12th ultimo, provided the Government agree to the following modification of the terms hitherto subsisting in regard to sixty days' sight bills—namely, that in future a premium of  $\frac{1}{2}$  per cent. will be charged on remittances made at that currency.

Such a modification it is hoped will appear reasonable, when it is remembered that when the existing arrangement was made, in March 1867, the amount to be provided in London was not more than one-third of what has now to be paid, and since that date the selling rate to the public has uniformly been  $1\frac{1}{2}$  per cent. premium.

As desired, a statement is attached of the dates on which the interest and sinking fund should be paid here in time for the due dates in London.

Mr. T. M. STEWART to the Hon. the COLONIAL TREASURER, Wellington.

SIR,— Bank of New Zealand, 8th July, 1868.

Referring to my letter of 24th ultimo, in reply to yours of 12th idem, as to the terms on which the Bank will be prepared to provide funds in London for the due payment of interest and sinking funds on account of the various loans of this colony, I have the honor to inform you that the Bank will undertake the responsibility of forwarding the necessary remittances, provided the Government agree to the following modification of the arrangement hitherto subsisting in regard to sixty days' sight bills—viz., that in future a premium of  $\frac{1}{2}$  per cent. will be charged on remittances made at that currency. Such a modification it is hoped will appear reasonable, when it is remembered that at the time the existing terms were agreed upon, in March 1867, the amount to be provided in

London was not more than one-third of what has now to be remitted; and since that date the selling rate to the public has uniformly been  $1\frac{1}{2}$  premium.

As desired, a statement is enclosed of the dates on which the several amounts should be paid here to secure their transmission by sixty days' sight drafts in sufficient time to mature in London as the payments become due.

I have, &c.,  
T. M. STEWART,  
Acting Manager.

The Hon. the Colonial Treasurer, Wellington.

Mr. JOHN HALL to the MANAGER, Bank of New Zealand, Wellington.

SIR,—

Treasury, Wellington, 8th July, 1868.

I have the honor to acknowledge your letter of this day, communicating the terms on which the Bank will be prepared to carry out the arrangement respecting payment of interest and sinking fund in London, proposed in my letter No. 498, of the 12th ultimo.

In answer, I have to state that I do not see my way to agreeing to these terms as a permanent arrangement without giving the matter further consideration than time and circumstances now admit of. As a temporary arrangement, however, I am prepared to agree to this proposal on the understanding that it will be open to reconsideration hereafter. I shall be glad of the arrangement dating on and from to day, a remittance being required by this day's post to meet the interest due on 1st November next.

I have, &c.,  
JOHN HALL.

The Manager, Bank of New Zealand, Wellington.

The Hon. E. W. STAFFORD to the MANAGER, Bank of New Zealand, Wellington.

SIR,—

Treasury, Wellington, 5th December, 1868.

I have the honor to bring under your notice the alteration which has been made and is being effected by the operations under the authority of the Consolidated Loans Act in respect of payments to be made in London on account of interest and sinking fund on the loans of the colony.

The result of these operations will materially alter the dates of payment and the amounts to be paid for, which it is necessary that arrangements should now be made. It is not practicable yet to state with precision what these amounts will eventually be; but, by the last advices received from London, I learn that the next quarterly payment of interest on the consolidated loans would amount to £59,700, and, if the conversion is completely effected, the quarterly payments to be made may reach a maximum of £105,000, equal to £420,000 per annum. These payments, I need scarcely observe, will not be in addition to the £265,000 you have already undertaken to provide for, but will take the place of £210,000 of that sum, and of the sums which you are now paying for the Provinces of Canterbury and Otago.

In connection with the subject of the sums which may require to be provided to meet these payments, I would call your attention to the greatly improved state of the Public Account with your Bank, and to the large balances that are and have been lying there, and which on this day amount in the Bank in Wellington to £112,483 9s. 11d., in addition to the money that has been paid in to the various branches of the Bank since the 23rd ultimo.

In view of all the circumstances, I now propose that the Bank should undertake to make the payments as they will be required, according to a schedule to be furnished by the Treasury, on the Government paying the several sums to the Bank in Wellington three months before the date of payment in London—that is to say, that for a sum due in London on the 15th April, the money shall be paid to the Bank in Wellington on the 15th January.

I have to request the favour of an early reply.

I have, &c.,  
E. W. STAFFORD.

The Manager, Bank of New Zealand, Wellington.

Mr. T. M. STEWART to the Hon. the COLONIAL TREASURER.

SIR,—

Bank of New Zealand, Wellington, 16th December, 1868.

I have the honor to acknowledge receipt of your letter of 5th inst., intimating the alteration in the payments to be made in London on account of interest and sinking fund on the consolidated loans of the colony, and proposing a modification of the terms on which the Bank shall in future transmit the money for these purposes to the Crown Agents.

2. Under our present agreement the Bank makes these remittances by sixty days' drafts, at a uniform rate throughout the year of  $\frac{1}{2}$  per cent. premium. Your proposal that we should undertake to make these payments, "on the Government paying to the Bank in Wellington the several sums three months before they fall due in London," is equivalent to a request for a reduction of  $\frac{1}{4}$  per cent. in the rate of premium; for by this arrangement the Government would retain the use of the money for a month longer, and the Bank would have to pay  $\frac{1}{4}$  per cent. on the amount in interest during that term.

3. A slight consideration of the cost to the Bank of providing cover for so large an amount would show that such an arrangement must be the reverse of profitable. The payments are of such a magnitude that in order to meet them recourse must frequently be had to the Australian market for British exchange; and when it is considered that the rate ruling there at the present time (the most favourable in the course of the year) is  $\frac{1}{2}$  per cent. premium for sixty days' sight drafts, I trust it may be evident that the Bank has dealt liberally with the Government in undertaking so large a transaction at what must be regarded as the minimum rate in Australia. Exceptional cases arise doubtless where exchange can be had on lower terms, but I am satisfied that our existing arrangement will bear a favourable contrast with that subsisting between the Governments of the neighbouring colonies and

their bankers, although the facilities available there for operations of this nature on the London market are so much greater than New Zealand can present.

4. I do not for a moment overlook the considerations to which you draw my attention in your paragraph No. 3. It is a source of much satisfaction to the Directors of the Bank that the Government account is in so healthy a condition. For some years past they had to contemplate, not without anxiety, a very different state of affairs; and since during that period they had never taken advantage of the necessities of the Government, they now trust to be met in the same liberal spirit, so long as the terms they offer are reasonable and not inconsistent with advantage to the interests of both the colony and the Bank.

5. Since the Government desire, therefore, to make their remittances thirty days later than under existing arrangements, the Bank will undertake to do so at a premium of  $\frac{2}{4}$  per cent., which virtually amounts to  $\frac{1}{2}$  per cent. premium, at sixty days' sight. As the Government will have the use of the money for one month longer than formerly, they will gain in interest the additional charge of  $\frac{1}{4}$  per cent. on the shorter term; and I may add that if at any time it may be an object to pay the interest in Wellington within sixty days of the due date in London, the Bank would agree to the wishes of the Government in this respect, in consideration of a proportionate increase to the premium. I need not point out to you that this concession involves a great deal more than appears at first sight. The arrangements of the Bank to pay the interest must be made some time prior to the payment of the amount in Wellington, and the credit of the colony would be protected from any injury that might arise through interruption in the course of post to London, or any other contingency which might interfere with the due transmission of funds.

6. In conjunction with this proposal, I would state that, should the Government require to make a further issue of Treasury bills under the Act of 1868, the Bank would be prepared to modify the terms on which they purchased the last issue of £12,000, from 4 $\frac{3}{4}$ d. to 4d. per cent. per diem, being a reduction of 1 per cent.—that is to say, we would take up the balance of the sum authorized by the Act at par, if issued to bear interest at 6 per cent.

7. As a loan of this character is purely of a temporary nature, the bills are marketable only to a limited extent in the colony on account of their limited duration. They, therefore, stand on a different footing from debentures of a longer currency; and, looking at the quotations of New Zealand consols in London, where money is so immeasurably cheaper at present than in the colonies, I trust you will recognize in this offer from the Bank the evidence of our desire to transact the business of the Government on the most equitable terms.

I have, &c.,  
T. M. STEWART,  
Manager.

The Hon. the Colonial Treasurer, Wellington.

The Hon. E. W. STAFFORD to the MANAGER, Bank of New Zealand.

SIR,—

Treasury, 19th December, 1868.

I have the honor to acknowledge your letter of the 16th instant, stating the terms on which the Bank would undertake to place funds in London for the payment of interest and sinking fund on account of this Government.

Under the circumstances referred to by you, the Government is prepared to accept the terms proposed in the fifth paragraph of your letter, with this modification, that the premium on remittances shall be  $\frac{1}{4}$  instead of  $\frac{2}{4}$  per cent. as you have suggested.

The proposal to purchase Treasury bills at par, with interest at the rate of 4d. per diem instead of 4 $\frac{3}{4}$ d., at which the last were taken, is a fair one, and one that will receive favourable consideration; but the Government does not consider the price at which Treasury bills may be sold to the Bank as having any necessary relation to the question brought under notice in my letter of the 5th instant, but as a separate transaction, to be arranged from time to time as Treasury bills may require to be issued.

I have, &c.,  
E. W. STAFFORD.

The Manager, Bank of New Zealand, Wellington.

Mr. T. M. STEWART to the Hon. the COLONIAL TREASURER, Wellington.

SIR,—

Wellington, 22nd December, 1868.

I have the honor to acknowledge receipt of your letter of 19th instant, in which you accept the terms proposed by the Bank for the transmission of interest and sinking fund to London, provided  $\frac{1}{2}$  per cent. is substituted for  $\frac{2}{4}$  per cent. premium as our charge.

2. To this modification I am willing, on behalf of the Bank, to give my assent. The first payment, therefore, to be made under this arrangement is due in London on the 15th April (as I learn from your letter of the 5th instant), and must be advised by the mail leaving Wellington on 8th January, on which date I shall be glad to receive from you the usual authority for the transfer of the amount. Should any interruption take place in the Panama Mail Service, it will be necessary to take advantage of the most favourable opportunity of communicating *via* Suez, so as to secure the timely arrival of instructions to meet the payments at maturity.

3. With regard to the latter part of your letter referring to Treasury bills, while I freely admit that the price at which they may be sold has no necessary relation to the question more especially under notice, yet it must be evident that the issue of such documents, as well as the Government remittances to London, has a very important bearing upon the Public Account; and that while the Bank frequently makes concessions to the Government which could not be made to the public, we are only enabled to do so by taking into consideration the general advantages to be gained by transacting the Government business in its different branches.

I have, &c.,  
T. M. STEWART,  
Manager.

The Hon. the Colonial Treasurer, Wellington.

Mr. T. M. STEWART to the Hon. the COLONIAL TREASURER, Wellington.

SIR,—

Bank New Zealand, Wellington, 6th January, 1869.

Referring to the correspondence which has recently passed between the Government and the Bank regarding the transmission of interest and sinking fund to London, I beg to state that the cessation of the Panama Mail Service has so materially altered the conditions under which the Bank undertook to make these remittances, that, in order to carry out the spirit of the agreement on an equitable basis, some modification of the terms has become necessary.

The experience of the past two years has clearly shown that communication between Wellington and London *via* Panama could be relied on within fifty days. Under the most favourable circumstances, we cannot expect to communicate by the Suez route in less than sixty days, and for the present, while there is no regularly subsidized steamer to Australia, we cannot have intercourse with London under sixty-five days. I need not point out to you that the time during which shipments of gold are *in transitu* between the two points is an important element in determining the cost of exchange, and tells materially against the Suez route when large remittances have to be made. Another item of consequence is the difference of freight in the transmission of bullion, amounting to  $\frac{1}{4}$  per cent. more *via* Melbourne and Suez than *via* Panama.

The payments to be made by the Government in London mature on the 1st and the 15th of the month, and your proposal is that the money should be paid in Wellington three months prior to the due date. The alteration which I would respectfully suggest is that the whole amount for each month be paid here on the 1st. This would give an advantage to the Bank of fourteen days on each payment due on the 15th, while those payable on the 1st would be transmitted on your own terms. It will be evident that this change in the terms is by no means proportionate to the unfavourable character of the conditions under which the Bank has now to conduct the Government exchange operations with London; and, taking all the circumstances of the case into consideration, I trust you will perceive that the modification I propose is not unreasonable. One recommendation not to be overlooked is that it would greatly simplify the settling of the payments, and dispense with any reference to the particular day on which the English mail may close in Wellington.

I have, &c.,

T. M. STEWART,

Manager.

The Hon. the Colonial Treasurer, Wellington.

The ASSISTANT TREASURER to Mr. T. M. STEWART.

SIR,—

Treasury, Wellington, 11th January, 1869.

I am instructed by the Colonial Treasurer to acknowledge your letter of the 6th instant, and to inform you that your proposal contained therein is accepted, as being consistent with the spirit of the previous arrangement, subject only to this modification, that should a mail service *via* Panama be re-established, then payments are to be made to the Bank in Wellington three months previous to the date at which interest and sinking fund is due in London.

The amount payable in London on the 15th April will be paid to you (in this instance) on the 15th instant.

I have, &c.,

J. WOODWARD,

Assistant Treasurer.

T. M. Stewart, Esq., Manager, Bank of New Zealand.

By Authority: GEORGE DIBSBURY, Government Printer, Wellington.—1875.

Price 4s.]

