

1948  
NEW ZEALAND

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# LOCAL GOVERNMENT LOANS BOARD

REVIEW OF OPERATIONS FOR THE YEAR ENDED 31st MARCH, 1948

*Laid on the Table of the House of Representatives by Leave*

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To the Right Hon. the MINISTER OF FINANCE.

THE Local Government Loans Board presents hereunder a review of its operations for the year ended 31st March, 1948.

The Board was constituted under the Local Government Loans Board Act, 1926, and commenced to function on 1st April, 1927. It has thus been in operation for a period of twenty-one years, and the statistical tables which are incorporated in this report reflect the effect on the local-body debt of the Board's administration during that period. The Board has endeavoured to assist local bodies where the proposals covered essential works. On a number of occasions the Secretary has with good results visited a local authority and discussed with its officers the particular problem under review. This helpful and constructive aspect of the Board's activities is now much more widely recognized among local authorities. At the same time, by exercising a restraining influence on doubtful undertakings or by withholding its sanction where it appeared the financial burden would be beyond the immediate capacity of the ratepayers, it has endeavoured to keep local-body finance on a sound basis.

The net result is a reduction in the total debt from a peak of £72,600,000 at 31st March, 1931, to £57,700,000 at the 31st March, 1947, being the latest statistical figure available. Repayment of the whole of the debt has also been provided for by sinking funds or annual repayments within the estimated life of the assets to be created out of the loan expenditure.

The work of the Board for the year ended 31st March, 1948, again reflects the increased activity that is taking place in the capital programmes of local authorities. The loan proposals considered by the Board again exceeded £10,000,000 for the year. Materials generally are now in better supply, and, despite the labour shortage, many local authorities are putting in hand capital works postponed from the war years. In as far as buildings are concerned, it would seem that although the raising of the requisite loan-moneys has been approved, some time must elapse in many cases before the work can proceed.

Applications considered by the Board amounted to £10,347,679, of which £8,324,579 represented new applications and £2,023,100 amounts not finally disposed of previously. The amount sanctioned for new works was £6,022,034 and for renewal loans £1,459,880. The balance of £2,865,765 was referred back or decision was deferred pending further investigation.

Details of the year's operations are summarized in the following table, together with particulars of the previous year for comparative purposes:—

	1946-47.		1947-48.	
	£	£	£	£
Applications . . . . .	9,843,543		8,324,579	
Previously referred back . . . . .	879,350		2,023,100	
		<u>£10,722,893</u>		<u>£10,347,679</u>
Sanctioned—				
New Loans* . . . . .	7,289,436		6,022,034	
Renewal loans . . . . .	1,006,430		1,459,880	
Referred back . . . . .	2,427,027		2,865,765	
		<u>£10,722,893</u>		<u>£10,347,679</u>
		1946-47		1947-48.
		£		£
*New loans—				
Waterworks . . . . .		155,465		923,730
Drainage and sewerage . . . . .		386,120		525,080
Roads and bridges (counties) . . . . .		42,629		187,850
Street works (boroughs) . . . . .		369,050		873,850
Municipal buildings, offices, &c. . . . .		86,315		70,218
Recreational facilities . . . . .		312,480		39,100
Transport . . . . .		1,018,000		54,840
Housing—				
Permanent . . . . .		341,017		86,110
Transit . . . . .		147,850		53,500
		<u>488,867</u>		<u>139,610</u>
Electric supply—				
Power Boards . . . . .		1,011,500		1,344,200
Other . . . . .		460,400		
		<u>1,471,900</u>		<u>1,344,200</u>
Hospital works . . . . .		1,502,005		1,499,500
Harbour-works . . . . .		1,065,000		110,000
Fire Board loans . . . . .		39,500		3,700
Gasworks . . . . .		32,000		83,000
Abattoirs . . . . .		107,900		29,060
Education authorities . . . . .		17,425		29,690
Machinery . . . . .		54,730		49,650
Miscellaneous . . . . .		149,050		42,106
Flood damage or protection works . . . . .				16,850
		<u>£7,289,436</u>		<u>£6,022,034</u>

Approval was given under section 47, Finance Act, 1929, to the diversion of the unexpended balances of loans amounting to £8,675, and the use of capital moneys amounting to £43,171 was approved under section 20, Finance Act, 1934.

Loans of Hospital Boards and Electric-power Boards were again very substantial and accounted for approximately half the borrowing of all local authorities. The high cost of building is one of the factors contributing to the large amount required by Hospital Boards, whilst the call for additional ward accommodation arising from the greater use of hospital beds is also important. As a result of an accelerated housing programme and industrial development, Electric-power Boards are required to extend and increase the carrying-capacity of lines despite the greatly increased cost of the imported material—e.g., cables. The establishment of the Rural Electrical Reticulation Council with funds at its disposal for subsidizing uneconomic rural lines has enabled some Boards to undertake such extensions. During the year the Board has felt it necessary to discuss with the Health Department the trend of some features of hospital development, and with the State Hydro-electric Department the relationship between the power shortage and Electric-power Board extensions into new areas.

Water-supply and street works show a substantial increase, largely resulting from major schemes in both categories in Auckland, estimated to cost £1,100,000.

The amount referred back (£2,865,765) is much above the average, and consists largely of Hospital Board and Electric-power Board proposals in respect of which the Board desired further information. The majority of these proposals were subsequently sanctioned. A number of water-supply and sewerage proposals were referred back as the Board was of the opinion that the cost was beyond the financial resources of the local authorities concerned.

Applications dealt with by the Board since it was constituted on 1st April, 1927, have been as follows:—

—	Total New Applications.	Sanctioned.	
		Works.	Redemptions.
	£	£	£
1927-28 .. .. .	4,636,649	3,212,185	1,048,796
1928-29 .. .. .	6,007,045	3,866,551	809,221
1929-30 .. .. .	4,218,730	3,563,842	967,875
1930-31 .. .. .	3,840,505	1,766,256	838,901
1931-32 .. .. .	3,412,365	781,195	2,483,810
1932-33 .. .. .	2,951,645	406,521	2,348,231
1933-34 .. .. .	3,884,132	917,560	2,744,245
1934-35 .. .. .	3,859,363	1,585,440	2,379,955
1935-36 .. .. .	4,061,076	1,550,690	2,051,790
1936-37 .. .. .	2,804,308	2,411,358	430,313
1937-38 .. .. .	3,362,173	3,098,445	122,758
1938-39 .. .. .	5,138,917	3,013,872	1,188,525
1939-40 .. .. .	2,674,450	1,701,460	355,800
1940-41 .. .. .	5,336,640	2,709,505	1,602,670
1941-42 .. .. .	4,589,653	1,898,096	1,391,728
1942-43 .. .. .	3,336,770	1,497,120	1,121,000
1943-44 .. .. .	3,999,665	1,349,335	2,359,755
1944-45 .. .. .	3,242,327	1,737,807	698,120
1945-46 .. .. .	3,497,820	2,643,935	243,235
1946-47 .. .. .	9,843,543	7,289,436	1,006,430
1947-48 .. .. .	8,324,579	6,022,034	1,459,880
	93,022,355	53,022,643	27,653,038
		80,675,681	

The difference (£12,346,674) represents amounts declined or referred back by the Board during the period of twenty-one years.

The following table shows the movement of gross local-authority debt:—

	£		£
1915 .. .. .	24,538,721	1942 .. .. .	66,645,990
1920 .. .. .	30,187,942	1943 .. .. .	65,131,074
1925 .. .. .	53,353,466	1944 .. .. .	63,262,828
1930 .. .. .	71,207,539	1945 .. .. .	61,237,937
1935 .. .. .	71,245,458	1946 .. .. .	60,025,864
1940 .. .. .	69,486,970	1947 .. .. .	57,765,453
1941 .. .. .	67,974,687		

The domicile of local-authority debt has been as follows:—

31st March,	London.	Australia.	New Zealand.	Total.
	£	£	£	£
1931 .. .. .	17,533,425	8,574,529	46,578,082	72,686,036
1935 .. .. .	16,088,525	2,564,693	52,592,240	71,245,458
1940 .. .. .	12,284,225	2,264,220	54,938,525	69,486,970
1941 .. .. .	9,893,025	2,198,211	55,883,451	67,974,687
1942 .. .. .	9,381,825	2,043,718	55,220,447	66,645,990
1943 .. .. .	8,461,325	1,851,273	53,656,498	63,969,096
1944 .. .. .	7,837,225	1,624,458	53,801,145	63,262,828
1945 .. .. .	7,074,925	1,544,382	52,618,630	61,237,937
1946 .. .. .	6,604,725	1,484,400	51,936,739	60,025,864
1947 .. .. .	5,990,325	1,286,783	50,488,345	57,765,453

Some years ago lenders were loath to provide loan-moneys for long terms, and many loans were raised at  $3\frac{1}{2}$  per cent. for a term of ten years. Those loans are now maturing, and in the majority of cases a renewal loan for a further ten years at  $3\frac{3}{8}$  per cent. is arranged. Many local authorities are therefore redeeming loan liabilities in twenty years, although a longer term might have been sanctioned originally.

As the local authority elections were held in November, 1947, the Board was asked to consider more than the usual number of loan proposals involving a poll of the rate-payers as required by the Local Bodies' Loans Act, 1926. It is significant that when loan polls are held in conjunction with elections polling is heavy, but that in other instances the percentage who vote is very low. The figures range from 6 per cent. to 90 per cent., with an over-all average over the past few years of 30 per cent.

Interest payable by local authorities continues at rates varying from 3 per cent. to  $3\frac{1}{4}$  per cent. In view of these continued low rates and their effect on the earning-power of sinking-fund investments, the Board reviewed its requirements as to the annual payment to new sinking funds. The Board now bases the annual contribution to a sinking fund on an assumed earning-power of the capital of 3 per cent. in lieu of the former  $3\frac{1}{4}$  per cent. This results in slightly higher annual charges, but helps to ensure that on maturity of the loan the sinking fund is sufficient to effect redemption without recourse to further borrowing.

The majority of loans are, however, now raised on the preferable basis of annual repayments, thus avoiding the necessity for establishing a sinking fund.

The Board again desires to place on record the extent to which local authorities have co-operated with it in the handling of loan proposals. It also expresses its appreciation of the assistance received from the Government Departments which submit reports for its information.

E. L. GREENSMITH, for Chairman.

The Treasury, Wellington, New Zealand, 28th May, 1948.

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