

1950
NEW ZEALAND

STATE ADVANCES CORPORATION OF NEW ZEALAND

REPORT AND ACCOUNTS FOR THE YEAR ENDED 31st MARCH, 1950

*Laid before Both Houses of the General Assembly of New Zealand Pursuant to
Sub-section (2) of Section 43 of the State Advances Corporation Act, 1934-35,
and Subsection (2) of Section 42 of the State Advances Corporation Act, 1936*

The Right Hon. the MINISTER OF FINANCE, Wellington.

WE have pleasure in submitting the Balance-sheet and Revenue Accounts for the year ended 31st March, 1950, together with a report on the administration for the year, in accordance with the provisions of subsection (1) of section 43 of the State Advances Corporation Act, 1934-35.

BOARD OF MANAGEMENT :

T. N. SMALLWOOD, O.B.E., Chairman.
 B. C. ASHWIN, C.M.G. }
 D. BARNES } Directors.
 R. G. MACMORRAN }

CHIEF ADMINISTRATIVE OFFICERS :

F. E. MITCHELL, General Manager.
 K. J. CAVERHILL, Assistant General Manager.
 J. D. R. WOOD, Secretary.
 H. M. CASELBERG }
 B. C. McCABE } Supervising Valuers.
 C. E. H. BALL, Office Solicitor.
 W. G. DENT, Chief Accountant.
 L. E. BROOKER, Architect and Chief Property Supervisor.

AUDITORS :

G. D. STEWART. R. C. BURGESS.

BANKERS :

Reserve Bank of New Zealand and Bank of New Zealand.

PART I—GENERAL

In last year's report statistics of the Corporation's business over the previous fifteen years were supplied, and similar comparative statements are furnished this year as a means of illustrating the progress that has been made, and the effect of wartime and post-war conditions on such progress.

The table following shows the number of loan applications received, firstly, in the four years following the establishment of the Corporation in 1935, and, secondly, in the four years ended 31st March, 1950. As has been customary in the past, the figures have been summarized under classified headings : -

Year.	Urban.	Rural.	Tools of Trade.	Furniture.	Business.	Miscellaneous.	Total.
1936*	2,098	2,033	..	..	..	..	4,131
1937	5,049	2,681	..	..	..	..	7,730
1938	3,493	1,364	..	..	..	..	4,857
1939	4,993	1,592	..	..	..	..	6,585
1947	8,678	2,485	210	8,602	2,636	65	22,676
1948	7,150	1,696	283	8,411	2,392	26	19,958
1949	6,848	1,681	168	8,243	2,489	27	19,456
1950	6,794	1,685	76	7,678	2,402	77	18,712

* For seven months only.

The figures disclose a reduction of 744 in the total number of applications received under all headings as compared with the previous year, a trend which has been in evidence since 1947, and indicates a tapering off of rehabilitation requirements, particularly in respect of furniture and tools of trade applications.

It will be seen also that urban loan applications remain at a consistently high level and are 1,745 in excess of the 1937 figures. With the introduction of the present Government's new lending policy and the suspensory loan scheme, indications are that the number of applications under this heading will show an increase in 1950-51. Further comment on this phase of the matter is made later in this report.

Applications for loans on farm properties have been remarkably constant since 1948, notwithstanding the restricting influence of section 51 of the Servicemen's Settlement and Land Sales Act on sales of single-unit properties. It is true that there are still many ex-servicemen awaiting settlement on farm properties, but it is equally true that there are also many rural workers and farmers' sons who are not ex-servicemen who cannot for much longer be denied the opportunity of obtaining properties which may come on the market for sale.

The contention expressed in last year's report that sufficient self-contained economic farm units are not available to satisfy the demand is confirmed by the fact that applications received in respect of farm properties have in the last three years become stabilized at a fairly low level. Recourse will inevitably have to be had to an intensification of land-development, either by the State or by individual settlers, and a closer study of farming methods and technique particularly in relation to marginal units, will be required if all those seeking farm lands are to be satisfied.

The call on loan funds for rehabilitation purposes continues to be heavy, but it has been possible during the past year to meet civilian requirements to a greater extent than for some years past, and no difficulty has been experienced in meeting the normal requests of this class of applicant, particularly where the loan-moneys are required to assist in the erection of new homes. With the extension of the loan limits the demand in this respect is already increasing.

Repayments from existing borrowers have, as in the past, provided a fairly large proportion of the funds needed to meet loan requirements. Treasury was, however, called upon to provide capital moneys amounting to £5,600,000, a reduction of £600,000 on the previous year.

Climatic conditions have generally been favourable throughout the Dominion and production has been uniformly high. North Auckland experienced a dry spell in the late summer and autumn, but investigations have shown that dairy production for the season is likely to be very little below that of the 1948-49 season, which was a record one for the district, and will certainly be above the average for some years past. Settlers most severely affected were those who had taken up farms during the previous year and had not become fully established before the dry spell. Apart from these few, the great majority were able to maintain satisfactory production; and with sufficient rain in the late autumn and a mild winter to date, pastures have made a good recovery.

Prices for all types of stock have remained high and wool prices have risen above expectations. The farming community generally has, as a result, had a very successful season: and we note with pleasure that a large number of ex-servicemen's accounts are showing substantial trading surpluses. The Corporation has continued to encourage its borrowers to use these revenue surpluses to build up their asset reserves by reducing their mortgage liabilities, and as far as possible effecting improvements which normally would have to be financed by further loan capital.

The volume of transactions, as evidenced by the numbers of cheques and receipts issued, shows an increase over past years, and these have reached a new record. Cheques to the number of 103,000 involving total payments of £22,071,000 were issued during the year, whilst the number of receipts issued totalled no less than 1,625,000 involving £22,485,000, thus making a total cash turnover in payments and receipts of £44,556,000.

Increasing pressure of work is resulting from the gradual replacement of long-standing well-secured mortgage accounts, which present few, if any, administrative problems, by loans with a very slender margin of security which are placed on a monthly or quarterly repayment basis.

The following statistics show the number of loans approved during the year. Corresponding figures for the preceding year are given in parentheses.

Statistics for Year Ended 31st March, 1950

Classification.	Loans Authorized.			
	Number.		Amount.	
			£	£
Farms	1,013	(1,031)	5,115,801	(4,567,540)
Stock	104	(49)	105,362	(54,118)
Houses	5,088	(5,590)	6,020,694	(6,642,354)
Industrial	8	(7)	1,034,090	(418,000)
Business	1,414	(1,373)	910,091	(933,151)
Furniture	7,283	(8,039)	678,292	(746,101)
Tools of trade	62	(134)	1,838	(4,848)
Miscellaneous	109	(45)	17,434	(7,848)
Totals	15,081	(16,268)	13,883,602	(13,374,060)

It will be observed that although there is still a large volume of business transacted in the form of rehabilitation business and furniture loans, lending on the security of farm and residential property continues to represent the major portion of the Corporation's business.

The table following shows the operations in this respect for the year under review, together with the aggregate of such loans authorized since the establishment of the Corporation in 1935.

Period.	Applications Received.		Loans Authorized.	
	Number.	Amount.	Number.	Amount.
During year ended 31st March, 1950—		£		£
Farms and stock	1,655	6,043,255	1,117	5,221,000
Residential	6,794	8,555,533	5,088	6,021,000
Totals	8,449	14,598,788	6,205	11,242,000
During period 1935 to 1950—				
Farms	20,457	58,807,000	11,995	37,701,000
Residential	63,576	67,676,000	48,008	50,297,000
Totals	84,033	126,483,000	60,003	87,998,000

The loan [authorizations for 1950 as shown above are classified hereunder to indicate the nature and purpose of the loans—i.e., whether within or in excess of the normal two-thirds lending basis, whether for purchase or erection of dwellings, or for the refinancing of existing mortgage liabilities :—

Authorizations for Year Ended 31st March, 1950, Classified Under Purpose

Purpose.	Farms.				Residential.				
	Civilian.		Rehabilitation.		Civilian.		Rehabilitation.		
	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.	
		£		£		£		£	
Erection—	..								
Normal	100	119,310	..	..
Special	216	313,920	1,886	2,590,187	
Purchase—									
Normal	..	24	74,465	..	142	117,125	..	..
Special	..	10	26,190	931	4,712,372	133	142,150	2,439	2,292,502
Refinance—									
Normal	..	11	50,990	..	52	46,890	..	..
Special	..	1	4,080	17	57,055	2	3,425	30	32,995
Other Purposes—									
Normal	..	5	68,649	..	20	40,710	..	..
Special	2,545	14	117,965	1	4,720	67	51,490
Supplementary (interest free)	(5)	1,490	(1,918)	265,270
R.I.C. Part III (stock and chattels loans)	..	17	18,825	87	86,537
Totals	..	68	245,744	1,049	4,975,419	666	788,250	4,422	5,232,444

NOTE.—Special loans are those granted in excess of the normal two-thirds basis.

It will be noted that of the total number of residential loans authorized in 1950, over 43 per cent. were for the erection of new dwellings.

New loan accounts opened during the year totalled 15,301, whilst 9,487 were repaid in the same period. The total number of loan accounts under all headings being administered at 31st March, 1950, is given in the following table :—

Number of loan accounts as at 31st March, 1949	..	..	98,780
Less repaid during the year	..	..	9,487

		89,293
Add new loan accounts opened during the year	..	15,301

Number of loan accounts as at 31st March, 1950	104,594
--	----	----	---------

representing a net increase of 6,114.

The figures quoted in the table do not include the large number of housing and other agency accounts under administration by the Corporation. There are over 34,000 housing accounts alone, practically all of which are on a fortnightly payment basis, resulting in accounting operations of considerable magnitude. Some idea of the volume of transactions involved will be gained from the following statement, which shows the number of accounts and the book value of assets at the 31st March for each year since 1935 :—

Statement Showing Number of Accounts and Total Balance-sheet Assets During Period, 1935-50

Year.	Corporation.			Housing.			Agency.			Grand Total.			
	Number of Accounts.			Balance-sheet Assets.			Number of Accounts.				Balance-sheet Assets.		
	Rural.	Urban.	Local Authorities.	Total.	Balance-sheet Assets.	Number of Accounts.	Balance-sheet Assets.	Number of Accounts.	Balance-sheet Assets.		Number of Accounts.	Balance-sheet Assets.	
1935 ..	16,325	35,459	2,850	54,634	£ 41,255,701	..	..	..	54,634	£ 41,255,701
1936 ..	15,339	34,582	1,882	51,803	43,217,990	..	..	..	51,803	43,217,990
1937 ..	24,442	43,768	1,986	70,196	56,589,459*	949	853,563	..	71,145	57,443,022*			
1938 ..	23,767	43,858	2,128	69,753	58,453,775	1,505	2,581,565	11	45,636	61,080,976			
1939 ..	22,529	45,275	2,029	69,833	60,245,891	4,177	6,654,479	11	43,878	66,911,248			
1940 ..	21,704	41,778	2,081	68,563	59,769,067	7,469	11,917,958	11	43,838	71,730,863			
1941 ..	20,748	43,106	2,063	65,917	57,159,712	11,463	17,411,771	1,149	207,480	74,778,966			
1942 ..	19,936	42,033	2,018	64,017	56,313,791	14,795	21,443,206	1,958	359,619	78,116,616			
1943 ..	19,149	39,524	2,039	60,712	56,249,088	16,225	22,737,593	2,302	473,750	79,239,79			
1944 ..	18,241	37,292	2,013	57,546	56,137,810	16,919	21,306,031†	3,840	633,437	78,077,278†			
1945 ..	17,786	36,326	1,993	56,105	55,998,932	18,482	24,106,850	7,407	1,184,982	81,290,764			
1946 ..	18,094	36,107	1,948	56,149	56,299,784	21,398	28,840,568	11,055	2,111,053	87,251,405			
1947 ..	18,911	38,181	1,889	58,981	60,839,969	23,817	33,864,775	22,804	3,823,699	105,602,443			
1948 ..	20,307	40,780	1,600	61,687	68,107,720	25,043	39,489,749	28,107	4,708,769	115,842,122			
1949 ..	20,315	43,341	1,205	64,861	75,057,449	30,548	46,512,426	35,384	5,755,589	130,793,127			
1950 ..	21,363	45,219	997	67,581	81,425,919	34,798	54,596,092	38,460	6,134,633	142,156,674			

This table includes under the heading "Balance-sheet Assets" various miscellaneous items not appropriate to the succeeding table which is designed to show primarily the capital assets under administration.

* During this financial year the Corporation took over from the Lands Department the administration of the advances made under the authority of the Discharged Soldiers Settlement Act, 1915, and amendments.

† In previous financial years the value of the land acquired for housing and not yet built on was included in the assets of the Housing Account administered by the Corporation but since 1943 is included in the accounts of the Ministry of Works.

It will be noted that the number of accounts under administration now totals 140,842, and, as in past reports, these have been classified in the table below to show the nature of the investments and the relative amounts thereof:—

Accounts Administered by Corporation

	Number of Accounts.	Principal Investment. £
Mortgage investments		
Urban	45,219	38,401,034
Rural	21,368	36,640,712
Loans to local authorities	997	4,362,537
Housing Account		
Dwellings let	34,267	52,345,472
Shops, halls, and communal garages	211	
Dwellings sold	155	84,960
Loans to local authorities	102	993,761
Loans to employers	18	58,421
Rural Housing Act: Loans to local authorities	42	127,959
Advances under Rehabilitation Act, 1941		
Furniture, tools of trade, business, and miscellaneous	37,136	3,541,150
Interest-free supplementary loans	..	1,935,177
Other principal agencies		
Agriculture Emergency Powers Act, 1934	7	18,628
Farmers' Loans Emergency Regulations 1940	15	39,973
Public Works Department hutments rented to farmers	35	10,463
Rural Housing Scheme, 1944	35	3,623
Timber workers' housing		
Levies accounts	619	367,788
Rental accounts	103	
Miscellaneous rentals	510	..
Totals	140,842	£138,931,658

The total of £138,931,658 represents an increase over the past year of £13,507,458.

During the year there has been further progress made in clearing up the investment accounts in respect of securities previously administered as mortgagee-in-possession and which had been taken over from Departments on the establishment of the Corporation. It will be seen from the table hereunder that losses written off against reserves in respect of these accounts amounted to £138,445 for the year and bring the total written off up to £2,999,219. A substantial part of this last-mentioned amount was in respect of mortgage adjustments under the Mortgagors and Lessees Rehabilitation Act, 1936. No losses are shown for the year in respect of new investments made by the Corporation since 1935, and the total written off in this section for the past fifteen years amounts to only £7,577.

Losses under the rehabilitation scheme are shown later in this report.

Losses Written Off in Respect of—	Amounts Written Off.			
	For Year Ended 31st March, 1950.		Total From 1935 to 1950.	
	£	s. d.	£	s. d.
Loans approved prior to 1935—				
Farms	5,686	19 9	2,338,631	5 2
Residential	132,758	9 5	660,587	16 9
Totals	138,445	9 2	2,999,219	1 11
New Corporation loans since 1935—				
Farms .. .. .	..	..	7,192	1 9
Residential .. .. .	..	..	385	16 3
Totals .. .. .	..	..	7,577	18 0

INTEREST RATES

The Corporation has maintained the rate charged on loans granted at 4½ per cent., which allows little margin to meet management and other overhead expenses. This rate is competitive on present market conditions, particularly for long-term loans, and having regard to increased costs of administration. The Board considers it very satisfactory that it has been possible to keep the charge to clients at this moderate level.

LENDING POLICY

With the advent of the present Government following the general election in December last, and following Government policy, extended loan limits have been brought into operation and loans to erect houses may now be obtained up to a limit of £2,000 (inclusive of any suspensory loan) and subject, of course, to normal requirements as to type of construction, value, &c., being complied with. Civilian applicants are required to contribute not less than 10 per cent. of the cost of the proposition, but eligible ex-servicemen may obtain loans up to the full approved cost, but not exceeding the loan limit of £2,000. Evidence is not lacking that this increase in special loan limits is having the desired effect of encouraging home-seekers to build new houses rather than to purchase existing dwellings. The new basis of lending did not, however, come into operation until late in the financial year, and it will be some months yet before the full effect of the scheme is evident. It must not be inferred that cost alone is the determining factor in dealing with loan applications, the personal factor of the applicant and the economic value of the project being most important.

SUSPENSORY LOANS

As part of its policy to encourage private-house building in both town and country, the Government has introduced a suspensory loan scheme and placed with the Corporation the responsibility for its promotion and administration. As a secondary, but by no means unimportant, objective the scheme will be specially helpful to those who through increased building costs, would be unable to build at to-day's price levels if

they had to rely on normal lending facilities. Certain conditions have, of necessity, been imposed, but they are fair and reasonable, and are not such as to prevent the genuine home-builder from participating in the scheme.

The loans are available only in respect of dwellings the erection of which commenced on or after 1st December, 1949, and which are intended for the permanent occupation of the applicant and his family. In the case of a house erected on a farm property, occupation by a worker employed on the particular farm is accepted as complying with the residential requirement.

The suspensory loans are not available to applicants who already own suitable houses or who have recently disposed of such properties at enhanced values. The present intention is that the scheme will operate for a period of three years from 1st December, 1949, and is available to civilians and ex-servicemen alike, and irrespective of the source from which the balance of the cost of the house is being procured. The approved cost of the house, however, must not exceed £2,000, although special consideration will be given to the needs of applicants with three or more children.

The amount of the suspensory loan is 10 per cent. of the approved cost of the dwelling, with a maximum of £200. Loan offers are provisional only and subject to review when the dwelling is completed in accordance with the approved plans and specifications and the final cost is known. Any unauthorized departure from the plans or contract as originally approved may involve amendment and (possibly) cancellation of the offer. Security is taken by way of mortgage, but, provided the conditions are fully complied with, no interest will be charged and the loans will be written off after a residential period of seven years has elapsed.

It was not possible to place the scheme in operation until March, and it is therefore too early to offer any worth-while comment on the progress of the scheme, which must be judged not by the number of loan offers made, but by the increased number of dwellings erected as a result of the additional facility provided.

RURAL INTERMEDIATE CREDIT (STOCK) LOANS

The Rural Intermediate Credit Amendment Act, 1946, abolished the separate account established under the original Act and amalgamated the system of lending for farming purposes (mainly secured on stock and plant) with the Corporation's normal lending operations. This did not, however, close the avenues available to farmers desirous of obtaining finance against the security of their stock and plant on short-term conditions. The demand for loan accommodation in this way is not heavy, the majority of applicants being desirous of consolidating their borrowing in a long-term loan from the Corporation on the security of farm lands, supported, where necessary, by collateral security over stock. Nevertheless, 104 stock loans were granted by the Corporation during the year (a decrease of 2 as compared with the preceding year) involving a capital outlay of £105,362. In addition, 60 loans involving £37,272 were granted to farmers on applications through Rural Intermediate Credit Associations, thus bringing the total stock loans granted to 164, amounting to £142,634, as against 140 loans involving £137,453 in the previous year. Whilst prices for primary products remain at their present high level it is not anticipated that there will be any great demand for short-term finance, most farmers being able to meet their immediate requirements from revenue or by way of moderate advances through the usual commercial channels.

REHABILITATION AGENCY: GENERAL

As agent for the Rehabilitation Board the Corporation has continued to administer loans granted to ex-servicemen, and to investigate new applications and provide the various Loans Committees with the data necessary to enable them to arrive at fair

decisions based on the merits of each proposition submitted. Applications which involve unusual features, such as doubtful economic farming propositions requiring specialized knowledge, often necessitate detailed investigation and consultation with the local Committees appointed for the purpose. In general, however, the work has been handled smoothly and expeditiously. A steady flow of rehabilitation loan applications is being experienced at all Branches of the Corporation. Full co-operation has been forthcoming, as in the past, from the various Departments and Committees associated in this work, and it is pleasing to note that the large majority of men assisted have taken full advantage of the help given to them, and in these cases the purpose of rehabilitation can be said to have been achieved. It is, of course, inevitable that in a scheme of such magnitude a certain number will be unsuccessful, but the percentage of failures has so far been low. This is illustrated by the table given later. The losses have in the main resulted from failures in businesses established with rehabilitation loans, and have mostly arisen as a result of the ex-serviceman being insufficiently experienced in the line of business he elected to follow, or of his being temperamentally unsuited to business management. Many of them, whilst good workers and tradesmen, revealed lack of training and experience to the degree required to ensure their success as businessmen on their own account. The Corporation has continued to help and advise, and has not hesitated to seek the assistance, and gladly acknowledges the help, of experienced men in the commercial field.

As in past reports, a list is submitted hereunder illustrating in a condensed form the various types of business for which rehabilitation loans have been authorized. It does not purport to be a complete classification, and we are satisfied that a full survey would show that more than 250 different types of business have already been handled. It is interesting to note, however, that the various types of transport still appear to have a strong attraction.

Classification of Business Loan Authorizations

	Number.	Total.		Number.	Total.
		£			£
Butchery	188	154,427	Taxi, service car, and transport	1,652	905,135
Grocery and general store	616	511,484	Carrier and mail contractor ..	1,249	925,062
Bakery, dairy, refreshment-rooms	401	276,823	Hairdresser and tobacconist ..	112	55,940
Milk-round	272	216,430	Bootmaker	149	46,222
Building trades	697	357,963	Painter and paperhanger ..	235	89,584
Mechanical repairs	418	275,542	Launch and fishing gear ..	111	73,232
Manufacturing businesses	291	192,283	Agricultural contractors ..	428	309,641
Stationery and fancy goods	114	83,564	Chemist	28	28,230
Poultry, &c.	42	26,713	Miscellaneous	674	461,169
Professional equipment	809	369,066			
Radio dealers and electricians	202	109,628			
Hotel and guest-house	39	35,658			
			Total to 31st March, 1950	8,727	£5,493,961

The great majority of rehabilitation borrowers are meeting their obligations satisfactorily, but the Board feels it incumbent upon it to again draw attention to the high percentage of furniture and tools of trade accounts in arrear. Every effort is made to bring these accounts up to date, but the fact that these loans are interest free seems to be considered sufficient reason for non-payment. Had they carried an interest charge, to be waived only upon prompt payment of instalments as they fell due, a better record would have been disclosed. The Board finds it very difficult to believe that these arrears are justified in a time of full employment. The work involved in communicating with defaulting borrowers and in subsequent interviews is uneconomic and takes up the time of officers who could well be engaged on more productive work.

The two following tables give the statistical data relative to the number of accounts in arrear for the respective types of loan :

(1) *Arrears as at 31st March, 1950, on Farm and Residential Loans*

	Accounts.		Arrears.		Percentage of Accounts in Arrear.
	Number.	Principal Outstanding.	Number.	Amount.	
		£		£	
Farm	8,061	23,638,303	157	31,628	1·9
Residential	22,169	24,907,044	695	12,860	3·1
Totals	30,170	48,545,347	852	44,428	2·8

(2) *Arrears as at 31st March, 1950, on Other Rehabilitation Accounts*

	Accounts.		Arrears.		Percentage of Accounts in Arrear.
	Number.	Principal Outstanding.	Number.	Amount.	
		£		£	
Furniture	32,735	1,561,713	3,217	24,987	9·8
Tools of trade	230	3,598	70	579	29·3
Business	3,687	1,875,795	439	34,007	12·9
Miscellaneous	252	50,940	21	456	8·3
Totals	36,863	3,492,046	3,777	60,029	10·2

Losses written off up to 31st March, 1950, in respect of loans granted to ex-servicemen are scheduled hereunder :—

	For Year Ended 31st March, 1950.			Total to Date.		
	Number	Amount.		Number.	Amount.	
		£	s. d.		£	s. d.
Farm	15	8,274	16 7	78	24,062	7 6
Residential	2	110	13 4	5	341	15 4
Totals	17	8,385	9 11	83	24,404	2 10
		£	s. d.		£	s. d.
Business	25	7,794	1 0	104	19,197	12 0
Furniture	27	568	6 3	85	2,492	19 11
Tools of trade	2	1	13 0	20	201	2 6
Miscellaneous	2	20	6 10	3	34	6 10
Totals	56	8,384	7 1	212	21,926	1 3

REHABILITATION LOANS REPAID

There has again been a large increase in the number of loans repaid, a total of 6,798 accounts having been closed in this way during the year. Of this total, furniture loans repaid account for 4,362. The table below shows the number of accounts repaid in the various classifications :—

	Accounts Repaid During Year Ended 31st March, 1950.	Total Number Repaid to 31st March, 1950.
Farm	186	368
Residential	967	2,409
R.I.C. (stock)	45	138
Business	1,011	3,557
Furniture	4,362	9,323
Tools of trade	182	1,134
Miscellaneous	45	180
Totals	6,798	17,109

Many of these repayments, particularly of the farm and residential accounts, result from the sales of the properties, and in many cases loans are granted to the purchasers against the same security. Of the 186 farm accounts repaid, 88 come within this category ; and of the 967 residential loans repaid, 375 were accounted for by new loans to the purchasers. The position generally is regarded as very satisfactory, and illustrates a genuine desire on the part of the majority of borrowers to meet their obligations and clear their liabilities as quickly as possible.

PRESERVATION AND PROTECTION OF TIMBER

The policy of the Corporation in encouraging the development of pressure plants for the treatment of non-durable timbers has borne fruit during the year in the large increase in the quantity of pressure-treated timber which is now available to the building trade and incidentally, to the Corporation's mortgagors. In 1949 the quantity of timber pressure-treated in Auckland was 500,000 ft. greater than the amount treated in 1948, whilst 750,000 ft. were treated in the five months of the year during which the new plant at Marton was in operation. This plant supplies treated timber to Palmerston North, Marton, Wanganui, New Plymouth, and adjacent towns. A plant has been in operation in Christchurch for some time, and a small plant began operations in Wellington at the end of the year. It is hoped that in the fullness of time pressure impregnation of non-durable timbers will be available throughout the Dominion, when the less desirable dipping method of wood-preservation will no longer be necessary.

TERMITES ACT, 1940

As the work proceeds and further knowledge is gained of the termite problem, its long-term nature becomes increasingly clear. As an instance of this, it may be pointed out that infestations of Australian termites have recently been discovered in areas which had been inspected approximately eight years ago in the early stages of the campaign without any signs of the insects then being found. What is described as the spread of

the termites since control measures began is in many cases merely a development of colonies which were present but too small to be detected at the beginning of the control campaign.

In view of the limitations of the basic scientific knowledge of the insects concerned, the degree of control over them which has been exercised by the Corporation may be considered to be satisfactory. It cannot be too strongly emphasized that once an insect such as the Australian termite has become established in any country it is unlikely that complete extermination in all localities will be possible. A campaign designed to control infestations effectively and prevent the spread of the pest as far as practicable will produce beneficial results and is well worth while.

During the year the number of properties inspected and of infestations recorded up to 31st March, 1950, is as follows:—

Local Body.	Properties Inspected, Including Re-inspections: Total as at 31st March, 1950.	Properties in Which Infestations Found: Total as at 31st March, 1950.
Auckland City Council	20,937	356
New Plymouth City Council	1,460	23
Onehunga Borough Council	1,231	111
Mount Albert Borough Council	569	4
One Tree Hill Borough Council	1,040	2
Mount Eden Borough Council	337	7
Mount Roskill Borough Council	669	23
	26,243	526

The supervision of the imports of Australian hardwoods is carried out by the New Zealand Forest Service in an endeavour to prevent the introduction of further colonies of Australian termites. This extremely difficult task has been made somewhat easier by the availability in Auckland of a pressure impregnation plant in which timber suspected of containing termites can be treated and the termites killed. A similar plant is available for the treatment of sleepers and smaller poles in Wellington. Although the Corporation is not in direct control of the work of preventing the introduction of further infested timber, it is anxious to co-operate and assist the Forest Service in this work.

STAFF

The Board desires to take this opportunity of once more placing on record its appreciation of the work done during the year. It has received the whole-hearted co-operation of its staff, who have maintained a high standard of efficiency. There has been no easing of the pressure under which all members have had to work in the past few years, and with the introduction of the new lending policy and the projected sale of State houses the indications are that another strenuous year lies ahead. The Board is nevertheless confident that it can rely on its staff to continue to provide efficient and loyal service both to its clients and to the Government, which looks to the Corporation to ensure that its policy is carried into effect.

BOARD

Mr. A. D. Park, C.M.G., retired from office as Chairman of the Board during the year under review, and Mr. T. N. Smallwood, O.B.E., was appointed as his successor.

BALANCE-SHEET

During the year there has been an increase of £5,600,000 in loan liability, which is offset by a corresponding increase in mortgage investments. The actual new investments during the year totalled £11,784,000, and of this £6,184,000 was found from principal repayments, a normal procedure which is a feature of lending on instalment mortgage. The General Reserve Fund shows an increase of £288,589, and in terms of the statutory obligation to keep the Reserve Fund fully invested in approved securities, there has been a corresponding increase in the investment in Government and local-body securities. There is an increase of £473,540 in sundry creditors, and this is almost entirely represented by amounts due to the Lands Department in respect of farm lands on which servicemen have recently been settled and in respect of which the adjustment of accounts has not been completed. It is expected that payment to clear this amount will be effected early in the present financial year.

A substantial increase of £246,017 in sundry debtors will be cleared by adjustments with the Housing Account, on behalf of which the Corporation has made substantial payments. The unusually large amounts of the cash balances aggregating £694,216 were held to meet current liabilities—mainly the payments due to the Lands Department as mentioned previously.

REVENUE ACCOUNT

Total interest receivable this year at £3,136,784 shows an increase of £264,462 on the previous year and is in line with the increase in investments. The contribution from Treasury in respect of interest concessions on rehabilitation loans during the year reached the substantial figure of £541,897. Total management expenses show an increase of only £14,955, which is very satisfactory considering the substantial expansion in business and the increase in salaries and other overhead expenses during the year.

As in previous years, no charge has been made against any Government funds for the costs of administering rehabilitation advances made on business, furniture, and tools of trade securities, the cost this year being £102,964.

After making full provision for taxation and reserves, a profit of £50,420 (an increase of £10,385 on last year) is being paid to Treasury, representing a return of approximately 5 per cent. on the authorized capital of £1,000,000.

T. N. SMALLWOOD, Chairman of Directors.	} Directors.
B. C. ASHWIN	
D. BARNES	
R. G. MACMORRAN	

REVENUE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 1950

Interest Account

<i>Dr.</i>	£	<i>Cr.</i>	£
Interest on stock and debentures	2,208,455	Interest on mortgages and current accounts	2,414,327
Interest on General Reserve Fund investments—		Interest concessions on rehabilitation advances: Paid from	
Payable on State's contribution	96,359	War Expenses Account	541,897
Credited to General Reserve Fund	83,926	Interest on Government and local-body securities	180,560
Gross profit transferred to Profit and Loss Account	748,044		
	<u>£3,136,784</u>		<u>£3,136,784</u>

Profit and Loss Account

<i>Dr.</i>	£	<i>Cr.</i>	£
Management expenses	323,139	(Gross profit transferred from Interest Account	748,044
Administration of rehabilitation advances from War Expenses		Rentals: Properties acquired	805
Account (business, tools of trade, furniture, and miscellaneous		Less miscellaneous expenses thereon	407
loans)	102,964	Dividends	398
Earthquake-damage insurance	15,894		275
Net profit, transferred to Appropriation Account	306,720		
	<u>£748,717</u>		<u>£748,717</u>

Profit and Loss Appropriation Account

<i>Dr.</i>	£	<i>Cr.</i>	£
Provision for taxation	236,300	Net profit, transferred from Profit and Loss Account	306,720
Reserve for Losses: New business	20,900		
Balance: Profits payable to Treasury	50,420		
	<u>£306,720</u>		<u>£306,720</u>

BALANCE-SHEET AS AT 31ST MARCH, 1950

<i>Liabilities</i>	£	<i>Assets</i>	£
Authorized capital	1,000,000	Mortgages and accrued interest	74,862,169
Stock and debentures	70,322,559	Securities in course of realization	69,492
Accrued interest	362,437	Advances on current account and accrued interest	35,570
General Reserve, including (a) £2,753,164 repayable to the State under section 35 of the State Advances Corporation Act, 1934-35; (b) contribution from War Expenses Account of £1,013,637 in respect of rehabilitation advances	70,685,927	Government and local-body securities and accrued interest	5,413,438
Specific reserves—		Office furniture, equipment, and motor-vehicles, at cost, less depreciation	38,697
Reserve for losses—		Current assets—	
Ex-State	2,264,382	Sundry debtors	312,365
New business	380,000	Lodgments in transit, cash in bank and on hand	694,216
Investment Fluctuation Reserve	122,198		1,006,582
Provision for taxation	2,766,580		
Sundry creditors	236,153		
Liability to the Crown—	1,252,108		
Surplus for year	50,420		
Interest payable on State's contribution to General Reserve	96,359		
	146,779		
	<u>£81,425,948</u>		

W. G. DENT, B.Com., F.R.A.N.Z., Chief Accountant.

T. N. SMALLWOOD, Managing Director.

In accordance with the provisions of the State Advances Corporation Act, 1936, we report that we have obtained all the information and explanations we have required in respect of the accounts of the Corporation examined by us and in respect of the above Balance-sheet, which, in our opinion, is properly drawn up so as to exhibit a true and correct view of the state of the Corporation's affairs according to the best of our information and the explanation given to us and as shown by the books of the Corporation.

Wellington, N.Z., 23rd May, 1950.

R. C. BURGESS, F.P.A.N.Z.,
G. D. STEWART, F.P.A.N.Z. } Auditors.

PART II—HOUSING ACCOUNT

The Corporation's responsibilities under the Housing Act, 1919, and its amendments involve the administration of the State housing units being made available for letting purposes and the provisions of loan finance for housing projects. The following report summarizes the activities during the year :—

RURAL HOUSING

Under the provisions of the Rural Housing Act, 1939, loans are available to County Councils at 3 per cent. for relending to farmers at 3½ per cent. per annum. The amount which a County Council may advance under this Act for the erection of a house has recently been increased by the Government from £1,500 to £2,000, and the suspensory loan benefits are available to applicants who comply with the standard conditions applicable to that scheme. The response to the benefits offered by the legislation has so far been poor, notwithstanding that the terms offered are attractive, and the board finds it very difficult to understand why County Councils have in the main shown so little interest in this method of providing accommodation in the rural areas. Of the 125 County Councils in New Zealand, only 44 have applied for loans, and of authorized loans totalling £795,550 only £260,256 (in respect of 360 houses) has actually been uplifted. Few of the Councils have shown any real interest since the cessation of the building subsidy which was available from June, 1940, to March, 1941. Such Councils as do operate the Act have demonstrated that it can be implemented with very considerable benefit to the farming community. As an illustration, the Raglan County Council has been instrumental in financing the erection of 50 new houses on farms within its area, and is still continuing to show an active interest. The legislation is on the statute-book, the funds are available, and it only remains for the farmers and their County Councils to take advantage of the facilities offered, and in this way make a worth-while contribution towards solving the problem of rural housing.

Loans to local authorities outstanding as at 31st March, 1950, totalled £127,638, a reduction of approximately £3,500 since the 31st March, 1949.

URBAN HOUSING

(a) *New State Rental Units.*—During the year 3,378 additional housing units were handed over to the Corporation for allocation, and the total now under administration is 32,238. There are, however, still some 45,370 unsatisfied applications on hand. As indicated in previous reports, not all of these can be considered as being from persons genuinely in need of housing accommodation. Many are from people who are reasonably housed but who would prefer new and up-to-date houses with the State as landlord, particularly at the rentals that have been charged in the past. The adjustments made in the rentals to be charged after 1st April, 1950 (referred to in more detail later), together with the introduction of a more liberal lending policy, will no doubt induce many of the applicants to erect their own dwellings. The projected sale of sections in the housing blocks should also be an encouraging factor in this respect.

After a full review of the housing position, and in pursuance of its policy of assisting in as full a measure as possible those on the lower income brackets, the Government decided that those applicants whose income exceeds £520 per annum will not in general be eligible for tenancies of State rental houses.

(b) *Cost of Houses.*—It was to be expected that in a period of rising costs and prices the cost of erection of houses would show a rising tendency, but it has perhaps not been generally realized the extent to which costs have actually risen since the housing scheme was first instituted. The following table shows the cost of erection of a typical four-roomed house containing 839 square feet of floor space on a flat section year by

year from 1938 to 1950. Cost of sections is not included in these figures, and it can be taken that, except for the year 1946, the figures are in respect of an actual house comparable in all respects and erected in the same locality each year.

			£				£
1938			983	1945			1,452
1939			993	1946*			1,585
1940			1,051	1947			1,567
1941			1,182	1948			1,660
1942			1,172	1949			1,798
1943			1,350	1950			1,829
1944			1,419				

* It was not possible to get an exactly comparable house for 1946, and the figure quoted above relates to a house with a slightly higher floor area but otherwise comparable with houses erected in other years.

(c) *Rentals of New State Houses.* On several occasions in previous years the Board has drawn attention in its report to increasing losses being incurred in the letting of houses at the then current rental charges. The scale of rentals was fixed when the scheme was first instituted and had not been varied, despite the very substantial increases in building costs in the intervening years. The table shown in the preceding paragraph supplies the background for the Board's comments regarding the increasing loss ratio in respect of new State rental houses.

After considering the position of the Housing Account in the light of reports supplied by the Board, the present Government decided that rents of all houses let for the first time or relet after 1st April, 1950, would be increased in proportion to the accommodation provided. The quantum of increase ranged from 5s. per week for the smaller units to 15s. per week for the multi-bedroom house. The increases are by no means heavy having regard to costs involved, and the new rentals are well within rentals allowable under the Tenancy Act. It should be emphasized, however, that these increases apply only to houses let or relet after 1st April, 1950, so that tenancies created on or before 31st March, 1950, will continue to endure at former rentals. It should be said also that the increases do not apply in the case of pensioner flats.

The effect these increases will have on the Housing Account is traversed later herein.

(d) *Old Rental Houses.*—This reference covers those houses erected prior to 1935 and those acquired since for letting purposes. The number under administration at 31st March, 1950, was 1,961.

(e) *Transit Housing.*—This continues to serve a useful purpose as an ancillary to the main housing scheme, and the need for this type of temporary accommodation is still very real. Allocation Committees have continued to allot houses to the occupants as opportunity offers, and every endeavour is made to ensure that residence in the transit accommodation is not unnecessarily prolonged. The Committees' activities in this regard are, however, governed by the rate of delivery of new houses.

(f) *Allocation of Houses to Ex-servicemen.*—There has been no change in the basis of allocation to ex-servicemen, who continue to obtain a minimum of 50 per cent. of all available units.

(g) *Sale of State Houses.*—The Government has announced its intention to give tenants of State houses the opportunity of purchasing their houses if they so desire. It is apparent that the proposal has aroused considerable interest among the tenants, and the indications are that a considerable number of sales will be effected, with a corresponding reduction in the annual loss in revenue. The necessary inspections and reports will place a further heavy burden on our urban field staff, but the work will be dovetailed in with the other field activities as much as possible.

LOANS TO LOCAL AUTHORITIES

Loans to local authorities to finance district housing projects are available in terms of the Housing Act. For approved schemes advances carry an interest rate of 3 per cent. and the loans are repayable over reasonably long periods. The call on the funds for these purposes has eased in recent years, but is nevertheless fairly consistent.

HOUSING FOR TIMBER-WORKERS

The special provisions for the erection of housing accommodation for timber workers introduced by Part III of the Finance Act (No. 2), 1946, expired on the 1st September, 1949. For the current year, therefore, applications were received over a period of only five months, and the erection of a further 87 units was authorized during the time. This brought the total number of units authorized during the time the scheme was in operation to 738, covering applications from 120 sawmillers. The scheme was successful in achieving its object of providing more suitable accommodation for the men engaged in the industry, this in turn helping to increase the labour force to provide much-needed building-material. As indicated in past reports, the timber industry itself finances the scheme by a levy of 6d. per 100 ft. of sawn timber and by the payment by the sawmillers to whom the houses are supplied of a rental of 15s. or 17s. 6d. per week, depending upon the size of the house.

REVENUE ACCOUNT AND BALANCE-SHEET

The statement of revenue and expenditure is submitted in the usual tabulated form showing the results of the year's operations in the various sections of the Housing Account. A profit is again shown in respect of the sub-accounts where loans have been provided for local bodies and others, and a loss in the three rental subdivisions. It will be noted this year that a separate subdivision has been included to cover temporary housing, as the houses erected under this scheme are of an inferior standard of construction with an estimated life below that adopted for the main housing scheme.

There has been a substantial increase of £16,815 in the loss under "Rented Properties (Old)," bringing the loss for the year to £21,930 under this heading, and an increase of £85,453 under "Rented Properties (New)," bringing the loss for the year to £195,545. This over-all result is not affected in any way by any adjustment or alteration in the basis of rents or charges during the year, the loss being due to rentals being insufficient to cover outgoings.

As has been stated earlier in this report, some 3,378 new housing units were handed over to the Board for letting during the year, but it will be appreciated that the year's accounts do not reflect a full year's charges in respect of the bulk of these houses. In other words, the loss recorded for the year—£195,545—is something less than the full loss to be expected when a full year's charges are provided for. It should be recorded here that the revenue Accounts and Balance-sheet of the Housing Account attached to this report are prepared on the basis that the loan capital of £50,850,952 in respect of completed houses bears interest at 1 per cent. on the first £5,000,000 and 1½ per cent. on the balance, this being the rate of interest finally decided upon for moneys raised from the Reserve Bank in the earlier years of the housing scheme for the specific purposes of this account. However, since the 1st of April, 1942, all moneys raised by the Crown for national development purposes have been focused through the National Development Loans Account in the Public Accounts, and consequently loan-moneys have lost their identity in that account; and it would not be right to say that from the 1st of April, 1942, any moneys raised from any particular source, including the Reserve Bank, were for the specific purposes of the Housing Account or any other Governmental account. In actual fact, the Public Accounts show that no moneys were raised for housing or any other Public Work from the Reserve Bank or any other source at the Treasury Bill rate of interest in the years ended 31st of March, 1944, 1945, 1946, 1947, and 1949; and the moneys provided for housing in those years were raised by the Treasury at normal market interest rates. The Housing Account has, however, been charged interest on all capital moneys at the low rates applicable for the initial borrowings from the Reserve Bank. It therefore follows that there has been and still is an additional annual deficiency

in interest on moneys raised and allocated for housing purposes, but this further deficiency is not recorded in the Housing Account under the administration of the Corporation. Any deficiency of this nature is, of course, a charge on taxation paid by the community as a whole, including the home-owner, who in this way must pay his share of interest losses on State housing.

It is appropriate at this stage to say that the estimated annual recurring loss on all houses handed over prior to 31st March, 1950, will be approximately £240,000. In making this estimate no account has been taken of houses which will be taken over after 1st April, 1950, or of the new rental charges effective in respect of all houses let or relet after 1st April, 1950. The new rents will, on the average, be no more than sufficient to meet all outgoings on new houses taken over from now on, and there will therefore be no margin in the rents of those new houses to assist in reducing the loss on units let heretofore. It follows, then, that the annual loss in the Housing Account in respect of new houses can only be reduced by increased revenue accruing from relettings after 31st March, 1950, as distinct from new lettings. On an average basis it is anticipated that increased revenue from relettings will be approximately £28 per annum per house, but the uncertain factor is the number of relettings which can be anticipated in any given period. It is clear, however, that the annual recurring loss of £240,000 mentioned above will not be overtaken until at least 8,600 of the houses which were let prior to 31st March, 1950, have been vacated and relet; and it is equally clear that it will take many years (probably more than a decade) before annual revenue and expenditure will be equated. It is important to remember, too, that in the intervening years accumulated losses on new State houses will be mounting and will, perhaps by a considerable margin, exceed £1,000,000 by the time annual income and outgoings are equated.

The total net loss for the year on all activities of the Housing Account was £197,919, and the total accumulated loss has now reached the substantial figure of £419,861.

The Balance-sheet shows an increase in loan liability of £7,379,382, and this is reflected in the assets by an increased value of properties under administration.

The balance in the various reserves are shown separately, and although in total they have reached figures, they are not more than is reasonable. A reduction to unit cover shows that in respect of each new State rental unit we have these approximate provisions: An insurance cover of £25, provision of £65 for maintenance, and £17 to cover losses arising through bad debts or vacancies. The Depreciation Reserve is designed to write off the construction cost of each unit over a period of sixty years.

In terms of section 35 of the Housing Act, 1919 the following statement is submitted:—

	£
(1) Payments received during the year ended 31st March, 1950 ..	2,553,539
(2) Amount of arrears in respect of rentals (old and new houses) and instalments under agreements for sale and purchase as at 31st March, 1950	14,057

Further statistical information in respect of the new State housing scheme is summarized below—

(a) Number of new housing units taken over to 31st March, 1950 ..	32,238*
(b) Book value of new housing units as at 31st March, 1950 ..	£50,529,054
(c) Total amount of rent receivable on all new housing units from 31st March, 1937, to 31st March, 1950	£13,410,348
(d) Amount of rent in arrear at 31st March, 1950, in respect of new housing units	£10,262
(e) Total amount of rent in respect of new housing units written off from 1937 to 1950	£6,484

* Plus shops, 71; communal garages, 135; community halls, 8.

T. N. SMALLWOOD, Chairman of Directors.	}	Directors.
B. C. ASHWIN		
D. BARNES		
R. G. MACMORRAN		

HOUSING ACCOUNT
 TABULATED REVENUE AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1950

Item.	Properties Sold Under Agreement for Sale and Purchase.		Advances Under Part V, 1919 (Local Authorities Urban Housing).		Advances Under Part III, 1919 (Loans to Employers).		Advances to Local Authorities Under Rural Housing Act, 1939.		Temporary Housing Scheme.		Rented Properties Erected Prior to 31st March, 1937.		Rented Properties (New) Erected Under New Housing Scheme.		Combined Revenue and Expenditure Account.	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Revenue	£	3,796	£	30,339	£	1,372	£	3,931	£	1,213	£	104,492	£	2,138,667	£	39,438
Interest
Rent	2,244,372
Expenditure	£	1,274	£	14,341	£	617	£	1,823	£	248	£	19,152	£	668,264	£	705,719
(including allocations to Reserve marked *)
Interest	..	820	..	255	..	40	..	210	..	95	..	8,294	..	155,686	..	165,400
Management expenses
Depreciation
Insurance (including earthquake insurance)	..	32	..	..	..	3	..	..	..	..	..	..	..	..	..	..
Rates
Maintenance
Losses and vacant tenancies
Excess of revenue over expenditure, transferred to Profit and Loss Account	..	1,670	..	15,743	..	712	..	1,898	..	30	..	138	..	53,466*	..	53,634
Excess of expenditure over revenue, transferred to Profit and Loss Account
Totals	£	3,796	£	30,339	£	1,372	£	3,931	£	1,680	£	126,422	£	2,334,212	£	2,481,729

195.545

21,980

467

195,545

126,422

2,334,212

2,481,729

HOUSING ACCOUNT—continued
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1950

<i>Dr.</i>	£	C/.	£
Balance, 1st April, 1949	220,595		.. .. .
Administration of Termites Act, 1940	379		.. .. .
Boxer-treatment investigation	171		.. .. .
Pre-treatment of timber	597		.. .. .
Loss for year (see combined Revenue and Expenditure Account)	197,919		.. .. .
	<u>£419,861</u>		<u>£419,861</u>

BALANCE-SHEET AS AT 31ST MARCH, 1950

<i>Liabilities</i>	£	<i>Assets</i>	£
Loan liability	50,850,952	Principal owing under agreements for sale and purchase	82,060
Sundry creditors—		Advances under—	
Tenancy deposits	32,038	Part III, Housing Act, 1919 (loans to employers)	58,421
State Advances Corporation of New Zealand	242,407	Part V, Housing Act, 1919 (local authorities):	
Departmental	1,293	Urban housing	988,726
Miscellaneous	15,086	Rural Housing Act, 1939	127,638
	<u>290,824</u>		<u>1,256,845</u>

Reserves—				
Insurance	..	795,215	..	8,255
Maintenance	..	2,088,964	..	4,994
Vacant tenancies and bad debts	..	544,164	..	6,805
Rates	..	25,973	..	1,276,899
		<u>3,454,316</u>		<u>3,730</u>
				1,273,169
				<u>1,967,700</u>
				218,493
				1,749,207
				53,192,457
				2,663,403
				<u>50,629,054</u>
				68,582
				936
				<u>67,646</u>
				29,290
				<u>525,766</u>
				1,582
				<u>527,348</u>
				517
				<u>419,861</u>
				<u>£54,596,092</u>

NOTE.—Dwellings under construction and vacant land are under the control of the Public Works Department and expenditure in connection therewith is not included in these accounts.

W. G. DENT, B.Com., F.R.A.N.Z., Chief Accountant.

T. N. SMALLWOOD, Managing Director.

I hereby certify that the Balance-sheet and accompanying accounts have been duly examined and compared with the relative books and documents submitted for audit, and correctly set out the position as disclosed thereby, subject to the above departmental note.—J. P. RUTHERFORD, Controller and Auditor-General.

7th July, 1950.

Approximate Cost of Paper.—Preparation, not given; printing (969 copies), £82.

By Authority: R. E. OWEN, Government Printer, Wellington.—1950.

Price 9d.

