While recognizing that this system of funding the various accounts was allowable during the war period and the period of reorganization immediately following the declaration of peace, the Audit Office is of the opinion that the time has come for a return to peace conditions in this matter of finance, and that the various loan accounts for which moneys are required should be funded as far as possible by raising loans for the purposes of those accounts, rather than by the use of moneys ostensibly raised for other purposes.

The system under notice has several serious disadvantages from an accounting point of view. It involves the issue of two securities in respect of the same moneys, resulting in an increase in the total securities outstanding and a fictitious corresponding increase in the amount of the public debt. It involves the application of moneys raised for a specific purpose or account to other purposes or for the use of other accounts. The fact that the moneys are often advanced to other accounts at a lower rate of interest than that paid on the original loan has the result that the annual accounts and balance-sheets of the various Departments do not disclose the true cost of the various services as they are designed to do. The general result is a tendency to obscure the true position of the various accounts, both in the statutory Public Accounts and in the departmental balance-sheets, and to create an unfavourable impression regarding the increase in the public debt. Another serious disadvantage of the system is that once loans of this nature are issued it is sometimes a matter of great difficulty to clear them from the accounts, and the amount of such interdepartmental loans therefore tends continually to increase rather than diminish.

The remedy appears to be to ascertain early in the financial year what the requirements of the various loan accounts are likely to be, and to allocate any primary loans which it may be decided to raise on the basis of these requirements rather than to allocate the loan-money to a few accounts only, as has become customary, and at the same time to take every opportunity to clear off loans which have already been made between Departments. If it should still be necessary in exceptional cases to make such loans, the rate of interest charged should in all cases be that which is being paid by the account for which the money was originally borrowed.

In order to distinguish these loans from loans raised (either directly or indirectly) from the public, it has been customary to show such loans under Debenture Sales Account and Inscribed Stock Sales Account instead of under the Public Debt Account. To make this distinction clearer the name of the Sales Accounts has in the accounts for 1924–25 been altered to "Departmental Debt Account," and it is pointed out that the amount of £5,752,275 shown under this account at the 31st March, 1925, is not in any true sense public debt, but merely represents the amount of interdepartmental liability as between various Treasury accounts.

Public Debt Sinking Funds.

It is to be regretted that on account of pressure of parliamentary work the Bill providing for the repayment of the public debt was last session again dropped. The Bill provides for an improved system of debt-reduction in place of the existing sinking-fund scheme, which has proved inoperative in so far as paying off any part of our national indebtedness is concerned. The Bill, which was circulated by the Government last year, provides for the redemption of the debt within a period of about sixty years from inception by making annual purchases of our securities on the open market, or otherwise, on the most favourable terms available. The proposed scheme will ensure a reduction of the annual interest charges against the Consolidated Fund—a reduction, moreover, which will increase year by year as repayments are effected. The magnitude of the reduction in interest charges alone will be realized when it is stated that for each £100 applied annually in terms of the Bill in the purchase and cancellation of securities *at par*, the reduction of interest charges in sixty-one years would be approximately as follows :—

Rate of Interest payable on Security at Date of Cancellation.	Total Amount of Saving in Interest in Sixty-one Years in respect of each £100 applied annually.
Per Cent.	£
4	2,048
4½	4,097
5	6,145
5½	8,194
6	10,242

The average rate of interest now being paid out of Consolidated Fund to the bondholder in respect of the debt covered by the Bill, roughly £174,000,000, is about 4½ per cent., and the interest that would be payable to the Debt Repayment Account under the new proposals out of the same fund is 3½ per cent. per annum in respect of the debt redeemed, consequently there would be a saving in interest of approximately £1 per annum on every £100 redeemed ; and, as the amount redeemed in the first year would probably be in the neighbourhood of £870,000, and as in every succeeding year this amount would be increased, it is not difficult to appreciate the great saving in interest which would be immediately effected and how rapidly the saving would increase as time goes on.

As evidence of the progressive increase in the repayment of loan and the saving of interest under the Bill I may explain that we should in six years be able to repay £5,698,000 of loan and save approximately £193,000 in interest during the period, whereas in twelve years the figures would be £12,700,000 and £773,800 respectively.