

Method of showing Receipts from State Advances Corporation in the Public Accounts.

In my last report attention was drawn to the manner in which receipts from the State Advances Corporation were treated in the Public Accounts. During the year ended 31st March, 1938, £1,299,344 5s. 8d. was received under the provisions of the State Advances Corporation Act, 1934-35, and credited to Ordinary Revenue Account as shown hereunder :—

Ordinary Revenue Account (Expenditure)—			
Credits in reduction of expenditure—			
Debt Services—		£	s. d.
Interest	1,077,967	7 2
Other Special Acts—			
Rural Advances Act, 1926	133,935	16 11
Ordinary Revenue Account (Receipts)—			
Interest—			
On Public Debt Redemption Fund	87,441	1 7

This sum of £1,299,344 5s. 8d. represents £1,055,741 15s. 8d. interest on stock issued to the Minister of Finance, £181,346 9s. in respect of profits for the year 31st March, 1937, and £62,256 1s. on account of interest on the General Reserve Fund of the Corporation.

There are special classifications in the Public Accounts which indicate the nature of the transaction and under which revenue of this class is generally credited, enabling the amount received from any source to be traced, and in the opinion of the Audit Office the whole of this amount should be shown in the usual manner as "Receipts" in the Ordinary Revenue Account so that the total received from the Corporation may be clearly seen.

The Treasury viewpoint is that the profits of the Corporation represent interest on the contingent liability of the Corporation to the Crown and that these profits, together with the interest on the stock issued to the Minister, correspond to the interest on loan capital previously received from the State Advances Office and that, as the moneys represent the direct earnings from the investment of loan-moneys, the amount should be applied as a credit in reduction of loan charges rather than as a receipt of the Consolidated Fund. Further, the Treasury considers that the present practice enables the same basis of comparison to be maintained in the Public Accounts and Estimates and that, whichever method is adopted, the net effect on the Consolidated Fund is the same.

To the Audit Office there does not appear to be any reason why the receipts from the State Advances Corporation should be treated in a different manner from amounts of a similar nature paid to Public Account by other State undertakings.

Stock issued by the State Advances Corporation.

Section 38 of the State Advances Corporation Act, 1934-35, provided that the consideration for the mortgages transferred to the Corporation by the State Advances and Discharged Soldiers Settlement Accounts was to be in the form of stock of the Corporation to be issued to the Minister of Finance at rates of interest and on such other terms as were agreed to by the Corporation and the Minister, and stock to the value of £40,340,750 was so issued as consideration for the securities transferred to the Corporation.

As a result of this transaction the loan liability of these two accounts is now offset by this stock which, under section 25 of the State Advances Corporation Act, 1936, carries a State guarantee. So long as the stock is held by the Minister on behalf of the Consolidated Fund, this guarantee is one of name only, but with regard to any stock sold by the Minister the State would be liable under the guarantee should the Corporation at any time make default in the payment of interest or the repayment of principal, and the Government would also still have the liability for such of the original loan capital as might be outstanding.

The Finance Act, 1937, section 8, provides that of the stock issued to the Minister an amount of £7,250,000 shall be deemed to be an investment of the capital moneys of the Public Debt Redemption Fund, and that any moneys received from