

the sale of this portion of the stock shall be applied in the redemption of securities charged on the public revenues of New Zealand. This authority has been exercised to the extent of £4,000,000; debt to this amount coming within the provisions of the Repayment of the Public Debt Act, 1925, having been redeemed.

There is nothing to prevent the Minister from selling the remainder of the stock held by him at any time he might consider it desirable to do so, and during the year a further amount of £5,950,000 was sold and the proceeds applied in redemption of Discharged Soldiers Settlement and State Advances securities.

Apart from the conditions imposed by section 8, Finance Act, 1937, there appears to be no provision of law regarding the application of the proceeds of sales of stock. Nor is there any provision as to how the money is to be applied should the Corporation at any time purchase stock from the Minister under the provisions of section 39, State Advances Corporation Act, 1936.

The proceeds of the sale of £5,950,000 stock referred to above were used by the Minister for redemption of State Advances and Discharged Soldiers Settlement debt, and the Audit Office is of opinion that Parliament should make provision for the proceeds of all future sales being used for a like purpose, for if receipts of this nature are not used for the redemption of this debt, the State will be placed in the position of still being liable for the original State Advances and Discharged Soldiers Settlement loans, whilst the assets created by the expenditure of these loan-moneys are no longer a security for the debt.

Borrowing-powers of the State Advances Corporation.

The State Advances Corporation Act, 1936, contained many provisions which amended the original Act under which the Mortgage Corporation was constituted.

In some respects this amending Act reduced the control which Parliament usually exercises over borrowings. When from time to time it becomes necessary for the State to borrow for any purpose, Parliament by an authorizing Act fixes the maximum amount that may be borrowed and states the purposes for which the money is to be used. The money is then raised under the provisions of the New Zealand Loans Act, 1932, and is subject to the control of Treasury and Audit on behalf of Parliament.

Section 21 of the State Advances Corporation Act, 1934–35, as amended by the State Advances Corporation Act, 1936, gives the Corporation power to issue bonds, stock, and other securities as it thinks fit, and Parliament is given no control over such borrowing, although under section 25 of the amending Act all securities issued by the Corporation are guaranteed by the State.

Interest on Cash Balance Investment Account.

Section 39 (2) of the Public Revenues Act, 1926, provides for an account, called the "Public Account Cash Balance Investment Account," by means of which the cash balance of the Public Account may be invested without making the investment from the funds standing to the credit of any particular account. The cash in the Public Account belongs to one or other of the special funds or accounts which make up the Public Account, and an investment made by the Cash Balance Investment Account is made from the funds of all the accounts.

The Controller and Auditor-General in his report from time to time has called attention to the arbitrary manner in which interest earned by the Cash Balance Investment Account had been allocated to the various accounts within the Public Account.

In the past a considerable amount of interest was earned each year by these investments, but for the last three years the amount received has been comparatively small. As a result of this decrease the Treasury decided that from 1st April, 1937, all interest earned by investing the cash balance of the Public Account should be credited to the Ordinary Revenue Account, but with a proviso that the position would be reviewed if the receipts for interest should increase to any considerable extent.