

1892.

NEW ZEALAND.

PUBLIC ACCOUNTS COMMITTEE.

“THE CONSOLIDATED STOCK ACT, 1884”

(REPORT ON THE WORKING AND OBJECTS OF).

Brought up 17th August, 1892, and ordered to be printed.

REPORT.

THE Public Accounts Committee have made inquiry into the working and objects of “The Consolidated Stock Act, 1884,” and have examined Mr. Heywood, Secretary to the Treasury, and Mr. Gavin, Assistant Controller and Auditor, thereon, and have the honour to report the information contained in the attached printed paper.

17th August, 1892.

A. R. GUINNESS,
Chairman.

APPENDIX.

STATEMENT BY THE SECRETARY TO THE TREASURY IN REFERENCE TO “THE CONSOLIDATED STOCK ACT, 1884:” ITS SCOPE AND THE WORKING, SO FAR AS IT RELATES TO THE SINKING FUND ACCRETIONS OF THE PUBLIC DEBT.

THE provisions of this part of the Act have probably been less understood than those of any other financial measure which has passed the Legislature. Its principal feature is the providing of relief to the taxpayer from the burden of finding year after year the necessary funds for the payment of sinking funds agreed to be paid when the loans were originally raised.

Sir Julius Vogel, when indicating the scheme in his Financial Statement, and again when explaining the provisions of the Bill to the House, in 1884, stated, *inter alia*, that “Sinking Funds were condemned by experience and by all modern writers and financiers,” and that “the colony was not called upon to make these yearly payments whilst, at the same time, for other purposes, it was borrowing money.” He pointed out two ways by which relief could be obtained: (1) By not having to pay Sinking Fund; (2) By a reduction of the rate of interest by the process of conversion: and to effect both these results the Act under consideration was framed.

Of course, it must be understood that, having entered into a contract with the bondholders to pay a sinking fund, that part of our engagements has to be absolutely carried out. But the Act affords relief in this way: After the increases which will reach the hands of the Sinking Funds Trustees have been ascertained each year, an equivalent amount of money is raised by the issue of debentures under the Act, and is paid into the Consolidated Fund, by which process the taxpayer is saved from having to find the required amount during the year. The effect of this operation is this: the debt (as regards loans having Sinking Funds) of 1884 has remained stationary for, by just as much as the yearly Sinking Fund increments have been ascertained, a precisely similar amount of stock, or rather debentures, has been created, so that the moneys which are accumulating in reduction of the debt are met and counterbalanced by the creation of the new stock or debentures, and the original debt remains as it was on the 31st March, 1884. As an illustration, say that the debt was £7,500,000. Now, the Sinking Fund accretions since 1884 amount to £2,117,000; the debt would therefore be lowered to £5,383,000; but debentures under the Stock Act have been issued during the same period amounting to £2,117,000, and, adding this to the reduced sum of £5,383,000, brings back the amount of the debt to the original sum of £7,500,000, and in the meantime the Government have been relieved from the anxiety, and the country from the burden, of having to provide yearly some £260,000 extra revenue for the last eight years.

The Act does not interfere with the ordinary ultimate use of the accrued Sinking Funds, which may be devoted to the extinguishment of the debt in respect of which they were paid; but it provides the alternative plan of “conversion,” whereby the Sinking Funds become released, and are applied to pay off the debentures or stock which had been created for the purpose of affording relief in the payment of the Sinking Fund.

Let me again illustrate the working of the Act either way. There are two loans of a million each, having sinking funds, existing on the 31st March, 1884. The eight years’ accretions of Sinking Fund to the 31st March, 1893, we will say, amount to £170,000. Debentures under the Act have been created for this £170,000, and are of course outstanding. On the 31st March, 1893, £85,000 worth of debentures of each loan fall due, and it is decided to pay off one out of the