

The Hon. the MINISTER OF FINANCE, Wellington.

WE have pleasure in submitting the Balance-sheet and Revenue Accounts for the year ended 31st March, 1940, together with a report on the Board's administration for the period, as required by subsection (1) of section 43 of the State Advances Corporation Act, 1934-35.

PART I.—GENERAL.

The year 1939-40 being the Centennial anniversary year for the Dominion of New Zealand, it had been intended that this report should embody a full historical review of the State Advances Corporation and its predecessors, but in view of the difficulties arising from the international situation it has been decided to postpone the publication of the full review until a later date.

The Corporation having completed its first five years in operation, the Board of Management proposes to report briefly on the progress that has been made during that period.

In terms of the Government's policy as outlined in the Act under which it was established in 1935, the Corporation now has under management all the loan accounts which previously were administered by the State Advances Department, the Lands and Survey Department under the Discharged Soldiers Settlement Act, and the stock and chattels loans under the Rural Intermediate Credit Act.

The total book value of assets taken over was approximately £55,000,000. In terms of section 38 of the Act, the Corporation was required to issue to the Treasury stock or debentures for an agreed proportion of the total value, the balance of the amount being left in the Contingent Liability Account. Stock already issued to the Treasury in accordance with this section amounts to £40,345,750, and the balance now outstanding in the Contingent Liability Account is the sum of £9,821,635 1s. 4d. With a view to assessing more accurately the value of the assets taken over, the Board of Management put in hand a scheme for the complete survey of all the investments taken over, with the intention that when this revaluation had been completed proposals should be submitted to the Government for the final adjustment of the Corporation's account with the Treasury. In the two years immediately following the establishment of the Corporation the new business handled by the organization was on a very much increased scale, and then the Mortgagors and Lessees Rehabilitation Act came into operation, with the result that the personnel of the field and office staff was fully engaged in dealing with some ten thousand applications for relief. These two factors have had the effect of retarding the survey of securities, and, whereas it was expected that the whole of this work would have been completed within five years, it is apparent under present war conditions that finality cannot be reached for some time.

During the period from 1935 to the present date the effect of retaining in the Contingent Liability Account the balance of nominal value of assets taken over by the Corporation has been reflected in the Revenue Accounts for the reason that whilst the Corporation has been paying interest to the Treasury on stock issued amounting to approximately £40,000,000 no direct payment as interest has been made on the Contingency Account, and the Corporation's net profit has been increased accordingly. The whole of the Corporation's profits are at present payable to the Consolidated Fund, so that the final result is therefore not affected.

However, the Board is anxious to place the Revenue Accounts on a basis that will show more correctly the Corporation's earning-capacity, and, although the survey of securities has only been partially completed, it is intended as an interim measure to arrange for the issue of additional stock to the Treasury for a portion of the amount now included in the contingent liability, and this will be reflected in the accounts for the year ended 31st March, 1941.

Since 1935 additional funds for the purpose of making advances on mortgage and for investment in local-body debentures have been raised by the issue of stock and debentures, firstly at $3\frac{3}{4}$ per cent. and secondly at $3\frac{1}{4}$ per cent. In addition to new funds raised in this manner there are available the principal repayments under existing investments, which provide the main source of supply.