(*c*) Section 26 of the Reserves and other Lands Disposal Act, 1947, cancels the reservation for permanent State forest purposes over an area in the Nelson Land District containing 2,940 acres situated in Blocks IV and VII, Maungatapu Survey District, and Block XII, Waimea Survey District, and sets the land apart as a reserve for water-supply purposes and vests the reserve in the Corporation of the City of Nelson in trust for these purposes.

(*d*) The Maori Purposes Act, 1947, affects the Forests Act, 1921–22, by altering the term " Native " to " Maori."

93. *Finance.*—Mention was made in the last annual report of the weaknesses inherent in the methods of financing forestry and allied activities in the past, and an indication was given in that report of the general lines which it was considered forest finance should follow. The old methods of finance continued through the year under review without alteration, but the matter has been studied in detail, and at the time of writing it is hoped to reach finality shortly regarding the institution of new methods as from 1st April, 1948, which will remedy past defects.

The proposed new system is based on three main points : firstly, that income from the sale of forest produce should be treated as " revenue " only to the extent that it is surplus to the requirements of forest rehabilitation or establishment ; secondly, that the use of loan-moneys should be restricted to the building-up of assets representing reasonably sound commercial propositions ; and thirdly, that General Government revenue should be utilized not only for financing both past and future activities which do not justify the use of loan-moneys, but also, to the extent that the general budgetary position will allow, for the financing of any deficit between forest income and forest expenditure.

In considering the impact of the points given in the last paragraph it must be appreciated that New Zealand must face up to meeting a considerable burden from the past in attempting to place succeeding generations as we *should* stand to-day, this burden arising partly from the unsound utilization of forest income and loan-moneys in the past and partly from the necessity for dealing with substantial accumulated arrears of forestry work. The extent of this burden will mean that the refinancing of the forests will be a long process and that it will be many years before forestry activities can be expected to produce a surplus of income over expenditure as a contribution to General Government revenue, especially as the earliest established exotic forests are only now coming into production, while some new exotic forests are still in the initial stages of establishment.

The time taken to reach the point where New Zealand can have all the necessary protection and commercial forests not only established and in managed production, but also free of debt, may be long, but the adoption of the system set out above will ensure that some real steps will be taken towards the rehabilitation of forest finance.

Receipts into and payments from the State Forests Account during the year are summarized in Appendix VI of this report, from which it will be seen that expenditure increased by £372,000 compared with last year and receipts by £173,000. The complete accounts for the State Forest Service are set out in parliamentary paper B–1 [Pt. IV].

Increased expenditure has again been necessary for the establishment and maintenance of new projects and to cope with postponed maintenance work on established forest projects.

The increase in total receipts from £590,000 last year to £763,000 this year is due to increased production from utilization projects and increased sales of standing timber. The largest increases in sales from utilization projects occurred as follows : box-shooks, £72,000 ; logs, £24,000 ; and sawn timber, £11,000. From sales of standing timber, revenue increased by £57,000.

The difference between expenditure and receipts has, in accordance with current practice, been made up principally from loan-moneys, which this year amounted to £900,000 (£750,000).