1949
NEW ZEALAND

LOCAL GOVERNMENT LOANS BOARD

REVIEW OF OPERATIONS FOR THE YEAR ENDED 31st MARCH, 1949

Laid on the Table of the House of Representatives by Leave

To the Right Hon. the MINISTER OF FINANCE.

THE Local Government Loans Board presents hereunder a review of its operations for the year ended 31st March, 1949.

Activities of local authorities in capital programmes, which were at a high level in the two preceding years, have not abated, and again applications in excess of £10,000,000 were dealt with.

The summary given below gives details of proposals considered by the Board, figures for the previous year being included for comparative purposes:—

	1947–48.		1948–49.	
	£	£	£	£
Applications ..	8,324,579		8,934,705	
Previously referred back	2,023,100		1,195,593	
		£10,347,679		£10,130,298
Sanctioned—				
*New loans	6,022,034		6,977,289	
Redemptions	1,459,880		1,542,177	
Referred back or declined	2,865,765		1,610,832	
		£10,347,679		£10,130,298

*New loans—		1947–48.		1948–49.
		£		£
Waterworks		923,730		413,000
Drainage and sewerage		525,080		126,000
Roads and bridges (counties)		187,850		79,650
Street works (boroughs)		873,850		631,550
Municipal buildings, &c.		70,218		22,750
Recreational facilities		39,100		15,650
Transport ..		54,840		1,353,336
Housing—	£		£	
Permanent	86,110		227,950	
Transit	53,500		28,150	
		139,610		256,100
Electricity supply—				
Power Boards	1,344,200		1,441,500	
Other ..	..		828,100	
		1,344,200		2,269,600
Hospital works		1,499,500		1,263,100
Harbour-works		110,000		208,000
Fire Board loans		3,700		18,900
Gasworks ..		83,000		57,500
Abattoirs ..		29,060		7,300
Educational authorities		29,690		117,778
Machinery ..		49,650		64,425
Miscellaneous		42,106		72,650
Flood damage, &c., works		16,850		..
		£6,022,034		£6,977,289

Approval was given under section 47 of the Finance Act, 1929, to the diversion of unexpended balances of loans amounting to £2,852, and the use of capital moneys amounting to £98,476 was consented to under section 20 of the Finance Act, 1934.

The four outstanding features of the year's operations have been—

(i) The accelerated activities of electric supply authorities.

(ii) Following the exchange-rate alteration last August, the conversion into New Zealand securities of some £941,500 of Australian-domiciled debt.

(iii) The sustained progress of hospital-construction works, the cost of which continues to rise.

(iv) The increased activities of local authorities in the housing field, almost all in permanent housing, and a substantial majority to provide for employees rather than citizens generally.

The demand for electricity continues unabated, and this fact, together with an improvement in the availability of materials, has led to a vigorous programme of extensions on a nation-wide basis. A substantial proportion of the loans sanctioned has been to provide reticulation to rural areas, while the greatest single factor has been the decision of the Dunedin City Council to increase its generating capacity at Waipori at an estimated cost of £723,000. The past five years show how loans for electrical extensions are forming a substantial portion of each year's loan approvals, particularly for the year just concluded:—

Year.	Total Approvals.	Electric Works.	Percentage for Electric Works.
	£	£	%
1937–38	3,098,445	689,100	22·2
1944–45	1,737,807	216,000	12·4
1945–46	2,643,935	731,000	27·6
1946–47	7,289,436	1,471,900	20·2
1947–48	6,022,034	1,344,200	22·2
1948–49	6,977,289	2,269,600	32·5

Electricity.—Although sanction has been granted in every case where the expenditure appears reasonably necessary for the current needs of the various electric-power districts and appears likely to prove economic, it is granted with the full knowledge that at present the availability of supply is generally not sufficient to provide an unrestricted service to consumers. This factor is not a direct concern of the Board, but it is considered that Power Boards before applying for sanction to borrow for extensions should consider the over-all power position and particularly whether it is desirable to distribute power to new areas which in the interim may have an alternative power-supply.

The conversion operations referred to have resulted in a substantial reduction in overseas debt and in every case annual loan charges now cost the local authority less than was payable immediately prior to the alteration in the exchange-rate, while all of the loans have been placed on bases which will ensure that the total liability is extinguished at maturity date. This condition did not necessarily obtain previously, as the steady fall in interest-rates has meant a reduction in sinking fund income and consequently a lesser amount being available to redeem maturing loans. Apart from this factor, redemption in full at maturity date had not always been provided for and renewal loans seemed inevitable in some cases. The interest payable on the debentures issued locally does not exceed $3\frac{1}{4}$ per cent., as against rates of up to $5\frac{1}{2}$ per cent. payable in Australia, although this saving has been partly offset by the premium to cover loss of interest paid to the existing holders on conversion.

While recognizing the need for improved hospital facilities in various districts, the Board views with some concern the growing burden upon the community for the cost of hospitals. Since the limitation of hospital rating the restraining effect of annual cost to the ratepayers has been largely removed, and it is significant that little objection is now raised by contributory local authorities to Hospital Board construction programmes.

The very large increase in the amount sanctioned for transport undertakings is accounted for by the proposed loan of £1,350,000 submitted by the Christchurch Tramways Board. This proposal was subsequently rejected at a poll of the ratepayers. The borrowing by educational authorities was chiefly for the purpose of acquiring housing for staff and students. In common with other local authorities, educational institutions are finding it increasingly difficult to attract or retain staff unless accommodation can be provided.

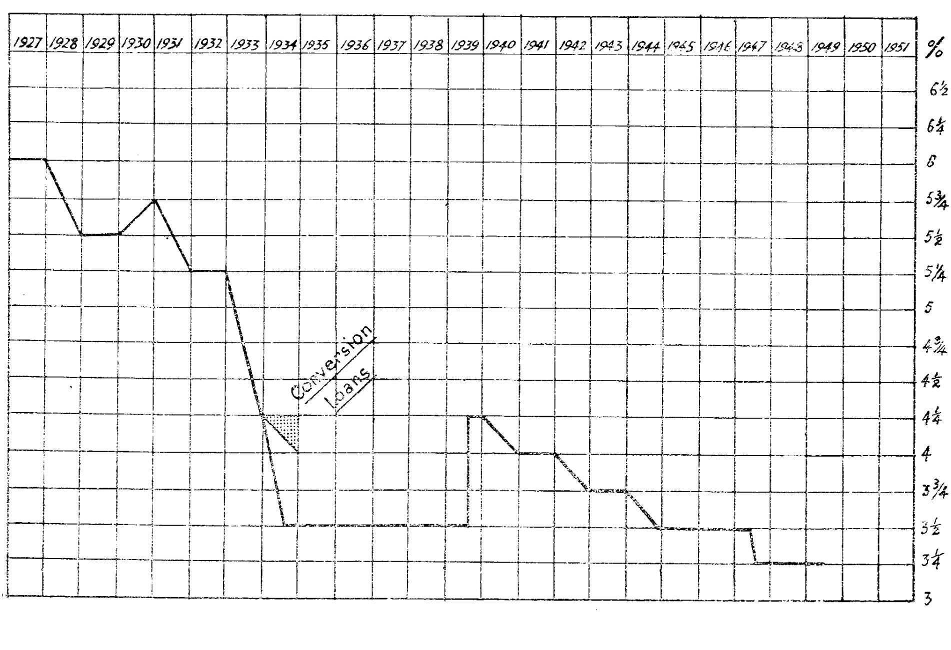
The amount referred back, though less than the previous year, is again substantial, as the Board considered that some proposals, however desirable, were beyond the financial capacities of the local authorities concerned.

In the twenty-two years of its existence the Board has dealt with applications amounting to £101,957,060. Of this amount £59,699,932 has been sanctioned for new works and £29,195,215 for redemptions, while the balance, £13,542,267, has been referred back or declined. Of the amount sanctioned for new works, £20,288,759, or almost 34 per cent. of the total for new works, has been sanctioned in the past three years. The high cost of construction in recent years is a material factor in the increased loan authorizations.

Despite the figures given above, the total amount of local-authority debt has shown a progressive decline from a peak of £72,686,036 in 1931 to £57,117,475 as at 31st March, 1948, the last date for which figures are available. This is the result of insistence upon adequate provision for redemption of loans. The domicile of this debt is as follows: United Kingdom, £5,970,900; Australia, £1,255,269; and New Zealand, £49,891,306. Since that date, the Australian total has been further reduced by the conversions referred to earlier in this report.

Interest-rates on local-body securities have been maintained in the range of 3 per cent. to $3\frac{1}{4}$ per cent., and the graph which follows sets out the movement of these rates over the period since the Loans Board was constituted. Over the period the margin between the rates for Government and local-body borrowing has been progressively narrowed.

Movement of Interest-rates on Local-body Loans since the Inception of the Local Government Loans Board: Maximum Rates Sanctioned for General Purposes



The statistics provide a striking illustration of the savings in loan charges which accrue to local bodies as a result of favourable interest rates. Briefly, it can be stated that a loan on a table basis for a twenty-five-year term costs less per year for interest and principal repayments than did interest charges alone in 1927.

Besides considering loan applications that come before it, the Board has continued to function in an advisory and constructive capacity where such a course is helpful to any local body. As in previous years, the Secretary has in difficult cases visited the local body concerned and discussed the proposals personally, with good results.

The Board again desires to acknowledge the ready co-operation of the various local bodies which submit proposals to the Board for consideration and to express its appreciation of the valuable assistance received from the Government Departments which submit technical reports on each application.

B. C. Ashwin, Chairman.

The Treasury, Wellington, New Zealand.

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