sufficient to meet the requirements if each consumer had been obliged to instal a meter so that waste could be eliminated. Whether this is the case or not, we feel that the overhead and running costs of the new hydro-electric scheme are not likely to be fully recouped.

155. In the Engineering and Transport Department alone there is some £30,000 to £35,000 of capital which should strictly be taken over by the Samoan Treasury from the Reparation Estates, and this would mean an increase in the public debt of the Territory.

156. Another instance of the utilization of the Estate assets is in respect of properties in the custody and use of the Samoan Administration for educational purposes. The capital value of these represents some £5,000, and no rental whatever is paid to the Estates.

157. A further case is the Apia Park and buildings, representing capital of some £1,900, for which the Estates receive no return by way of rent or interest at all.

158. Another case is the Malololelei Rest-house property, which represents capital of approximately £3,000. This the Samoan Administration controls, and no return on capital is received by the Estates. Further instances could be quoted.

159. Appended to this report is a schedule of Reparation Estate properties on charge to the Mandated Territory, and in those cases which are on a similar basis to the Engineering and Transport Department capital adjustments should be arranged.

160. Attention is directed to Reparation Estates properties leased to private individuals. The book value of these is £142,780. The net rental return for the year ended 31st March last was £1,540, or approximately 1 per cent. of the book value. Either the value is much too high or the rental too low—possibly both.

161. Whilst no definite evidence was available to us of the financial results accruing to the lessees, our inquiries led us to the conclusion that the tenants were reaping the benefits of low rentals and that the capitalized amount of present returns would be no indication of values.

162. The total book value of unimproved lands owned by the Estates and unoccupied is approximately £46,500.

163. The following operations, which, apart from the question of validity, are in our opinion wrong in principle, have been entered into by the Estates: (*a*) Purchase of Native copra on consignment; (*b*) purchase of Native-grown bananas.

164. The former is now at a standstill, and in our opinion the practice should definitely cease.

165. The latter was part of the general banana-production scheme, for which trade the new vessel "Maui Pomare" caters. Portions of the Reparation Estates are also being used for banana-production, but this fact hardly offers a legitimate reason for the Estates carrying on the general trading in bananas. The trading in bananas appears to us to be an Administration and not an Estates function. As at present organized, any losses in these ventures would be borne by the Estates, whereas the charge (if any) should be against the Administration. Further comment in respect of the banana-cultivation is made in paragraph 173 *et seq.* This matter, coupled with the running of the steamer, is one which requires overhaul and placing on a more satisfactory basis.

166. It was ascertained that a number of areas within the Vailele Plantation had been leased to Natives at very trifling rentals, which, apart from the direct effect on the financial returns, has caused dislocation in the efficient working of the estate. Efforts should be made to adjust this as early as possible. This plantation is now on the down grade owing to the advanced age of the trees.

167. The Tuanaimato Plantation is a mixed plantation comprising rubber, cocoa, and copra. It was noticed that the drying of cocoa-beans was being undertaken for private planters. No adequate system of internal check over these operations was in existence, and this should be remedied, or the practice abolished.

168. It was understood that Customs duty is levied on all imports for the New Zealand Reparation Estates: *e.g.*, in the case of the hydro-electric works, which, as already pointed out, are being financed out of Reparation Estate funds, it was discovered that Customs duties had been levied on all plant and materials imported for the works. The effect of this has been not only to inflate Customs revenue, but to overcapitalize the cost of the works.

169. In so far as the Estates, as in the above example, have been functioning as part of the Administration, Customs duty should not have been charged. This is another instance of the impropriety of intermingling Estates and Administration activities.

170. At the 31st March the Bad Debts Reserve stood in the accounts at £1,571. An examination of the various "sundry debtors" accounts reveals probable losses in three accounts alone which will absorb 50 per cent. of the reserve. Attention should be given at the end of the current year to strengthening this reserve before otherwise approving allocations from the Profit and Loss Appropriation Account.

171. The item "Observatory" is shown in the Estates assets list at £5,273. This property is being used neither by the Samoan Administration nor by the Reparation Estates. It is now under the control of the New Zealand Scientific and Industrial Research Department. Its running-costs are borne by the New Zealand Government, with a small contribution from the Imperial Government. In addition, certain contributions, principally in equipment, are received from the Carnegie Institute. An adjustment should be made in respect of the capital value of the property, which should reflect in the accounts of the Department having possession and custody of the assets.

Engineering and Transport Department.

172. Apart from the necessity of separating the finances of this Department from those of the Reparation Estates, already dealt with, we desire to direct attention to the following matters:—

(*a*) There is, in our opinion, no necessity for a separate bank account, and payments should be made by Treasury on the same basis as other departmental expenditure.