

## FINANCIAL CONDITION OF SOUTHLAND

9. B.—No. 31.

stating them in the order of their approval; and that His Honor the Superintendent should be invited to confer personally with the Government on the subject.

Wellington, March 3rd, 1865.

J. RICHARDSON,  
Post-Master General.

### Enclosure No. 1.

#### MEMORANDUM RESPECTING THE LIABILITY OF THE PROVINCE OF SOUTHLAND TO THE BANK OF OTAGO.

MEMORANDUM explanatory of the existing relations between the Provincial Government of Southland and the Bank of Otago, (Limited).

These relations are constituted by an agreement, certain correspondence, and subsequent transactions.

The agreement between the Superintendent of the Province and the Colonial Manager of the Bank, dated 18th January, 1864. (Copy, herewith marked No. 1.,) deals in the main, with two points:—

I. The negotiation of certain Provincial Debentures, and granting an advance thereon.

II. An advance to be allowed the Government by ordinary overdraft.

In regard to the first point, the more material conditions of the agreement are—

1. That the Bank should negotiate the Oreti Railway Loan of £110,000, consisting of six per cent. Debentures, secured on land.

2. That, pending the negotiation of the Loan, it should make any advances required on the Debentures.

3. That the Debentures, if unsaleable at par, should be held, if necessary, for one year from the date of their being offered on the London market, and if not sold at par before the expiry of that period, they should then be exposed at a reduced price, so as to ensure a sale.

The agreement is further constituted by correspondence, defining what was to be understood by "Any advances required" in Clause II., being a letter from the Superintendent, dated 22nd January, 1864, requiring £50,000; and a letter from the Colonial Manager of the Bank, dated 27th January, assenting thereto. Copies herewith marked Nos. 2 and 3.

The account was accordingly opened, and the required advance made.

The Debentures reached London in June, 1864, and it being evident that they would not sell at par, the Home Agent of the Government agreed with the Directors of the Bank that they should be held as offered on the market at that date, as per copies of letters herewith marked Nos. 4 and 5.

In regard to the second main stipulation in the agreement, the more material provisions are—

1. That the Government should be allowed to overdraw its ordinary account, for the purposes of the public service only, to the extent of one half year's revenue.

2. That the entire revenue of the Government from whatever source should, from time to time, be paid in to the Bank.

The Government was accordingly allowed to overdraw to the extent of £70,000, being greatly in excess of the current half year's revenue.

The agreement provides that interest, at the rate of seven per cent. per annum, shall be charged on the Government overdrafts; but the Bank refuses to be held to this rate of interest, because of the following clear breaches of the agreement by the Government, being—

1. Material delay in the delivery of the Debentures after the advance on them had been commenced to be made, whereby the Bank was prevented offering them on the London market at a time when they might have been disposed of.

2. The failure on the part of the Government to continue paying in their ordinary revenue from whatever source to the Bank, whereby the Bank was deprived of its security for the large advance made—the more valuable portion of that security, viz., the land revenue, being hypothecated to another party by the General Government; and whereby the Bank was further deprived of the ordinary profit on the Government business (such as exchange, circulation, &c.), which was a material inducement in giving so large an advance at so low a rate of interest.

The Bank, therefore, holds the Government liable for the current rate of interest on overdrawn accounts, being twelve per cent., though it is not indisposed to assent to some modifications of this rate on certain conditions.

The Bank, by the agreement, is entitled to force a sale of the Debentures after 24th June next; and the serious inconvenience it suffers by reason of its heavy advances to the Government, may oblige the Directors to have the Debentures disposed of, even at a sacrifice of the Provincial Government property, unless some arrangement to relieve the Bank is effected in the meantime.

In addition to the overdrafts above referred to, the Bank holds a Promissory Note of the Government for £10,000 in security for an advance to J. R. Davies, Railway Contractor.

The Bank has a further claim on the Government in respect of a Contract made by Greville and Whiting, and for certain reasons transferred to the Bank—amounting to upwards of £3,000.