

II.

Sir JOHN LUBBOCK to the Hon. the COLONIAL TREASURER.

Council of Foreign Bondholders,

17, Moorgate Street, London, E.C., 2nd April, 1891.

SIR,—

As Chairman of the Council of Foreign Bondholders, I have the honour to address to you this communication on behalf of the debenture-holders of the New Plymouth Harbour Board, and to ask in their name the favourable consideration of your Government of the position in which they are placed.

The Bank of New Zealand, in the year 1879, as financial agents of the New Plymouth Harbour Board, offered on this market, for public subscription, 6 per cent. debentures of that Board for £200,000. This loan was authorised by Acts of the Legislative Assembly of the colony for the purposes of harbour-works at New Plymouth, the only harbour of importance on the west coast of the North Island from Kawhia to Wellington, a distance of about three hundred miles. The necessity and importance of this work from a national point of view had been recognised and the undertaking initiated by the colonial Government. The surveys and design of the works were made by the engineers and surveyors of the colony, and in 1876 the Government undertook the construction of the works by means of prison-labour. Subsequently, however, the Government withdrew from the scheme, and the Legislative Assembly passed an Act authorising the New Plymouth Harbour Board to raise a loan of £200,000 to build the harbour, and, as the prospectus stated, in view of the national importance of the work, endowed the Harbour Board with one-fourth of the gross revenues arising from the sale, occupation, or other disposal of the waste lands of the Crown in the Provincial District of Taranaki, and enacted that the revenue to be derived from this source should be set aside in order to provide, in the first instance, for the interest and sinking fund of these debentures in accordance with section 19 of the Harbour Companies Act of 1877, and for no other purpose. The words "in the first instance" indicate that the New Zealand Government anticipated that the revenue from this source would amply suffice for the future service of the debenture loan.

The prospectus represented that the area of waste lands then held by the Crown within the provincial district was about 758,000 acres, representing a value of about £1,400,000, one-fourth of which—viz., £350,000—is nearly double the amount of the loan in question, which might therefore be considered to be amply secured thereby. The Premier, on the 12th December, 1887, stated before a Committee of the House of Representatives that the object of this grant was to give to the Board, for the purposes of the loan, one-fourth of the selling-value of the lands in question (not merely the interest on the selling-value postponed for a long period or the rental of the lands), and he estimated that the proceeds of such one-fourth would cover the charge for interest and sinking fund in respect of the debentures for a period of twenty-six years without resort to any other sources of revenue.

The service of the loan was further secured by the rating-power vested in the Board on property within the rating district; but, as the land revenue was estimated to be more than sufficient, it was not expected that any such rate would be required.

The prospectus invited subscription, by tender, at a minimum price of 95 per cent., and the amount offered was duly subscribed, more especially on the faith of the representations made with regard to the importance attached to the undertaking from a national point of view, confirmed as they were by the fact of the grant of public revenues stated to be of ample value to cover the whole amount of the loan.

The interest on the debentures was duly met up to November, 1889, the Harbour Board, as well as the debenture-holders, relying for this purpose mainly on the land revenue; and the debenture-holders as a body were wholly unaware that, in the interval, the Legislative Assembly which had made the assignment of the revenues, on the faith of which the loan had been issued, had subsequently made such changes in their collection as practically had deprived the debenture-holders of the benefit of a source of revenue which constituted the principal security upon which the money had been advanced. The debenture-holders were entitled to expect that no change would or could, without their consent or cognisance, be made to their prejudice in the mode of collection of the specific public revenues which the Government had "endowed" the Harbour Board with a view to the service of the loan and consequent success of the harbour scheme. Had this change not been made, there is every reason to believe that the land revenues appropriated to the loan would have each year sufficed for its service.

At the time the loan was issued, and for some years afterwards, the mode of selling waste lands was for cash, or on deferred payments spread over ten years, the price being in that case enhanced by 50 per cent. Subsequently this enhanced price was reduced to 25 per cent., and afterwards altogether waived; and buyers on deferred payment were, after a single payment, allowed to capitalise unpaid instalments for a series of years, paying 5 per cent. interest on the capitalised amount. In 1887 the system of letting lands on perpetual leases, which up to that time had been limited to one-third in area of rural lands, was extended to all waste lands. The object of these alterations, and it has been largely successful, was to attract to the Crown lands permanent settlers, whose productive industry has largely augmented the exportation of produce, whereby the colony at large has been benefited. The alterations in the law have increased the amount of land disposed of, but on lower terms than those at which adjoining lands in private hands are saleable, showing conclusively that their effect, on a question of value only, has been to diminish the value of the security pledged to the debenture-holders. It may have been anticipated that the increase in the total quantity of land disposed of would keep up the annual revenue available for the debenture-holders; but, if so, the anticipation has not been realised, and, in fact, sales of a very much smaller proportion on the original cash basis would have yielded a larger amount of annual revenue, whilst a much larger quantity of land would still remain for sale. Now it has been parted with to such an extent that in future the land fund can never rise to its former level per annum.