

1894.  
NEW ZEALAND.

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# LOCAL BILLS COMMITTEE

(REPORT OF THE) ON THE DUNEDIN LOANS CONVERSION BILL, TOGETHER WITH MINUTES OF EVIDENCE.

*Brought up 24th August, 1894, and ordered to be printed.*

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## ORDER OF REFERENCE.

*Extract from the Journals of the House of Representatives.*

TUESDAY, THE 26TH DAY OF JUNE, 1894.

*Ordered*, "That a Select Committee be appointed, to consist of ten members, to whom all Local Bills shall stand referred after first reading; the Committee to report whether the Standing Orders have been complied with, and to suggest such amendments as it may think proper, and to report when necessary upon the merits of the Bill; the Committee to have power to confer with any Committee appointed for a similar object by the Legislative Council; such Committee to have power to call for persons and papers; three to form a quorum. The Committee to consist of Mr. Allen, Mr. Bell, Mr. Graham, Mr. Guinness, Mr. Joyce, Mr. T. Mackenzie, Mr. Maslin, Mr. Massey, Mr. Montgomery, and the mover."—(Hon. Mr. REEVES.)

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## R E P O R T .

THE Local Bills Committee, to whom was referred the above-mentioned Bill, have the honour to report that they have duly considered the same, and find it is a Local Bill, that the Standing Orders have been complied with, and they recommend that it be allowed to proceed, subject to the amendments as shown on a copy of the Bill attached hereto.

The Committee also report that they took the evidence of the Mayor of Dunedin, a copy of which is attached hereto.

24th August, 1894.

A. R. GUINNESS,  
Chairman.

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## MINUTES OF EVIDENCE.

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TUESDAY, 21ST AUGUST, 1894.—(Mr. GUINNESS, Chairman.)

Mr. H. S. FISH, Mayor of Dunedin, examined.

1. *The Chairman.*] The Committee are prepared, Mr. Fish, to hear your evidence?—I suppose it may be as well to say, first, a few words as to the reasons which have induced the Corporation of Dunedin to promote this Bill. The causes which have operated in this direction are simply these: For the last ten years the revenue of the Corporation has been decreasing through the decreased valuation of city property, so that at the present time, as against ten years ago, our revenue from rates is more than £2,000 per annum less than it was at the period to which I have just referred. On the other hand, we have had burthens placed on us, in common with other local bodies, to a considerable amount. As for example, eight years ago we contributed about £450 to charitable aid. That has been going on increasing, until last year it totalled up to £3,000. Thus, we have a decreased revenue of £2,000 from rates; in addition to this, at the recent licensing meeting we lost some £1,800 in license-fees, with further prospective losses in rates, resulting from public-house property being rated less for next year than it is for the present year. We will also lose a further sum in respect of gas- and water-rates. Altogether we shall lose in the next rating year, commencing from the 31st March next, a sum of £2,500, making in all about £7,500 per annum difference in our revenue to what it was at the period mentioned. There is no immediate prospect of the rates increasing—it is not at all likely that they will. The result is that our revenue fails to meet our expenditure by some £5,000 or £6,000 per annum. There is only one way of meeting that difficulty, none other than I can see, except by some such means as are proposed in this Bill, or by increasing the rates from 6d. to 9d. in the pound. The Corporation feels very keenly that at a time such as this, with the

knowledge of the fact that property-holders at the present moment are not realising more than 4 per cent. on investments, it could not inflict a further rate upon the citizens of Dunedin, as raising the rate from 6d. to 9d. in the pound would simply have a crushing effect; that would indeed be a disastrous policy. It therefore became their duty to cast about to see how to extricate themselves from the difficulty which they had to face, without increasing the burthen of rates on the ratepayer. The Corporation therefore caused inquiry to be made, and the result of their investigations was a report which I had the honour to lay before the City Council of Dunedin. From these circumstances proceeded this Bill for the conversion of Dunedin loans. The total debt of the City of Dunedin is £603,300, made up as follows: Municipal Loan, £300,000; Water, £203,300; Gas, £100,000. We propose to convert some of the debentures that are falling due within the next few years. I may in the first place be permitted to say that included in this indebtedness are £50,900 of bonds, upon which we are paying 7 per cent. interest and 1 per cent. sinking fund. This loan was raised in the early days when the City of Dunedin, in common with the other cities of the colony, had no very high financial status, and all had to pay pretty dearly for any money they wanted. There are £131,100 bonds in addition, bearing interest at 6 per cent., and having also 1 per cent. sinking fund. The former, that is the 7-per-cent. bonds, mature in 1898, 1900, and 1902. The latter, or 6-per-cent. bonds, mature in 1903, 1905, and 1906. The amount we propose to convert is £182,000. Seventeen years ago, the General Assembly passed an Act authorising the consolidation of the whole of the above loans, *i.e.*, £603,300, but from various causes—principally, no doubt, owing to the number of years some of the debentures then had to run, and, possibly, in a lesser degree, through inability to discover the holders of some of the bonds—the Council only succeeded in consolidating £312,000. I do not propose to deal with these, as they carry only 5 per cent., nor do I propose to deal with another £109,100, although they carry 6 per cent., as they are not redeemable until 1925, and the cost of present conversion would be too great. Moreover, we do not require to do so for the purpose of putting our finances in order. We, therefore, allow consolidated stock amounting to £312,200 to expire by effluxion of time, and to be paid off with the proceeds of sinking fund. If this operation is carried out, it will save close on £5,000 a year in payment of interest. What we propose is to issue new debentures to the same amount as those already converted—£182,000—having a currency of thirty years, and bearing  $4\frac{1}{2}$  per cent. interest. By doing this we shall save a payment of interest amounting to close on £5,000 a year. We will obtain possession of £65,000 sinking fund, which we will devote to the following purposes: £43,000 we intend to apply to the paying-off of overdraft which we have at the bank, to that, or nearly that, amount. In that way we can save some £2,000 further a year. Our last year's payment for interest was £2,400; what remains we will pay into a trust fund, at interest, so as to provide interest as far as it will go for future loan for drainage purposes. The £43,000 which is to go to the liquidation of overdraft, and the balance, £22,000, which we propose to put into the interest fund in aid of the future loan for drainage. The necessity of a complete system of drainage for Dunedin is very urgent. We have deferred going into that question, because we have felt that the citizens were unable to bear the strain of an extra rate. We think if this scheme is carried out we will be justified in anticipating, by many years, the time when otherwise we would be able to complete our drainage system. The capital amount, which we are going to fund, with the accruing interest, will enable us to save paying interest for eight or ten years at least. This consideration, I think, justifies us in having a drainage system at once; otherwise it would have to be postponed. And another result will be, that saving this interest will enable us to square other Corporation accounts. The payment of overdraft will enable us to have funds to the extent of £2,000 a year, or more, which will be spent in City works, and will enable us to spend in this direction about £2,500 more than now. The position, therefore, of the Council is this: that through decrease of revenue for the past ten years, through additional burthens being put upon them, such as that arising from charitable aid and otherwise, it has been obliged to contract this overdraft. I should state that £43,000 is the maximum amount of overdraft. It is nearly that now. It is somewhere about £42,000. This has been brought about through no fault of the Corporation, but because property has depreciated in value, and additional burthens being thrown upon us. We will also be able, if this scheme is carried out, to adjust our finance and put it upon a satisfactory basis. All that we do, as the result of this operation, is to convert what is now a terminable debt, payable by accretions of sinking fund in fourteen years, into a permanent debt on the City. The total indebtedness of the City, after the £312,000 consolidated stock is paid off, will amount to about £313,000. That will be a fixed debt; but, as against this, we leave to the citizens our water-works and our gas-works. The water-works cost us about £230,000; our gasworks, £130,000; and the permanent drainage which we have already effected and which cost us £45,000, making a total of £405,000. So that we shall leave to the citizens of Dunedin property costing a considerably larger sum than we shall have burthened them with in carrying out this scheme. The water- and gasworks since we purchased them have realised a profit of about £180,000.

2. In how many years?—An average of about fifteen years. The bulk of the money that has been expended has been spent in extending and improving works on capital account. We have used revenue on capital account, rather than borrow afresh for that purpose. The permanent debt will be £313,000.

3. Is it correct to say that, for an average of fifteen years, your gasworks have made a profit of £180,000?—Gas- and water-works. I think the average must be from fifteen to seventeen years.

4. How do you make the profit on the water?—That is one of the intricacies of our finance. We are charging a maximum rate; the difference which it costs between interest and maintenance is represented by the profit made. I have now traced the position and objects of this scheme. One of the great objects we have in view in getting this Bill through is, not only to adjust our municipal finance and put it on a proper footing, but I have a confident belief that, if we succeed in

carrying it through your House, and in getting the present bondholders to give effect to it by converting, we shall bring down the price of the water-rate to such a figure as will only leave a small margin for contingent accidents. As regards gas, we will be in a position to bring down the price to a figure which, after leaving the Corporation from 10 to 12½ per cent. on its speculation, will operate largely in relieving gas consumers. I need hardly point out that that will be a great assistance to the citizens, reducing the price of gas to the consumers by the difference between one and the other. In fact, we have been practically robbing the gas and water accounts for the purpose of assisting the municipality. The reason the ratepayers said nothing about it was this: they knew the exigencies of our finance, and they considered that, if they got relieved, as they ought to be, in respect of gas and water, the difference would have to be made up somehow, and that could only be done by a large increase of city rates. My strong desire is that the result of this scheme shall be to place those two accounts—the gas and water—on a satisfactory footing—to let each municipal tub stand on its own bottom. What we propose to do in regard to burdening the future ratepayers is so slight in comparison to what we will leave them that no consideration requires to be given to it. No further assurance need be given as to its effect on posterity. The citizens of Dunedin have now had this scheme before them for consideration for a considerable time, and I am pleased to be able to assure the Committee there has not been one discordant note in Dunedin on this subject. The Press of the city has taken it up and indorsed it. The citizens have by their quiescence endorsed it. In order to corroborate the figures by which I justify my contention, the City Council submitted the figures to one of our best actuaries, Mr. R. S. Leary, who has corroborated them in every particular, with this exception, that he makes the sum that will be available somewhat larger than I do.

5. *Hon. Mr. Reeves.*] It is nearly £180,000 altogether that you propose to deal with?—The amount we propose to convert is £182,000. This might make a possible loan in the future of £204,000, instead of £182,000. That arises from the fact that we propose to give extended debentures for the cash value of the difference in the debentures. At first we meant to pay all the debenture-holders in cash, but I was advised by financial gentlemen in Dunedin that it was possible some of the holders would prefer to take extended debentures, rather than cash, for cash value of debentures. You see by the Bill that we propose to give the debenture-holders the option of taking cash or the extended debentures.

6. The first loan is that £25,300 which matures in 1898?—Yes.

7. At what date?—The 30th of June.

8. And the next £12,500 matures in 1900?—Yes.

9. What do you expect to have to give for the 7-per-cent. debentures that will mature in 1898?—Taking the three loans bearing 7 per cent., the cost, I think, will be about £7,000.

10. I want to know about the first lot, the £25,300; what sinking fund has accrued as against that £25,000?—I think it is about £10,000.

11. *Mr. Bell.*] Will you explain what is the meaning of sections 10 and 11?—The distinction is this: section 10 is so much to the second fund [reads section]. That is a portion of the amount with which we propose to wipe off the £43,000 overdraft. The cost of conversion is £22,000. If we pay in cash it will be still £22,000. If we do not pay in cash it will be added to the debentures we issue. In order not to dissipate that, we propose to lock it up as a part of the new loan for drainage, so far as it will go. It is put in that way, because we cannot be sure whether the debenture-holders will accept the extended debentures; some will accept cash, and others, as I learn, will be disposed to accept the extended debentures. But we cannot make it absolute. We do not yet know to what amount the holders will accept the extended debentures or cash for the difference.

12. We ought to understand why it was not put in in the ordinary course; or, rather, why it was not put in the reverse order. It is very difficult to appreciate what is meant as it is put here; what I wish to intimate is, that the section is so wide, that I do not see what is the distinction between a sinking fund set free by reason of the purchase of debentures, and a sinking fund set free by reason of a change of debentures?—The amount set free altogether is £65,000; these clauses 10 and 11 dispose of that. We say that all the money, except as much as will be required for the cost of conversion, shall become and be applicable to the Borough Fund. That we would apply in liquidation of the overdraft. But in regard to the other £22,000, it may be said that one-half of the debenture-holders will say that they will take cash; then they would get cash.

13. You say that section 12 follows on to the effect that such sums are to be carried on to the Sewage Loan Account. What is the distinction between carrying money to the Sewage Loan Account, sinking fund being in your hand by reason of the sale of debentures for cash, and those in your hands by reason of exchange?—Suppose we pay the cost of debentures in cash, we would then only have a certain sum that would be credited to the Borough Fund. The cash value of conversion is £22,000. If all the debenture-holders elect to take extended debentures instead of cash, whatever that amount might be we propose to lock up in trust for other purposes, so that while on the one hand we increase the debt of the City by £22,000, we, at the same time, credit another fund with the same amount.

14. I thought it was so. You increase the loan by the exchange, and you carry the fund to another Loan Account?—That is it.

15. I want to know why you insert section 13, instead of using a similar provision furnished by the Act of 1886, which limits the rate of interest to 7 per cent?—It is for the purpose of anticipating payments to be made to us by the Sinking Fund Commissioners.

16. I know the purpose; but why not use section 20 of the Municipal Corporations Act?—You see, we may have to place our bankers in London in funds to meet payment to debenture-holders. The Sinking Fund Commissioners might not have been able to realise for a day or two, or even a week or two, or even for a month; therefore this clause puts us in the position to get for this particular operation credit from its bankers in London or elsewhere; or, on the other hand, there

may be an interval of time—perhaps a fortnight or so—during which the funds cannot pass; we would not have power to get an advance unless we inserted this provision.

17. But you do not limit the rate for that purpose?—It might be only temporary. It would only be for a fortnight or so; or at most a month. We would pay, of course, the usual bank interest.

18. In the Consolidated Stock Act there is a provision to enable the Commissioners to issue short-dated debentures?—We talked that matter over with Messrs. Chapman and Leary, who thought this was sufficient. This gives the Commissioners power to pledge the securities with their bankers, or to sell out some mortgages.

19. Do you see the amendment which has been put into clause 3?—Yes; I do not object to that.

20. *Mr. Allen.*] What do you say your saving of interest would be?—Close on £5,000. If the new loan is the same amount as that at present existing at  $4\frac{1}{2}$  per cent., the annual saving would be £4,979. If we have to add the amount of cash conversion to the loan it would be decreased to the sum of £3,982.

21. That is, if the converted loan is all issued in debentures?—Yes.

22. With regard to sinking fund set free, you explain that that is to pay off the bank overdraft?—Yes.

23. What security have we that that overdraft may not remain at the maximum, or that it may not even be raised?—You have only the security of common-sense and prudence. It would necessarily take many years before it would mount up again, if ever. It would be a bad thing to pass any clause to prevent us getting an overdraft such as we might require. When this scheme shall have been completed, and operations begun under it, our finance will be absolutely sound; there will be no necessity to get an overdraft except for some large work, because we will have £2,500 extra a year for works, and I think that would suffice. We might on some occasions have to get an overdraft of £4,000 or £5,000, but only in some special circumstances.

24. Do you not think it would be advisable to put some limit on the opportunity of getting overdrafts?—I think you must trust to the good sense of your representatives in the Council. If you do not get good men to go there it is your own fault. I think, from the experience we have had, that good men can always be found to be put there. There is no doubt the possibility that public confidence may sometimes be at fault, but it is improbable. I do not think you should impose a limit. To do so would prevent, at times, the carrying out of very desirable improvements in Dunedin.

25. *Hon. Mr. Reeves.*] You have a rate for water and gas?—For gas we charge a price.

26. What is the price of gas?—7s. 6d. We charge only 5s. for gas for cooking purposes or motive-power. The first charge is undoubtedly excessive. It is my strong wish, and I think, when this scheme shall have been carried out, it will bring about, as an immediate result, that both the gas and water accounts will be placed on a proper footing. My great anxiety is to get our municipal finance on a thoroughly sound and proper basis. When once that is so, I hope it will be kept so. I feel assured that this scheme will enable us to bring that very desirable state of things about.

27. *Mr. Allen.*] Suppose that in 1893 you pay that £25,000, you would be saved 7 per cent.?—The saving would be about £2,000, but then we would have to pay  $4\frac{1}{2}$  per cent. on our bonds, which we would give in place of it. We would only save about £1,000 a year.

28. The proposal is to transfer to the Sewage Loan Account any cash that may not be used to pay the cash cost of the conversion. That seems practically a loan of that money?—Of course it is in a sense a fresh loan; but it is not in another sense, if we lock it up for the purpose of providing interest on another loan, which we must get shortly.

29. That is the question I am coming to. This really is a capital account. If I understand rightly it is not intended to keep it a capital account, but to pay interest with it. Is that a wise proceeding?—It is wise for this reason: if the citizens can be assured that, for a number of years, they will not be called upon to pay a drainage rate for a new drainage loan, then we can induce them to vote for a new loan for drainage. The importance of this may be estimated by the consideration that a new loan would probably involve a shilling rate. If we went in to borrow, say £100,000, they might say: "We will not give you the necessary power." But if we were in a position to say to them, "Seeing that, owing to the accretions of interest on the £22,000 and the capital in addition, you will not be called on for another seven years to pay interest;" how important this would be, Mr. Bell must know, for his experience in Wellington must have informed him of it.

30. Next, as regards section 20 of the Bill?—That is taken from the Oamaru Act of 1893. I telegraphed our solicitor *re* this, and the replied as follows: "Clause 20 is to show lenders that there can be no hitch about the rate. It is taken from the Oamaru Act of 1893, and is to silence technical defences such as were successful in the Waimea Plains case, and many others. Such a clause is now usual, as Mr. Bell could tell you."

31. *The Chairman.*] I want to ask you, Mr. Fish, what is the total amount of interest you are now paying on the loans which you propose to convert?—The total amount is £11,879 and £1,740 for sinking fund.

32. What is the amount of interest you anticipate by this conversion that you will have to pay?—£4,000 a year less; that is, £4,000 on extended debentures; £5,000 less, if we give cash for conversion.

33. You make no provision for sinking fund? A permanent debt?—Yes.

34. What is the rate per cent. you will be able to get it for?—I mean, what is the rate of interest you will have to pay?—Four and a half.

35. Have you any evidence or information that warrants you in fixing that as a base for your calculations?—We fix it, of course, at that rate because we think it a fair one, and we have based our calculations as to cost of conversion on that basis.

36. *Mr. Bell.*] £165,000 for Wellington was raised at  $4\frac{1}{2}$  per cent., and a maximum of 99 realised. Since then that loan is at a considerable premium; these  $4\frac{1}{2}$  per cents. are now quoted at 105.

37. *The Chairman.*] You have told us that the total amount of the debt was £603,300; what is the rate of interest you are now paying on the balance of that amount which it is not proposed should be converted?—5 per cent. and 1 per cent. sinking fund on £312,000, and 6 per cent. and no sinking fund on £109,100.

38. Then, the interest at the rate of 5 per cent. and 1 per cent. sinking fund?—£312,000 is the amount not proposed to be dealt with: that £312,000 will be wiped out by accretions of sinking fund.

39. *Mr. Massey.*] When did you say that £25,300 matures?—1898.

40. *The Chairman.*] And the balance of the loans?—They are 6 per cent. loans without sinking fund.

41. Why do you not propose to convert them?—For this reason: they do not mature until 1925, so that the cost of conversion would be so great as to make it not worth while. We do not think that £109,100 is too much; we say to the future citizens of Dunedin, "We leave you so much more than the value of the payable security."

42. Under clause 10 of the Bill, you propose to use sinking fund to set free so much of the £40,000, or £43,000—or, to speak more correctly, to liquidate your overdraft?—Yes.

43. What is the overdraft now, £43,000?—That is the maximum amount; it varies in amount.

44. But that is the amount you have to provide for; what is it at the present time?—I think it is up nearly to the maximum: it is £42,000 or £43,000.

45. Would you have any objection to have clause 10 amended, so as to enact that so much of the loan conversion should be applied to the payment of overdraft?—Yes, we would object.

46. On what ground—for what reason?—The reason we would object to it is this: that if you make it compulsory, as it appears to me, you would stop us in the future from getting an overdraft, although we might always have our account at credit; but, moreover, it would be nugatory. You might put in the words, if you like, so long as you do not make it compulsory.

47. *Mr. Bell.*] It could be paid to the Borough Fund?—If we paid this £43,000 to the borough there would be no need of an overdraft at all, and that is what we propose to do with it.

48. *The Chairman.*] I want to show, on the face of this Bill, how much of this money will go for one purpose and how much for another purpose?—If you choose you may use the words.

49. If we said, for instance, so much into the Borough Fund?—I have no objection.

*Hon. Mr. Reeves:* This is the clause that I object to.

50. *The Chairman.*] Does not this come to an indirect means of borrowing that £65,000 of accrued sinking fund?—I do not think it can be so regarded, seeing that we apply the money to paying off overdraft. By this means we clear off a heavy debt. If we do not employ this or some other means for clearing it off we are not likely to reduce it in the near future. It will sit as a fixed thing upon the Corporation and the City, fluctuating only in amount between £42,000 and £43,000. If we could use it for fresh works, and so used it, it might be termed a loan. It is, however, our own money; it is money paid by the present generation. You may call anything borrowing if you look at it from an extreme point of view.

51. *Mr. Allen.*] You say that your overdraft is now £43,000?—I think so.

52. Has any amount been transferred from the gas or water account to that?—Nearly the whole of the profits of the gas and water accounts have been transferred. There is about £2,000 to the credit of the gas account.

53. I want to get at the actual overdraft, deducting the sum from what you have transferred?—We have as yet transferred nothing from the water account.

54. What will be the overdraft when you have transferred?—The same; it gives us the spending of £7,000 out of the £18,000 to credit of that account. If we expended any money beyond that we would be beyond the statutory limit to which we can overdraw.

55. Would the reduction of this overdraft set free any money from the gas and water account?—It would, under certain circumstances. Supposing the finances of the Corporation to become more elastic, it would realise so much more of the accrued profit. We have not provided from the gas and water account anything for contingencies. We intend to place to "contingency" so much for water and so much for gas, if this scheme is carried through.

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