

# STATE ADVANCES CORPORATION OF NEW ZEALAND.

## BOARD OF MANAGEMENT:

A. D. PARK, C.M.G., Chairman.  
T. N. SMALLWOOD, J.P., Deputy Chairman.  
G. A. LEWIN, C.M.G.  
B. C. ASHWIN.  
D. BARNES.

## HEAD OFFICE:

State Fire Insurance Building, Wellington.

## CHIEF ADMINISTRATIVE OFFICERS:

G. E. MILLER, Manager.	F. E. MITCHELL, Assistant Manager.
K. J. CAVERHILL, Secretary.	R. ROBERTSON, Chief Accountant.
H. M. CASSELBERG	L. E. BROOKER, Architect and Chief Property Supervisor.
B. C. McCABE	

## AUDITORS:

L. H. HESLOP. R. C. BURGESS.

## BANKERS:

Reserve Bank of New Zealand and Bank of New Zealand.



1940.  
NEW ZEALAND.  

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STATE ADVANCES CORPORATION OF  
NEW ZEALAND.

REPORT AND ACCOUNTS FOR THE YEAR ENDED 31st MARCH, 1940.

*Laid before both Houses of the General Assembly of New Zealand pursuant to Subsection (2) of Section 43 of the State Advances Corporation Act, 1934-35, and Subsection (2) of Section 42 of the State Advances Corporation Act, 1936.*

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The Hon. the MINISTER OF FINANCE, Wellington.

WE have pleasure in submitting the Balance-sheet and Revenue Accounts for the year ended 31st March, 1940, together with a report on the Board's administration for the period, as required by subsection (1) of section 43 of the State Advances Corporation Act, 1934-35.

#### PART I.—GENERAL.

The year 1939-40 being the Centennial anniversary year for the Dominion of New Zealand, it had been intended that this report should embody a full historical review of the State Advances Corporation and its predecessors, but in view of the difficulties arising from the international situation it has been decided to postpone the publication of the full review until a later date.

The Corporation having completed its first five years in operation, the Board of Management proposes to report briefly on the progress that has been made during that period.

In terms of the Government's policy as outlined in the Act under which it was established in 1935, the Corporation now has under management all the loan accounts which previously were administered by the State Advances Department, the Lands and Survey Department under the Discharged Soldiers Settlement Act, and the stock and chattels loans under the Rural Intermediate Credit Act.

The total book value of assets taken over was approximately £55,000,000. In terms of section 38 of the Act, the Corporation was required to issue to the Treasury stock or debentures for an agreed proportion of the total value, the balance of the amount being left in the Contingent Liability Account. Stock already issued to the Treasury in accordance with this section amounts to £40,345,750, and the balance now outstanding in the Contingent Liability Account is the sum of £9,821,635 1s. 4d. With a view to assessing more accurately the value of the assets taken over, the Board of Management put in hand a scheme for the complete survey of all the investments taken over, with the intention that when this revaluation had been completed proposals should be submitted to the Government for the final adjustment of the Corporation's account with the Treasury. In the two years immediately following the establishment of the Corporation the new business handled by the organization was on a very much increased scale, and then the Mortgagors and Lessees Rehabilitation Act came into operation, with the result that the personnel of the field and office staff was fully engaged in dealing with some ten thousand applications for relief. These two factors have had the effect of retarding the survey of securities, and, whereas it was expected that the whole of this work would have been completed within five years, it is apparent under present war conditions that finality cannot be reached for some time.

During the period from 1935 to the present date the effect of retaining in the Contingent Liability Account the balance of nominal value of assets taken over by the Corporation has been reflected in the Revenue Accounts for the reason that whilst the Corporation has been paying interest to the Treasury on stock issued amounting to approximately £40,000,000 no direct payment as interest has been made on the Contingency Account, and the Corporation's net profit has been increased accordingly. The whole of the Corporation's profits are at present payable to the Consolidated Fund, so that the final result is therefore not affected.

However, the Board is anxious to place the Revenue Accounts on a basis that will show more correctly the Corporation's earning-capacity, and, although the survey of securities has only been partially completed, it is intended as an interim measure to arrange for the issue of additional stock to the Treasury for a portion of the amount now included in the contingent liability, and this will be reflected in the accounts for the year ended 31st March, 1941.

Since 1935 additional funds for the purpose of making advances on mortgage and for investment in local-body debentures have been raised by the issue of stock and debentures, firstly at  $3\frac{3}{4}$  per cent. and secondly at  $3\frac{1}{4}$  per cent. In addition to new funds raised in this manner there are available the principal repayments under existing investments, which provide the main source of supply.

The volume of new loan business granted since 1935 is shown by the statement submitted heretunder :

Loans authorized—				Number.	Amount.
Residential					£
Refinancing	..	..	..	3,808	2,346,532
Erection	..	..	..	6,272	5,458,276
Other purposes	..	..	..	1,913	1,251,183
				11,993	9,055,991
Farm—					
Refinancing	..	..	..	2,439	5,568,192
Other purposes	..	..	..	1,508	1,579,548
				3,947	7,147,740
Total authorized				15,940	16,203,731

An analysis of the loans under administration as at 31st March, 1940, which is appended, shows the number and amount of mortgages in districts subdivided into farm and residential sections.

District.	Farm.		Residential.		Total.	
	Number.	Amount.	Number.	Amount.	Number.	Amount.
		£		£		£
Auckland	4,272	4,492,199	10,935	6,963,442	15,207	11,455,641
Hamilton	1,600	5,890,379	4,402	1,941,871	8,702	7,832,250
Napier	1,409	1,655,633	2,860	1,406,712	4,269	3,062,345
New Plymouth	2,346	2,738,292	1,555	651,754	3,901	3,390,046
Wellington	3,511	3,202,089	13,471	9,149,112	15,982	12,351,231
Nelson	1,603	1,319,198	2,014	870,700	3,614	2,189,898
Christchurch	2,221	2,619,213	7,364	3,801,144	9,585	6,420,357
Dunedin	1,057	1,146,534	1,555	802,993	2,612	1,949,527
Invercargill	1,685	2,263,255	925	479,650	2,610	2,742,905
Total	21,704	25,326,792	44,778	26,067,408	66,482	51,394,200

In addition to the accounts included in the above statement, the Corporation is responsible for the management of some 11,000 tenancies, the bulk of which are in respect of houses erected under the new Government Housing Scheme, which is referred to in more detail in Part II of this report. The Rural Intermediate Credit system of stock loans, which is under the control of this Board, involves the administration and supervision of a business consisting of approximately 900 loans, the majority of which have been arranged through Co-operative Rural Intermediate Credit Associations.

#### INTEREST-RATES AND TERMS OF LENDING.

The lending rate for first mortgages remains unchanged at 4½ per cent., and this rate has been maintained since 1935. The Corporation's main lending policy is allied to long-term table mortgages. For house-building loans the terms vary according to the type of building and the circumstances of the borrower, and for suitable farm securities the maximum term is forty-five years.

#### NEW BUSINESS.

The Board has continued to give preference to loans for erecting houses either in rural or urban districts and has also met the requirements of its existing rural mortgagors for improvements and development work undertaken for the purpose of increasing production.

The loans granted for the year may briefly be stated as under :—

	No.	Amount.
		£
For house building	1,617	1,540,130
For other purposes	494	328,238
Total	2,111	1,868,368

The Corporation's field staff has been continuously engaged in the appraisal of new securities and the supervision of existing investments: and in the country districts our officers have been working in close co-operation with other Departments in utilizing available labour in improvement works on farm securities.

At this critical stage of the nation's history, where New Zealand, as a member of the British Commonwealth of Nations, is called upon to assist both in regard to man-power and production, a still greater effort is being made to utilize the Corporation's field and office organization in promoting a greater production of foodstuffs for export, and at a recent meeting of the Board, the following resolution was passed :—

“That the Board of Management of the State Advances Corporation being fully seized with the difficulties that have arisen and are likely to arise from the war, confirms its determination to do everything in its power to assist the Government in its endeavour to co-operate with the British Government and other units of the Empire in bringing the present conflict to a successful conclusion. In particular to direct the Corporation's lending policy so that the maximum results may be obtained in meeting the exigencies of the war.”

#### TRADE AND INDUSTRY IN NEW ZEALAND.

The position of industry as a whole in New Zealand, both primary and secondary, has, of course, been materially affected by the war conditions, and for this reason a comparison with earlier periods may not be so useful as in normal times. The purchase of all exportable farm-produce by the New Zealand Government at fixed prices has a more stabilizing effect on the income of the farming community, but against this, however, there is some increase in the cost of production. During the year surveys and investigations have been made of various aspects of the farm-labour problem, and the Government has encouraged and assisted in the movement for the transfer of workers from non-productive labour to the farms. The Rural Housing Act and various employment schemes that are now in operation should do much to overcome the labour difficulty of the farmers and increase production. On referring to the statistics relating to farm-production it is found that the quantity produced during the year 1939–40 shows little variation as compared with the production for the previous twelve months, the figures for which are shown in brackets. A table showing the comparative figures is appended.

Commodity.	Quantity.	Value
	Cwt.	£
Meat .. .. .	6,215,600 (6,018,307)	16,432,196 (16,278,123)
Dairy-produce .. .. .	4,326,498 (4,324,266)	22,889,895 (22,411,272)
	Bales.	
Wool .. .. .	789,990 (814,458)	12,639,725 (11,946,410)
Skins and hides .. .. .		2,498,006 (2,274,291)
Other farm produce .. .. .		930,261 (1,217,162)

These returns are naturally affected materially by the climatic conditions, and it is clear from reports received from the Corporation's field officers throughout the Dominion that production was considerably retarded in many districts by the severe winter and late spring of 1939.

#### VALUATION OF SECURITIES.

There is a considerable diversity of opinion on the subject of valuation or appraisal of land and improvements thereon, and in view of the widespread interest it is considered desirable to furnish a brief statement on the matter as it affects the Corporation.

In the first place, attention is drawn to section 24 of the State Advances Corporation Act, 1934–35, which provides, *inter alia* :—

“Where the security consists of a mortgage of land used exclusively or principally for agricultural, horticultural, or pastoral purposes, the Board shall determine the value thereof for the purposes of this section by reference primarily to the earning-capacity of such land.”

The pronouncement of the President of the Assessment Court at Palmerston North in December, 1939, when considering appeals against the valuations made for rating purposes, strongly supported the view that it was essential to reconcile farm values with the production to be obtained therefrom. This principle was also supported by the findings of the Adjustment Commissions and the Court of Review

operating under the Mortgagors and Lessees Rehabilitation Act, 1936, and we feel that, apart from the protection of the funds invested by this Corporation and other lending institutions, the result of such a policy must in due course have a beneficial effect, although stability in productive cost is a desirable objective.

Residential property also requires consideration from angles other than cost and sale price, and particularly does long-term lending necessitate proper regard to the estimated net rental return to be obtained from the property over the period of the loan.

In another portion on this report reference is made to the comparative position of terms of lending and rates of interest operating in New Zealand and Australia, and a recent publication received from Canada dealing with the operation of the Housing Act in that Dominion supplies some information which is also useful for comparative purposes. It is indicated therein that loans of 70 per cent. to 80 per cent. of the appraised value of the security may be made under the Dominion Housing Act and, to quote an extract from the statement, the following conditions apply:—

“ In addition to the requirements that the borrower must be able to advance at least one-fifth of the total cost, the granting of loans will also depend upon —

“ (1) The borrower's ability to repay the loan.

“ (2) The reputation of the borrower.

“ (3) The cost or appraisal value of the proposed property.”

The Canadian authorities' requirements in regard to location of security and plans and specifications appear to be very similar to those which are applied to home-building loans granted by this Corporation, and the Federal Housing Administration systems of loan guarantees in U.S.A. are largely governed by these principles.

#### OVERSEAS LENDING INSTITUTIONS

During the past financial year the Chairman of this Board paid a visit to Australia and had the opportunity of conferring with representatives of lending institutions in the States of Queensland, New South Wales, Victoria, and South Australia, and these contacts enabled an exchange of views on various important features of this type of business. Having regard to the comparative size of the States mentioned and New Zealand, the progress that has been made in this country in the sphere of State lending, particularly that section which deals with housing finance, may be considered equal to if not greater than that of any of the Australian States. In Australia rural advances are made largely through commercial and State banking institutions. A comparison of the rates of interest and the terms of lending operating in the Australian States and New Zealand shows that in this country borrowers have in recent years been offered more favourable terms than those available in Australia. We desire to place on record our appreciation of the facilities offered by Government officials and representatives of other lending institutions in Australia, which enabled the Corporation's Chairman to have the opportunity of investigating local conditions and making comparisons with our own system.

#### TREATMENT OF TIMBER AS A PROTECTION AGAINST DETERIORATION AND TIMBER PESTS.

The Corporation, as one of the principal lenders on securities consisting to a large extent of house property, is greatly concerned in regard to the type of material that is being used in the erection of such buildings. In collaboration with the Department of Scientific and Industrial Research and other interested Departments, the Corporation has during recent years carried out a considerable amount of research in regard to the methods adopted in other countries for the preservation of building timbers, and there have been attached to the Corporation's staff certain experts who have been employed in investigation work in regard to this problem. In Australia, pretreatment of timbers to be used in house construction is a common practice, and for soil-dwelling termites metal capping of foundations is widely adopted. The data on this subject collected by the Chairman in Australia has confirmed the views of the Corporation that ventilation of foundations and timber preservation are vital factors in safeguarding wooden buildings. During the year arrangements were made for an Australian scientist to visit New Zealand and

make a thorough investigation with a view to submitting a comprehensive report on the activities of certain timber pests which local investigations had disclosed. Discussions with the Australian expert disclosed that, apart from the insects which are common to New Zealand and which to the layman are all classified under the heading of "borer," there is evidence that Australian termites—both timber and soil-dwelling varieties—have become established in the northern districts of New Zealand, and the evidence that has been submitted in regard to the destruction of wooden buildings, both in Australia and New Zealand, by these pests, emphasizes the necessity for drastic methods in combating and eradicating them. In certain parts of the Dominion there is a growing tendency to adopt permanent materials, such as brick and concrete, in preference to timber for residential buildings. In view, however, of our national assets in the form of timber forests it is the considered opinion of this Corporation that to ensure a long-term-utility life to wooden buildings and to maintain the confidence of lending institutions in this type of security an active programme of scientific drying and pretreatment of timber by producing and distributing interests is essential. With a view to coping with the Australian soil-dwelling termites, the Corporation has adopted for future loans, in certain areas, a condition providing for complete capping of all foundations.

#### MORTGAGORS AND LESSEES REHABILITATION ACT, 1936.

The losses written off by the Corporation following adjustments made by the Court of Review and Commissions appointed under the above-mentioned Act were approximately as under :—

	£
Principal written off .. .. .	1,106,965
Arrears of interest written off .. .. .	625,878
Amount transferred to adjustable debts .. .. .	32,945
Total .. .. .	<u>£1,765,788</u>

It will be understood, of course, that the adjustable debts, £32,945, although not now secured under the Corporation's mortgage, are repayable in terms of the Order made by the Commission or Court of Review, and it is anticipated that the bulk of this sum will ultimately be recovered, thus reducing the Corporation's loss to £1,732,843.

#### SOLDIERS' FINANCIAL ASSISTANCE BOARD.

In January, 1940, the Government appointed a Board consisting of seven members to administer funds to be made available for the assistance of men enlisting for overseas service, who are unable to meet essential commitments from their own resources, and the Corporation is represented on this Board by one of its Joint Managing Directors, who is also Chairman. It was arranged with the Government that the clerical and investigation work in connection with the applications received from soldiers or their dependants should be undertaken by the staff of the Head Office and Branches of the Corporation. By utilizing the services of this organization it was possible for the Board to commence its operations without delay, and some hundreds of applications have already been dealt with.

#### REVENUE ACCOUNTS AND BALANCE-SHEET.

The revenue accounts and balance-sheet for the year ended 31st March, 1940, are submitted in the usual form, and, although there is no substantial change in the position since the close of the previous financial year, some explanation of the major items will no doubt be of interest. The majority of the mortgage accounts under administration have been subject to some adjustment during the last three or four years—firstly, under the provisions of section 39 of the State Advances Corporation Act, which provided for a reduction of interest to  $4\frac{1}{8}$  per cent. net on certain conditions, and, secondly, in terms of the Mortgagors and Lessees Rehabilitation Act, under which the Court authorized reductions in principal and interest under various mortgages and the revenue derived from the Corporation's investments has been affected by both these factors.



*Revenue Accounts.* The adjustment of mortgage accounts as outlined above, and the improvement in prices for farm-produce during recent years, has naturally had a beneficial effect on the financial position of the Corporation's mortgagors, and it is pleasing to report that the payment of instalments during the past financial year has shown a still further improvement. It is estimated that the amount received on account of interest due to the Corporation represents approximately 99 per cent. of the amount due. The majority of mortgagors have also been able to meet the principal instalments due under their mortgages, and the funds received from this source have thus been available for the making of further investments on new loans. Interest on mortgages, current accounts, and other investments for the past year, amounting to £2,279,665 4s. 8d., shows a comparatively small increase over the previous year's return of £2,250,102 13s. 6d., which is consistent with the balance-sheet position *i.e.*, the loans outstanding at the end of 1939 and 1940 are approximately equal. The Corporation's annual commitments on account of interest payable on borrowed funds necessitate the accumulation of substantial funds to meet the instalments on half-yearly due dates, and during the past year the Board found satisfactory temporary investments for a considerable proportion of these funds, the interest return from this source for the year being approximately £13,000.

The interest payable on the Corporation's stock and debentures is increased owing to the issue of additional debentures. The gross profit, which amounts to £798,379 3s. 10d., is approximately £20,700 lower than last year's balance. After providing for management expenses, which are on a normal basis, and setting aside a sum of £40,000 as a further reserve against losses on new business, the net profit is £500,207 10s. 10d. From the amount thus appropriated provision has been made for a £50,000 reserve to cover income-tax and social-security tax in respect of the past year. It should be here explained that the Corporation's taxable income for the years 1938-39 and 1939-40 was arrived at after deducting the losses written off during the past two years, arising mainly from adjustments made under the Mortgagors and Lessees Rehabilitation Act, which amounted to the substantial sum of £1,612,922, and this has resulted in the amount payable for tax being reduced to a comparatively small figure.

A statement showing the disposition of profits for the past year is appended. From this it will be observed that the amount of the net surplus payable to the Treasury is £450,207. This represents a return of 4·16 per cent. on the Authorized Capital and Contingent Liability Account:

Disposition and Appropriation of Profits for the Year ended 31st March, 1940.				Percentage per Annun. of the Stock Issue* plus Capital.	Percentage of Gross Earnings.	Percentage of Gross Profits.
	£		£ s. d.			
Gross earnings .. .. .	2,436,562		5·390 (5 7 10)	100·000		
Less capital charges: Interest .. .. .	1,638,158		3·621 (3 12 6)	67·232		
Gross profits .. .. .	798,404		1·766 (1 15 4)	32·768		
					100·000	
Less management expenses and depreciation on fixed assets	258,197		0·571 (0 11 5)	10·597		32·339
	540,207					
Reserves for losses .. .. .	40,000		0·088 (0 1 9)	1·642		5·010
Surplus, year ended 31st March, 1940 .. .. .	500,207		1·107 (1 2 2)	20·529		62·651
			1·766 (1 15 4)	32·768		100·000
Less Income and Social Security Tax Reserve	50,000					
Amount due to Treasury .. .. .	£450,207					

\* Stock issued as at 31st March, 1940.

*Balance-sheet.*—The total investments included in the assets side of the balance-sheet represent a sum slightly in excess of £59,000,000, being an increase of approximately £180,000 as compared with the previous year's total. It must not be inferred from this that there has been no change in the investments during the year, and an analysis of the transactions discloses that during the period the amounts paid out on new advances aggregated the sum of £1,825,791, and this was substantially offset by principal repayments. A consideration of these figures emphasizes the advantage gained from lending on the amortization system requiring definite annual reductions in the loans which on the one hand provides the lender with further funds for investment and on the other hand progressively increases the borrower's equity in his property. The amount owing on Current Account has been reduced by approximately £200,000 during the year, and this is accounted for partly by the system recently adopted by the Board of amalgamating wherever possible the accounts of former mortgagors whose land security has shown a sufficient margin to enable this to be done. In those cases where the Current Accounts are still operating the Corporation makes seasonal advances to its borrowers who require assistance in anticipation of revenue from their properties. As each borrower becomes fully established he is encouraged to progressively reduce his Current Account, and satisfactory progress has been made in this direction during the last few years. The total investment in Government and local-body debentures, which now stands at £6,435,734, shows an increase of approximately £220,000 during the year.

Reference is made in another part of this report to the amount owing to the Consolidated Fund as a contingent liability to the Crown, being the balance in respect of assets taken over by the Corporation. It may be anticipated that during the next few years as the revaluation of these securities proceeds, further interest-bearing stock will be issued in part settlement of this account, and the consequential payment of interest will cause a reduction in the profit shown by the Corporation. Another factor which will have a similar effect on the Revenue Accounts is the proposal to transfer for administration under the Housing Act a considerable number of residential securities which in past years have been abandoned by mortgagors. The book value of these assets is in excess of £3,000,000.

#### STAFF.

We desire to acknowledge the loyal service rendered by all members of the staff throughout the past year. The abnormal conditions arising out of the war have made it necessary to call upon many officers to undertake additional duties and the response that has been shown is greatly appreciated. One hundred and ninety-eight members of the staff have enlisted for service in the military forces, and it has been the Board's policy to facilitate the release of these men as soon as this can conveniently be arranged. Their positions will be kept open for them on their return to civil life and their interests in the staff organization fully protected during their absence. We congratulate them on their decision to serve their country, and wish them an early and safe return.

A. D. PARK, Chairman of Directors.	
T. N. SMALLWOOD, Deputy Chairman of Directors.	
G. A. LEWIN.	} Directors.
B. C. ASHWIN	
D. BARNES	

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REVENUE ACCOUNTS FOR YEAR ENDED 31ST MARCH, 1940.

Interest Account.

Dr.	£	s.	d.	Cr.	£	s.	d.	£	s.	d.
Interest on stock and debentures .. ..	1,497,292	10	10	Interest on mortgages, current accounts, and local-body securities .. ..	2,420,530	7	6			
Gross income transferred to Profit and Loss Account .. ..	798,379	3	10	Less transferred to General Reserve Fund .. ..	140,865	2	10	2,279,665	4	8
				Rentals: Properties acquired .. ..	10,273	15	4			
				Less miscellaneous expenses thereon .. ..	7,278	1	4			
								2,995	15	0
				Interest on temporary investments .. ..				13,010	15	0
	£2,295,671	14	8					£2,295,671	14	8

Profit and Loss Account.

Dr.	£	s.	d.	Cr.	£	s.	d.
Management expenses (all inclusive) .. ..	258,196	13	6	Gross income transferred from Interest Account ..	798,379	3	10
Reserve for losses .. ..	30,000	0	0	Sundries .. ..	25	0	0
Net income transferred to Appropriation Account ..	500,207	10	10				
	£798,401	3	10		£798,401	3	10

Profit and Loss Appropriation Account.

Dr.	£	s.	d.	Cr.	£	s.	d.
Income and Social Security Tax Reserve .. ..	50,000	0	0	Net income transferred from Profit and Loss Account .. ..	500,207	10	10
Balance, profits payable to Treasury .. ..	450,207	10	10				
	£500,207	10	10		£500,207	10	10

BALANCE-SHEET AS AT 31ST MARCH, 1940.

Liabilities.				Assets.			
	£	s.	d.		£	s.	d.
Authorized capital .. ..				Mortgages and accrued interest .. ..	51,178,923	9	0
Stock and debentures .. ..	44,204,150	0	0	Securities in course of realization and losses chargeable against contingent liability when defined .. ..	616,065	8	0
Accrued interest .. ..	254,565	11	8	Advances on Current Account and accrued interest .. ..	562,850	1	10
Contingent liability to the Crown .. ..				Government and local-body securities and accrued interest .. ..	6,435,731	5	11
Reserves—				Fixed assets at cost, less provision for depreciation: Office furniture, equipment, and motor-vehicles .. ..	46,931	19	2
General Reserve .. ..	3,613,573	12	11	Current assets—			
Reserve for losses on investments .. ..	100,000	0	0	Sundry debtors .. ..	8,559	12	5
Investment Fluctuation Reserve .. ..	150,000	0	0	Temporary investment .. ..	450,000	0	0
Reserve for Income and Social Security Tax .. ..	50,000	0	0	Lodgments in transit, cash in bank and on hand .. ..	470,024	18	0
Sundry creditors .. ..							
Liability to the Crown—							
Surplus for year .. ..	450,207	10	10				
Interest payable on State's Contribution to General Reserve .. ..	100,209	11	0				
	559,417	4	10				
	£59,769,066	14	4		£59,769,066	14	4

R. ROBERTSON, Chief Accountant.

A. D. PARK, F.I.A.N.Z., F.R.A.N.Z. } Managing Directors.

T. N. SMALLWOOD

In accordance with the provisions of the State Advances Corporation Act, 1936, we report that we have obtained all the information and explanations we have required in respect of the accounts of the Corporation examined by us, and in respect of the above Balance-sheet, which in our opinion is properly drawn up so as to exhibit a true and correct view of the state of the Corporation's affairs according to the best of our information and the explanations given to us, and as shown by the books of the Corporation.

L. H. HESTOR, Public Accountant } Auditors.

R. C. BURGESS, Public Accountant

Wellington, N.Z., 19th June, 1940.

## PART II.—HOUSING ACT.

## REPORT OF DIRECTOR OF HOUSING CONSTRUCTION.

“I have pleasure in submitting the following report on the activities and operations of the Department of Housing Construction under my control for the year ended 31st March, 1940 :—

“*Purchase of Land.*—Land for housing purposes has now been purchased in 127 towns. Owing to the growing scarcity of serviced sections the Department has had to acquire a considerable area of undeveloped land, the preparation of which areas for housing purposes involves a tremendous amount of preliminary work in the way of construction of roads, footpaths, water-supplies, storm-water, and sanitary sewers. In view of this necessary preliminary work the Department is required to purchase land well in advance of the actual construction of houses. To date, the Department has purchased approximately 18,000 building-sites.

“*Delays consequent on the War.*—As a result of the outbreak of war, some of the Department's schemes of land preparation and development have been considerably retarded, as owing to the Dominion's war effort it was necessary that a number of the Public Works Department's staff, with its plant and machinery, had to be withdrawn from housing work to immediately concentrate on the preparation and equipment of military camps and aerodromes.

“Likewise for some months following the outbreak of hostilities the Department's contractors released a large number of artisans to undertake the building of the various military encampments, consequently for some time housing activities were slowed up in deference to the prior claims of the war emergency. As the work at these military camps became completed, the artisans and other staff were retransferred to housing work.

“In furtherance of the Dominion's war effort this Department undertook at short notice the erection of twenty-one houses for the Defence Department at Trentham for the use of officers and men of the training staff of the Second New Zealand Expeditionary Force, and it is pleasing to record that with the splendid co-operation of the Department's officers and the contractor's staff, and, indeed, of all concerned, these houses were erected in record time.

“For the Royal New Zealand Air Force the Department is also erecting thirty-five houses at Whenuapai, ten at Hobsonville, and eighteen at Blenheim.

“*Construction and Design.*—No important changes have been made in the various types of construction originally adopted.

“The difficulties of obtaining flat iron and wire netting has necessitated changes in the standard details and the reduction in the number of lath-and-plaster houses being erected.

“Standard designs are continually being revised, altered, and in many cases cancelled with new designs replacing them. Economy of construction and floor plan with correct orientation, and simple circulation are the factors that govern all revisions and new designs. Close studies are still being made with the object of further standardization of the individual unit and fittings without sacrificing to any appreciable extent the variety of design which has so far been such an outstanding characteristic of the schemes carried out by the Department of Housing Construction during the past three years.

“The design of houses suitable for hillside sections is receiving careful attention. New designs that avoid long flights of steps and excessive basements are being prepared for these conditions.

“*Flats.*—The Department is continuing to erect small numbers of pensioners' flats in the larger towns throughout the country. The block of fifty units being erected at Berhampore, Wellington, is nearing completion. Tenders have been let for eight flats over and adjacent to seven shops in Waterloo, Lower Hutt. These flats are from two to three rooms with all conveniences.

" Working drawings are being prepared for a building of 116 two-roomed flats with all conveniences in Dixon Street, Wellington, also for a group of flat buildings that will contain 100 units ranging in size from two to four rooms with conveniences in Jackson Street, Petone, and a small block of 11 units of two rooms with conveniences at the corner of Wakefield Street and the Main Hutt Road.

" For Auckland the Department has submitted to the City Council a large scheme of 124 flats ranging from two to five rooms with conveniences. These are having a frontage to Symonds and Wynyard Streets. Tenders are also being called for six flats of four rooms with conveniences at Orakei.

" *Shops.* A contract has been let for a block of eight lock-up shops with flats attached in Waterloo, Lower Hutt, and for four lock-up shops and one with living-quarters attached at Palmerston North. Tenders are now being called for five lock-up shops with flats attached in Orakei, Auckland.

" *Erection of Fences, Tool-sheds, and Garages.* The erection of fences, tool-sheds, and garages continues to be carried out after the tenants have entered into occupation of the houses. In a number of places this work has been temporarily held over in order that all available skilled labour could be devoted in the meantime to the actual construction of houses which were urgently required, but during the past year the work of providing these amenities has been undertaken generally, and is now proceeding as expeditiously as possible.

" *Hedge and Tree Planting.*—The planting of hedges and trees on occupied sections continues to be carried out in the appropriate planting season, and tenants are encouraged to provide lawns and improve their gardens and the general appearance of their sections. It is appropriate to again place on record that the majority of tenants throughout the country have done very excellent work in this respect, and in the general beautification and improvements that have been effected, many of the Department's housing schemes throughout the Dominion have been transformed into veritable garden suburbs.

" It is worthy of recording that the cumulative progress of the Department over the successive years as at the 31st March each year is as follows:—

	1937-38.	1938-39.	1939-40.
	Units.	Units.	Units.
1. Houses advertised .. .. .	3,172	6,698	11,071
2. Contracts let .. .. .	2,507	6,188	10,353
3. Houses under construction .. .. .	1,560	2,326	2,817
4. Houses completed and handed over to the State Advances Corporation .. .. .	399	3,064	6,457
	Towns.	Towns.	Towns.
5. Towns and localities, work conducted in ..	70	106	121

" It will be observed from the above figures that the total number of houses completed and handed over to the State Advances Corporation for the year ending 31st March, 1940, was 3,395.

" The work of the Department is spread amongst a large number of contractors, the number of different principal contractors to the 31st March being 291.

" At the 31st March, 1940, the total number of persons engaged on housing construction and on subsidiary work such as roads, sewer schemes, water-supply, &c., was 5,594, of which number 370 represented the staff of the Department.

" *Expenditure.* Up to the 31st March, 1940, the total net payments in respect of the purchase of land, provision of services, erection of joinery-factories, erection of houses, and all administration charges amounted to £10,647,201.

" Liabilities and commitments as at that date amounted to £3,200,565. The net expenditure for the year under review was £5,136,699.

" *Administration Costs.*—The total cost of administration of the Department of Housing Construction, exclusive of interest charges on capital moneys invested from its inauguration to the 31st March, 1940, is £275,512, of which sum £132,628 represents the expenditure for the financial year 1939-40.

" It will be seen that the administration charge is still a remarkably low one, being 2.65 per cent. of the Department's net expenditure, excluding administration, since the commencement of operations, and remains the same percentage for the financial year under review."

G. ALBERTSON,  
Director of Housing Construction.

From the foregoing report it will be seen that the completed houses handed over to the Corporation for letting had, at the 31st March, 1940, reached a total of 6,459, these being located in 121 towns. As against this, there is a waiting-list of 20,290 applications, some of which have been on hand for over two years. The selection of tenants is made by Committees in the various centres after considering reports on the circumstances and living-conditions of all eligible applicants.

In most of the smaller towns the houses already provided have satisfactorily eased the demand, but in a number of the larger towns and cities, especially in Auckland and Wellington, there are, unfortunately, still many very urgent cases to be satisfied.

The maintenance and supervision of these houses, for which the Corporation's Property Inspectors are responsible, is rapidly becoming one of the most important sections of the work of the urban field staff.

#### BALANCE-SHEET AND REVENUE ACCOUNTS.

The Revenue Accounts have been tabulated to show the result of the year's operations in the various sections, and interest charges and management expenses have been allocated proportionately with the capital funds invested. Appropriate reserves have been made for such items as maintenance and rates, together with a proper allowance for depreciation.

The old rented properties represent mostly houses built some years ago for owners who abandoned them to the State as mortgagee, and owing to the age and state of the buildings the charges for maintenance and depreciation are heavy, the cost of repairs and renovations being particularly expensive during the first few years after the Corporation assumed control. The loss for the year in this account amounted to £21,321 12s.

The Revenue Account for new State rental houses shows a loss of £2,569 15s. 6d. for the year after making provision for maintenance, depreciation, and other items of expense, including a charge for interest which for the year averaged 1.9246 per cent.

Construction Expenses Account (£328,720 13s. 4d.) provides a progressive statement of the expenditure incurred in organizing, planning, and supervising the construction of new houses, as well as the receipts and payments for the past year. Interest charged in this account covers the appropriate portion of the cost of capital borrowed for the purpose of purchase of land, subdivision and improvements thereto, as well as the amount invested in new buildings up to the time that the houses become revenue-producing. The accumulated balance in Construction Expenses Account will in due course be apportioned to the completed dwellings asset account.

The cost of land purchased (£1,655,698 13s. 7d.) and the expenditure on the erection of the houses (£8,562,617 12s. 4d.) will likewise be apportioned to the New Dwellings Account as soon as the various blocks are finally completed. It is anticipated that an allocation of a considerable portion of this expenditure will be possible during the 1940-41 period. For the year ended 31st March, 1940, the following amounts were expended:—

	£	s.	d.
(a) In purchasing land .. .. .	733,568	9	8
(b) Erection of dwellings and incidental supervision .. .. .	4,373,261	14	8

A. D. PARK, Chairman of Directors.

T. N. SMALLWOOD, Deputy Chairman of Directors.

G. A. LEWIN

B. C. ASHWIN

D. BARNES

} Directors.

HOUSING ACCOUNT.

TABULATED REVENUE ACCOUNT FOR YEAR ENDED 31ST MARCH, 1946.

Item.	Properties sold under Agreement for Sale and Purchase.		Advances to Local Bodies.		Advances under Part III (Loans to Employers) Housing Act, 1919.		Rented Properties (Old) erected prior to 31st March, 1937.		Rented Properties (New) erected under New Housing Scheme.		Factories and Plant.		Combined Revenue Account.	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<i>Receipts.</i>	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Interest .. ..	..	5,934 16 6	..	11,387 0 4	..	236 18 2	..	36,983 19 4	..	325,317 5 4	..	..	..	17,558 15 0
Rents .. ..	..	..	..	..	..	..	..	..	..	..	..	..	..	362,301 4 7
Lease .. ..	..	..	..	..	..	..	..	..	..	..	6,015 11 0	..	..	6,015 11 0
<i>Expenditure</i>	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
(Including Allocations to Reserves).														
Interest .. ..	4,556 3 11	..	8,041 15 6	..	17,446 19 5	..	..	..	121,699 18 9	..	864 7 11	..	152,765 13 11	..
Management expenses .. ..	218 15 4	..	449 14 11	..	1,363 5 11	..	..	..	26,650 5 10	..	38 15 2	..	28,699 11 10	..
Depreciation .. ..	..	..	..	..	10,140 0 0	..	..	..	48,377 0 10	..	3,112 9 9	..	61,629 16 7	..
Insurance .. ..	..	..	..	..	1,151 2 8	..	..	..	13,793 15 3	..	1,135 14 6	..	16,080 12 5	..
Rates .. ..	..	..	..	..	9,301 18 11	..	..	..	59,000 0 0	..	314 0 8	..	68,615 19 7	..
Maintenance .. ..	..	..	..	..	15,355 13 8	..	..	..	55,175 0 10	..	..	..	70,530 14 6	..
Losses and vacant tenancies ..	474 19 8	..	..	..	3,546 10 6	..	..	..	3,190 19 4	..	..	..	7,212 9 6	..
Rent .. ..	..	..	..	..	..	..	..	..	..	..	550 3 0	..	550 3 0	..
Excess of expenditure over receipts, transferred to Profit and Loss Account .. ..	..	..	..	..	..	..	21,321 12 0	..	..	2,569 15 6	..	..	..	..
Excess of receipts over expenditure, transferred to Profit and Loss Account .. ..	684 17 7	..	2,925 9 11	..	..	..	..	..	..	..	..	..	..	20,260 4 11
Totals .. ..	5,934 16 6	611,387 0	411,387 0	4,236 18 2	258,305 11	158,305 11	1,327,887 0	10,327,887 0	106,015 11	0,406,084 15	4,406,084 15	4	..	..







BRANCH OFFICES :

Branch.				Managers.
Auckland	..	..	..	C. G. S. ELLIS.
Hamilton	..	..	..	W. R. BEATTIE.
New Plymouth	..	..	..	R. J. W. HALL.
Napier	..	..	..	W. E. COCKROFT.
Wellington	..	..	..	F. R. JAMIESON.
Nelson	..	..	..	W. P. ALLARDYCE.
Christchurch	..	..	..	F. SHAW.
Dunedin	..	..	..	P. A. JOBLIN.
Invercargill	..	..	..	C. E. LEES.

SUB-OFFICES :

Sub-office.				Resident Officers.
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Gisborne	..	..	..	G. H. BRAMLEY.
Palmerston North	..	..	..	J. B. BOYS.
Wanganui	..	..	..	A. STAUNTON.
Blenheim	..	..	..	H. E. MCKINLEY.

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