

1940.
NEW ZEALAND.

RURAL INTERMEDIATE CREDIT BOARD

(REPORT OF THE) FOR THE YEAR ENDED 30TH JUNE, 1940.

Presented to both Houses of the General Assembly in accordance with Section 76 of the Rural Intermediate Credit Act, 1927.

Wellington, 18th September, 1940.

The Hon. the MINISTER OF FINANCE.

WE have pleasure in submitting a report on the operations of this Board for the year ended 30th June, 1940, as required by section 76 of the Rural Intermediate Credit Act, 1927.

The Rural Intermediate Credit system has now been in operation for approximately twelve years, the first ten years being associated with the Public Trust Office and operating under the control of a Board appointed by the Government. As part of the plan for co-ordinating State lending, the control of the system was transferred to the State Advances Corporation Board in 1937.

The Board's principal function is the granting of loans to farmers on the security of their stock and chattels, for various purposes associated with the farming industry, and a feature of the system, which has commended itself to borrowers, particularly in districts where dairying is the principal industry, is the formation of local co-operative associations, through which loans are granted to farmer members. There are at present twenty-one associations operating, and the majority of these are carrying on an active business in their respective communities. During the past year the Board has had under consideration proposals for assisting and encouraging the associations to expand their business, and to this end regional conferences have been held in Palmerston North, Hamilton, Auckland, and Whangarei. This has given an opportunity to the directors and secretaries of associations, as well as the district boards, to discuss with Head Office officials various problems which have arisen in the administration of the scheme.

At the request of the associations, approval has been granted for the issue of advertising pamphlets and publication in journals circulating among the farming community of suitable advertisements drawing attention to the facilities offered by the Board. It is pleasing to note that as a result of this advertising programme there has been a revival of interest in most of the farming districts. The full effect of this additional publicity will, it is anticipated, be realized over the forthcoming season. The inquiries already received from interested parties indicate that there is quite a fair prospect of additional business being undertaken by the majority of the established associations.

It has been the policy of the Central Board in the past to delegate to district boards and to the association directors authority to undertake greater responsibility in regard to the lending business, and, following the recent conferences, this policy has been further extended. District boards now have authority to authorize loans up to £500 on predetermined conditions without reference to the Central Board, and the directors of associations may, in most cases, with the approval of the local District Supervisor of the Board, arrange readvances to members of the association, provided the amount of the original loan is not exceeded. The extension of authority thus granted has enabled the major portion of the business to be handled promptly at the local centres. The volume of business transacted during the past financial year has shown an increase, both in the number and amount of loans granted, on the turnover for the year ended 30th June, 1939.

Another pleasing feature is the progress made by borrowers in repaying the instalments due on their loans. The majority of the loans granted are repayable over a period of five years, and the borrower is required to meet his interest and instalments of principal from the proceeds of his produce sold during the season. In most cases where borrowers are already established on their holdings this programme of repayment is satisfactorily covered, but in other cases where a borrower is developing his farm or otherwise undertaking improvements or increasing his stock, concessions are granted by way of either reducing or postponing principal repayments until the borrower can recommence his repayments.

Although there has been some increase in the business transacted by the Board it is apparent that the amount of business offering is to a certain extent affected by the fact that other lending institutions from which farmers' finance is obtainable have been in a position to offer advances on favourable terms. However, there are features of the Rural Credit system of lending which prove attractive to farmers, and these are principally that the rate of interest charged is usually somewhat lower than that payable to other lenders, and, secondly, that there is no obligation on a borrower from the Rural Credit Board to make his stock sales through any particular agency. There is no doubt that the requirement that borrowers' accounts should be progressively reduced has proved to be sound policy and of benefit to borrowers from the Board. This scheme necessitates the preparation of an annual budget, and the farmer is thus able to gauge the extent of his expenditure over each season, while during the periods that the returns from his farm are on a favourable basis he is gradually liquidating his liabilities and thus consolidating his position against the contingency of his returns being reduced or the period when he may have need of incurring further liability in developing his land or providing some additional plant or amenities for the comfort of his family or his employees.

Arising out of the Government's request for increased production with a view to assisting the British Government in carrying on the war effort, in which New Zealand is so vitally interested, this Board, with the assistance of Rural Credit Associations throughout the country, has offered additional finance to its borrowers and other farmers who have required temporary assistance in order to engage in additional cropping or in other ways extend their farming operations.

CO-OPERATIVE RURAL INTERMEDIATE CREDIT ASSOCIATIONS.

At the close of the year there were twenty-one associations transacting business. In addition to these, there were several small associations in the process of liquidation. Shortly after the inauguration of the scheme a number of associations were promoted which carried on with a very small volume of business over a period of years, but finally it became evident that owing to the small amount of loan business offering it was uneconomic for these units to continue in being, and it was accordingly decided by the members that it would be preferable to merge their business with some adjoining association or, alternatively, to transfer the existing loans to the Central Board.

As mentioned in the introduction of this report, there has been an increase in the aggregate amount of business transacted through associations, and the following comparison is now submitted:—

During the year ended 30th June, 1939, loans granted by associations amounted to £67,594, as against £70,016 for the current year, the number of loans outstanding at the end of this year being 667, compared with 549 at the end of the previous year.

DIRECT LOANS UNDER PART III OF THE ACT.

Provision is made in the Act for the granting of loans to farmers direct from the Board, and this method is adopted in districts where no association is carrying on active business. Inquiry for direct loans has been on a reduced scale during the past year, the amount paid over aggregating £1,193, as against £2,997 for the year ending 30th June, 1939. There are, however, a number of loan applications arising from the drive for increased production, and it is anticipated that this branch of the business will show an increase in the forthcoming season.

BILLS DISCOUNTED.

Farmers requiring seasonal advances for manure and other such items are able to arrange for the discounting of bills through this Board provided they can obtain the endorsement of a company or firm approved by the Board. In the past considerable business has been done under this section with the co-operation of dairy companies who have been willing to endorse the promissory notes made by their suppliers. In recent years, however, there has been a considerable reduction in the volume of business, arising no doubt from the fact that the dairy companies have been in a position to offer temporary accommodation from their own resources. The number of bills discounted during the past year was thirty-one, amounting to £927.

REVENUE ACCOUNTS AND BALANCE-SHEET.

In previous reports reference has been made to the financial position of the Board, and an explanation has been given in regard to the principal items in the balance-sheet, but the financial statements have not been printed with the report. With a view to supplying a clearer statement of the position, the Board has decided to append to the annual report the revenue accounts and the balance-sheet for the year ended 30th June, 1940, and the following comments in relation thereto are submitted for your information:—

When the Board was originally established in 1927 the Government agreed to make available an advance of £400,000, which was granted free of interest for the first ten years. It was anticipated that the Board would raise any further capital that it might require by way of issue of debentures to the public, and during the period commencing 1929, when there was a considerable demand for loans, arising, no doubt, from the general financial stringency that existed at that stage, a considerable sum was raised by the Board by the issue of short-dated debentures. Subsequently the demand for loans diminished and the financial position of borrowers improved to an extent that they were able to rapidly liquidate their loans and thus enable the Board to progressively repay the whole of the debentures which had been issued. It will be observed that the only borrowed capital now held by the Board is the sum of £400,000 referred to. The period during which this advance was non-interest bearing expired in 1938.

In terms of the Act one-third of the Treasury advance is required to be specially invested in Government securities and held as a Redemption Fund, and constitutes a reserve for the protection of debenture-holders who may from time to time make loans to the Board. The income from this one-third portion and half the profits made by the Board are annually added to the Redemption Fund, and these accumulations have now increased the Redemption Fund by £103,495 4s. 4d.

The balance of £266,666 13s. 4d. is available for investment in the Board's business, and it will be seen that the principal investments made from this Fund are—

			£	s.	d.
(a) Advances to associations	..	..	138,209	6	8
(b) Advances under Part III	..	..	7,308	2	3
(c) Bills discounted	..	..	782	7	7
(d) Short-term investment	..	..	100,000	0	0

The reserve fund, which now stands at £18,255 0s. 10d., is provided by the setting-aside of half the Board's annual profits, and is available to meet any losses which should arise. The Board is, however, in the fortunate position that the large majority of the advances now outstanding are in a sound position, and, apart from the cost of winding up several of the associations which have gone into liquidation, it seems unlikely that the reserve will be called upon.

In the Revenue Account the main source of income is the interest due from associations and direct borrowers, and on the expenditure side the principal items are the payment of £8,000 interest to the Treasury and management expenses, £2,326, which includes the cost of supervision undertaken by the Head Office and branches of the State Advances Corporation. In terms of section 17 of the Rural Credit Act the sum of £1,915 7s. 1d. has been transferred from Redemption Fund Revenue Account to provide the balance of interest payable on the Treasury advance.

GENERAL.

In the administration of the Rural Intermediate Credit business the Board has received valuable assistance from the members of district boards, by whom the bulk of the new business is now considered under delegated authority from the Central Board. We gratefully acknowledge the help given by these gentlemen, who handle a considerable volume of work in a prompt and efficient manner. We are also indebted to the directors and secretaries of Co-operative Rural Intermediate Credit Associations, by whom the majority of the loans are administered. Much gratuitous service is given by these officials, and the results obtained are a credit to them. In addition to the usual duties of management and supervision of investments, good work is being done by association board members in helping and advising borrowers with their farming operations and development work.

The services of members of the staff of the State Advances Corporation have been extensively used in co-ordinating and supervising the lending operations of this Board, which is an important factor in the continued success of the undertaking.

A. D. PARK
T. N. SMALLWOOD

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Joint
Managing
Directors.

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RURAL INTERMEDIATE CREDIT BOARD.

BALANCE-SHEET AS AT 30TH JUNE, 1940.

<i>Liabilities.</i>			<i>Assets.</i>		
	£	£			£
Establishment grant from Consolidated Fund ..	10,000		Investments of the Rural Intermediate Credit Redemption Fund and premiums on conversion : Government securities at cost and interest accrued ..	217,159	
Less expenditure to date ..	7,765		Advances to associations for preliminary expenses ..	274	
		2,235			
Advances from Consolidated Fund for preliminary expenses of associations ..		850			
Advances from Consolidated Fund under section 16 of the Rural Intermediate Credit Act, 1927, including £133,333 6s. 8d. which under section 17 of the said Act forms part of the Rural Intermediate Credit Redemption Fund ..		400,000	Advances to associations under Part II ..	138,209	
Rural Intermediate Credit Redemption Fund : Accumulated interest on investments and share of profits ..	103,495		Less Reserve ..	4,397	
Rural Intermediate Credit reserve ..	18,255			133,812	
Reserve, representing premiums on conversion of Rural Intermediate Credit Redemption Fund investments ..	1,137		Advances to farmers under Part III ..	7,308	
Sundry creditors ..	3,083		Less Reserve ..	1,094	
				6,214	
			Bills discounted ..	813	
			Less rebate of interest ..	31	
				782	
			Short-term investment ..	100,000	
			Accrued interest ..	1,576	
			Sundry debtors ..	1	
			Office appliances, furniture, fittings, &c. ..	32	
			Cash at bank and in transit ..	69,205	
		£529,055			£529,055

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 30TH JUNE, 1940.

<i>Dr.</i>	£	<i>Cr.</i>	£
Management expenses ..	2,326	Interest on advances to associations ..	6,369
Advertising ..	255	Interest on advances to farmers ..	502
Printing and stationery ..	60	Discount on bills discounted ..	25
Travelling-expenses of officers ..	27	Interest on temporary investment ..	2,096
Travelling-expenses of district board members ..	51	Sundry fees ..	10
District board members' fees ..	15	Transfer from Redemption Fund income ..	1,915
General expenses ..	53		
Audit fees ..	75		
Depreciation ..	5		
Interest paid to Treasury ..	8,000		
Reserved for losses ..	50		
	£10,917		£10,917

A. D. PARK, F.I.A.N.Z., F.R.A.N.Z.
T. N. SMALLWOOD

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Joint Managing Directors.

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R. ROBERTSON, Chief Accountant.

I hereby certify that the Balance-sheet and accompanying accounts have been duly examined and compared with the relative books and documents submitted for audit and correctly state the position as disclosed thereby—
C. G. COLLINS, Controller and Auditor-General.

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