

1944
NEW ZEALAND

STATE ADVANCES CORPORATION OF NEW ZEALAND

REPORT AND ACCOUNTS FOR THE YEAR ENDED 31st MARCH, 1944

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.

The Hon. the MINISTER OF FINANCE, Wellington.

We have pleasure in submitting the Balance-sheet and Revenue Accounts for the year ended 31st March, 1944, 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

1. The important phases of the Corporation's business activities, including the financial results of the year's trading, are dealt with under separate headings in the body of this report, but in order to give a general description of the business at present under administration the following summary is submitted:—

	Number.	Amount. £
(a) Loans on mortgage—		
(i) Rural securities	18,241	21,745,188
(ii) Urban securities	37,284	22,110,887
(b) Government and local-body investments	2,013	10,756,412
(c) State rental properties: 16,390 tenancies, representing a capital value of £20,571,786. (NOTE.—These properties are assets of the Housing Account, which is the subject of a separate statement in Part II of this report.)		
(d) Governmental agencies for Treasury and other Departments, representing 1,480 accounts for a total sum of £407,581.		
(e) Administration work in connection with the Soldiers' Financial Assistance grants for the past year, numbering 3,427 and representing commitments totalling £197,779. In addition, some 8,639 cases of previous grants were reviewed. Total authorizations to 31st March, 1944, were £740,157.		
(f) Rehabilitation loans—Administration of loans granted to ex-servicemen of the present war by the Rehabilitation Loans Committee: Loans granted to date—number, 3,647; amount, £1,972,740.		

The basis of lending adopted by the Corporation is almost exclusively on the amortization system, which provides for the repayment of loans over various periods, and by this method on the one hand borrowers gradually increase their equity in their properties, and on the other hand the capital funds thus repaid are made available for the purpose of making advances to new applicants. The favourable results obtained by the Corporation under this system during recent years indicate a preference by the public for this type of borrowing, and the stable conditions that have existed in regard to the general income circumstances of the members of the community are exemplified by the comparatively small proportion of borrowers that has failed to meet mortgage instalments in full. This favourable income position has also given satisfactory results under the Rental House Scheme, where we have pleasure in recording that the rental receipts have been on a very satisfactory plane.

2. *New Business.*—The Board has continued the policy adopted in the earlier years of the war of giving preference to loan applications required for the purchase of farms, purchase or the erection of houses, and special facilities have been provided for those applicants who require assistance in the erecting of homes for themselves. One of the attractive features of the Special House

Building Loan that is offered by the Board is the provision of plans and specifications, together with the supervision of the construction of the house. The Corporation has a wide selection of plans which have been designed by architects in various parts of the Dominion, and from this source it should be possible for any applicant to obtain a design suited to his particular requirements. It is unfortunate that during the last few years there has been unusual difficulty in obtaining the building material and labour, but it is expected that as soon as conditions again become more normal there will be a revival of interest in the Special Loans Scheme. It is hoped by the Board of Management that this will apply particularly to ex-servicemen from the present war who are eligible for assistance under the Rehabilitation Scheme. During the past year there has been an increased activity under both the urban and rural borrowing, and the large proportion of the borrowers are in the ex-serviceman class. The following is a summary of the loans granted during the period:—

		Number.	Amount. £
Urban	.. .. .	1,228	1,229,096
Rural	.. .. .	323	791,925

3. *Interest Rate.*—The Corporation's lending rate of 4½ per cent., which has been in operation for some years, has been maintained.

4. *Financing Increased Production.*—The need for providing food for the Armed Forces overseas and for the people of Great Britain has given rise to special schemes for increased production, and the Government has, where necessary, provided financial aid to those who have been called upon to assist in the production drive. The Board of Management has been pleased to make available for this purpose the services of its specially trained Field Staff and to carry out any clerical work that became necessary in connection with the various proposals. A considerable number of farmers have been granted loan finance for the purpose of purchasing additional stock or carrying out improvements on their farms to enable them to handle an increased output. A special scheme was inaugurated for the purpose of providing housing for additional employees on farms, and the Corporation's staff was employed on investigating the needs of each case and arranging for the provision of temporary hutments where this was found to be necessary.

The request received from the British Government for an increased supply of cheese in 1942 entailed the provision of finance for those dairy factories which agreed to change over from butter production to cheese, or to increase the output of the latter commodity. The subsequent decision to revert to normal quantities of butter and cheese necessitated a review of each of the contracts made with the companies concerned, and the Corporation has been entrusted with the responsibility of negotiating for a settlement of the claims for compensation, and it has already been possible to make a final settlement with the majority of the companies.

5. *Soldiers' Financial Assistance.*—Following the Government's decision in 1940 to set up a Soldiers' Financial Assistance Board for the purpose of considering applications from soldiers or their dependants who through loss of income were unable to meet their normal and reasonable financial commitments, the Corporation was requested to undertake the investigation of the individual applications and to perform all the necessary work arising therefrom. This involved the verification of the statements in regard to income and expenditure, and, on the receipt of the Board's decision, the disbursement of any grants that were approved. As an indication of the volume of this work there is submitted hereunder a statement showing the grants approved and the total amount involved during the four years since the Board was established:—

		Number.	Grant. £
1940-41	.. .. .	2,815	43,092
1941-42	.. .. .	3,375	149,081
1942-43	.. .. .	11,877	350,205
1943-44	.. .. .	3,427	197,779
Total	.. .. .	21,494	£740,157

It has been the policy of the Board to provide that each of the grants should be subject to review at annual periods for the purpose of ensuring that any change of circumstances affecting either the soldier or his dependants would be taken into account for the subsequent period. As the number of cases brought under this system has increased, so has the work of preparing the reviews, and for the year ending 31st March, 1944, 8,639 cases were reviewed by the Board. The payments made under authority of the Soldiers' Financial Assistance Board are provided from the War Expenses Account.

6. *Rehabilitation of Ex-servicemen.*—Since the inception of the Rehabilitation Scheme the Corporation has been responsible for the administration of loan finance provided for ex-servicemen eligible for such assistance, and in this work the Corporation acts as agent for the Rehabilitation Board.

The Rehabilitation Board as recently reconstituted was given a comprehensive authority by the Government to administer the scheme within the general limits of the Act, and the Board, in its turn, has appointed Committees to perform specified duties allotted to them. The Corporation is represented on the following Committees:—

- (a) Farms Advisory Committee :
- (b) Lands Settlement Committee :
- (c) Rehabilitation Loans Committee.

Although we are indirectly interested in the work of the (a) and (b) Committees, the Corporation will be mainly concerned with (c)—i.e., the Rehabilitation Loans Committee. On this Committee members of the Corporation's Mortgage Loans Committee have associated with them two members of the Rehabilitation Board.

With a view to assisting with the provision of funds for the making of advances under the Rehabilitation Scheme for the erection of houses or for the purchase of houses or farms, the Board of Management of the Corporation has during recent years restricted its new loan business to the purchase or improvement of urban or rural properties and the erection of new houses, and by this means has accumulated funds aggregating approximately £5,500,000. The policy of conserving surplus funds for rehabilitation purposes will be continued, but if the future demand is proportionately as great as that experienced to date it will apparently be necessary at some not far distant date to provide further long-term loan capital.

7. The total number and amount of rehabilitation loans granted, as agent for the Rehabilitation Board, up to 31st March, 1944, is as follows:—

For Year 1943-44.					Total to Date.		
Number.					Amount.	Number.	Amount.
					£		£
Farm	..	..	202	633,514	255	761,574
House	..	..	676	708,035	868	893,935
Business	..	..	306	117,511	348	131,121
Furniture	..	..	1,446	133,054	2,023	181,848
Tools of trade	..	..	115	3,355	151	4,179
Miscellaneous	..	..	2	83	2	83
Total			2,747	1,595,552	3,647	1,972,740	

8. *Preservation and Protection of Timber.*—The administration of the Termites Act, 1940, and its regulations is the responsibility of the State Advances Corporation, and its technical staff has continued to give advice and assistance to those engaged on the practical work of tracing and destroying the termites. Although some local authorities which are engaged on this work are, owing to man-power difficulties, unable to continue their inspectional work to the fullest extent desired, it can be said that, having in mind the unusual conditions experienced, the requirements of the legislation are being met satisfactorily.

To date, 11,356 investigations have been carried out by local authorities in those districts known to be infested by termites, and the following table shows the number of cases where active colonies of termites have been discovered:—

Auckland City Council	..	..	..	..	..	219
Onehunga Borough Council	..	..	..	..	..	106
Mount Roskill Road Board	..	..	..	..	..	21
Mount Eden Borough Council	..	..	..	..	..	4
Mount Albert Borough Council	..	..	..	..	..	4
One Tree Hill Borough Council	..	..	..	..	..	2
New Plymouth Borough Council	..	..	..	..	..	17
Waikohu County Council	..	..	..	..	..	17
Total	..	..	..	..	..	390

The treatment of infested properties is still proceeding satisfactorily, and it is encouraging to record that the latest infestation—namely, that in the Poverty Bay District—appears to be a purely local occurrence, and the measures taken in this district have been particularly effective.

9. *Balance-sheet and Revenue Accounts.*—The Balance-sheet discloses no substantial change in the Corporation's liabilities, but, as indicated in a previous paragraph, the Board, as a result of its policy of restricting its new business programme, has continued to accumulate funds for rehabilitation

purposes, and Government securities show a net increase of approximately £1,800,000. There is a reciprocating decrease in the mortgage investments of the same amount, representing an excess of repayments over new advances.

10. *Revenue Accounts*.—The result of the year's operations as disclosed by the revenue accounts shows a reduction in both the gross profit and the net profit for the year, but this can be attributed to the change in investments indicated in the previous paragraph—that is, the repayment of mortgage investments bearing interest at a rate of 4½ per cent. or higher, and the investment of the capital funds on temporary investment in Government stock showing a return of 3 per cent. The net profit of £147,771 is approximately £66,406 less than that for the year ended 31st March, 1943. The usual allocation has been made to the reserve for losses on new business, which brings this reserve up to a total of £280,000, and in this year's accounts an additional reserve has been set aside in respect of ex-State investments to cover the estimated depreciation that is accruing on the improvements included in securities which have been abandoned and which are being administered by the Corporation as mortgagee in possession. A considerable number of these residential securities have been under administration for a number of years, and it is anticipated that in due course they will be realized or transferred as rental properties to the Housing Account. In the meantime the title is still in the name of the original mortgagor, and it is apparent that the investment account in respect of many of the properties exceeds the present-day value of the security, and the rental that is received is insufficient to meet the whole of the outgoings, including the depreciation.

War damage insurance at £46,153 is a large item of expenditure which will show a considerable reduction in future years, following the Government's decision to reduce the premium from 5s. per cent. to 1s. per cent.

The usual provision has been made for the payment of taxation at existing rates, and involves approximately £127,000.

The net balance in Appropriation Account amounting to £20,771 is available for payment to Treasury.

11. *Staff*.—A large portion of the Corporation's male staff, both clerical and field officers, is still in the Armed Forces or engaged on other war work, but, despite many difficulties, we feel that satisfactory service has been given to Office clients. We desire to express our appreciation to administrative officers and the whole of the personnel at Head Office and the branches for their willing and loyal assistance.

A. D. PARK, Chairman of Directors.

T. N. SMALLWOOD, Deputy Chairman of Directors.

B. C. ASHWIN

D. BARNES

R. G. MACMORRAN

} Directors.

REVENUE ACCOUNTS FOR YEAR ENDED 31ST MARCH, 1944

Interest Account

<i>Dr.</i>	£	<i>Cr.</i>	£
Interest on stock and debentures	1,620,063	Interest on mortgages and current accounts ..	1,847,241
Interest on General Reserve Fund investments—		Interest concessions on rehabilitation advances: Paid	
Payable on State's contribution	106,000	from War Expenses Account	5,406
Credited to General Reserve Fund	39,812	Interest on Government and local-body securities and	
Gross profit, transferred to Profit and Loss Account ..	433,774	on temporary investments	347,002
	<u>£2,199,649</u>		<u>£2,199,649</u>

Profit and Loss Account

<i>Dr.</i>	£	<i>Cr.</i>	£
Management expenses	173,850	Gross profit, transferred from Interest Account ..	433,774
Administration of rehabilitation advances from War			
Expenses Account (businesses, tools of trade, and		Rentals: Properties acquired	1,647
furniture)	13,618	Less miscellaneous expenses thereon	559
War damage insurance	46,153		<u>1,088</u>
Reserve for losses—			
New business	33,470		
Ex-State	20,000		
Net profit, transferred to Appropriation Account ..	147,771		
	<u>£434,862</u>		<u>£434,862</u>

Profit and Loss Appropriation Account

	£		£
Reserve for taxes	127,000	Net profit, transferred from Profit and Loss Account ..	147,771
Balance, profits payable to Treasury	20,771		
	<u>£147,771</u>		<u>£147,771</u>

BALANCE-SHEET AS AT 31ST MARCH, 1944

<i>Liabilities</i>		£	£	<i>Assets</i>		£
Authorized capital ..	..	..	1,000,000	Mortgages and accrued interest ..	..	43,988,232
Stock and debentures ..	..	48,014,250		Securities in course of realization ..	..	280,410
Accrued interest ..	..	257,815		Advances on current account and accrued interest ..	..	274,068
			48,272,065	Government and local-body securities and accrued interest ..	..	10,834,029
General Reserve, including (a) £2,753,164 repayable to the State under section 35 of the State Advances Corporation Act, 1934-35; (b) Contribution from War Expenses Account of £19,537 in respect of rehabilitation advances ..	..	..	3,841,260	Office furniture, equipment, and motor-vehicles, at cost, less depreciation ..	..	19,036
Specific reserves—				Current assets—		£
Reserve for losses—		£		Sundry debtors ..	..	99,779
Ex-State ..	..	2,309,209		Temporary investments, including accrued interest ..	..	300,506
New business ..	..	280,000		Lodgments in transit, cash in bank and on hand ..	..	341,751
Investment Fluctuation Reserve ..	..	120,000				
Reserve for taxes ..	..	128,341				742,036
			2,837,550			
Sundry creditors ..	..	..	60,165			
Liability to the Crown—						
Surplus for year ..	..	20,771				
Interest payable on State's contribution to General Reserve ..	..	106,000				
			126,771			
			£56,137,811			£56,137,811

W. G. DENT, B.Com., A.R.A.N.Z., for 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.

R. C. BURGESS, F.P.A.N.Z. } Auditors.
G. D. STEWART, F.P.A.N.Z.

Wellington, N.Z., 19th May, 1944.

PART II.—HOUSING ACCOUNT

It has been the practice in previous years to submit with the Board's report on the administration of the Housing Account a statement prepared by the Director of Housing Construction relative to the work undertaken by his Department in acquiring land, carrying out subdivisions, and erecting houses, but as from the 31st August, 1943, the Construction Branch was merged in the Ministry of Works, and our comments will therefore be confined to completed dwellings and similar matters. It has been previously pointed out, and it may be reiterated here, that the funds of the Housing Account are entirely separate and distinct from the funds of the Corporation.

New State Rental Houses, Flats, and Shops.—The building programme undertaken by the Housing Construction Department has included the erection of houses, blocks of flats, and shops, and although the majority of the schemes are located in the cities and larger towns there are few towns of any size that have not been provided with at least a small number of dwellings or housing units. Each of the Corporation's Branch Managers is responsible for the administration of the new houses erected within his district, and his responsibility commences from the date when the units are handed over by the Construction Branch. The selection of tenants is made by a committee at the Branch Office after the applicants have been graded as to sizes of family, degree of urgency, and the time that the applications have been lodged. Standard rentals have been fixed for all these units varying according to the room space provided. The rental for a house of standard design of four rooms is 26s. per week, and the rental for other types range upward or downward according to size.

To date there has been no difficulty in letting all the houses completed, and judging by the number of applications on hand, and the further cases that are being daily added to the list, there will be difficulty in satisfying even the most urgent cases for some considerable time.

The number of new houses and flats taken over since the inception of the scheme up to 31st March, 1944, was 15,388, and there were 31,816 applications unsatisfied at that date. It has been decided by the Government that preference should be given to the applications of returned servicemen, and 50 per cent. of all available tenancies are held for applicants in this class, but, notwithstanding the granting of priority, there are still 2,678 cases coming within this category awaiting allocations.

The selection of the returned servicemen for tenancies has been placed under the control of the Rehabilitation Board, and the allocations are being made by the local Rehabilitation Committee in the towns affected.

On the whole, the collection of rent for these houses has presented no great difficulty, and it is pleasing to record that in addition to meeting their rentals, the tenants have displayed a keen interest in the upkeep of the houses and sections.

Since the first houses were tenanted in 1937 the total rents for all new properties in the scheme up to the 31st March, 1944, have amounted to £3,845,340, and of this sum, only £2,014 has been written off. Arrears of rent on new housing units under administration at the close of the year amounted to £4,567.

It will be seen from the annual accounts that there are a number of old rental properties included in the assets of the Housing Account. These represent 1,002 tenancies, and the capital value of the assets at the end of the year was £601,863.

In addition to the rental houses, the following activities are controlled by the Corporation under the Housing Account:—

- (a) Amounts owing under agreements for sale and purchase of residential property.
- (b) Advances to employers under Part III of the Housing Act, 1919.
- (c) Advances to local authorities under Part V of the Housing Act, 1919; loans to local authorities under the Rural Housing Act, 1939.

The purchase of land for subdivision and servicing for housing purposes is now the responsibility of the Ministry of Works, but where land so acquired is not immediately required the Corporation is usually requested to administer the property on an agency basis, and collect any revenue that may be derived therefrom.

Balance-sheet and Accounts.—The tabulated revenue accounts and the balance-sheet submitted herewith are an indication of the value of assets under administration and the results of the year's operations.

There has been little activity under any of the sections with the exception of that relating to the new rental houses. Each section showed a profit on the year's trading after making provision for all proper charges. The Revenue Account for rented properties (old) has been charged with depreciation at a rate estimated to be sufficient to write off the improvements during the useful life of these assets, and actual maintenance costs incurred have been fairly heavy owing to the age of some of the houses.

The Revenue Account for new rental houses discloses an excess of revenue over expenditure amounting to £8,873, as compared with £6,256 for 1942–43. In the expenditure there is a charge of £41,173 for war damage insurance, which item will be considerably reduced in subsequent years following the reduction in premium from 5s. per cent. to 1s. per cent., which became effective from 1st March, 1944. Depreciation, maintenance, and vacancies have been assessed on a basis considered to be sufficient to meet the average accruing charges.

The Balance-sheet reflects the partial change of control arising out of the transfer to the Works Department of such assets as freehold land, dwellings in course of construction, factories, plant, &c., which have previously been included in the assets of the Housing Account. The book value of new houses, after allowing for depreciation, is shown at £19,969,923.

In accordance with section 35 of the Housing Act, 1919, the following statistical information is submitted:—

	£
(1) Payments received during the year	1,176,801
(2) Amount of arrears outstanding at 31st March, 1944 (including instalments due on agreements for sale and purchase and rentals on tenancies old and new)	26,783

Previous reports have included a statement of the cost of land purchased for housing and the amount expended on erection of dwellings, but this information is now supplied by the Ministry of Works, which is now responsible for this phase of the work.

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

HOUSING ACCOUNT
TABULATED REVENUE AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31ST MARCH, 1944

Item	Properties sold under Agreement for Sale and Purchase.		Advances under Part V, Housing Act, 1919 (Local Authorities Urban Housing).		Advances under Part III, Housing Act, 1919 (Loans to Employers).		Advances to Local Authorities under Rural Housing Act, 1939.		Rented Properties (Old) erected prior to 31st March, 1937.		Rented Properties (New) erected under New Housing Scheme.		Combined Revenue and Expenditure Account.	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<i>Revenue.</i>	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Interest .. ..	..	4,404	..	12,567	..	225	..	4,879	..	..	..	..	22,075	..
Rent .. ..	..	..	..	..	..	..	..	..	54,066	..	1,032,074	..	1,086,140	..
<i>Expenditure</i>														
(including allocations to Reserve marked *)														
Interest	1,480	..	6,236	..	111	..	2,418	..	10,225	..	270,635	..	291,105	..
Management expenses	960	..	99	..	16	..	165	..	4,524	..	69,618	..	75,382	..
Depreciation .. ..	..	..	..	..	..	..	..	..	13,988*	..	184,801*	..	198,789	..
Insurance (including war-damage and earthquake insurance)	152	..	..	..	9	..	..	..	2,822*	..	85,288*	..	88,271	..
Rates .. ..	..	..	..	..	..	..	..	..	9,458	..	140,683*	..	150,141	..
Maintenance .. ..	..	..	..	..	..	..	..	..	10,548	..	220,572*	..	231,120	..
Losses and vacant tenancies	46	..	..	..	..	..	..	..	334	..	51,604*	..	51,984	..
Excess of revenue over expenditure, transferred to Profit and Loss Account	1,766	..	6,232	..	89	..	2,296	..	2,167	..	8,873	..	21,423	..
Totals	4,404	4,404	12,567	12,567	225	225	4,879	4,879	54,066	54,066	1,032,074	1,032,074	1,108,215	1,108,215

HOUSING ACCOUNT—continued
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1944

Dr.	£	Cr.	£
Administration of Termite Act, 1940.. ..	995	Balance, 1st April, 1943	17,933
Borer-treatment investigation	164	Profit for the year (see combined Revenue and Expenditure Account)	21,423
Pre-treatment of timber	297		
Balance, 31st March, 1944	37,900		
	<u>£39,356</u>		<u>£39,356</u>

BALANCE-SHEET AS AT 31ST MARCH, 1944

Liabilities	£	Assets	£	£
Loan liability	20,030,646	Principal owing under agreements for sale and purchase	94,251	
Sundry creditors—	£	Advances under—		
Tenancy deposits	15,620	Part III, Housing Act, 1919 (loans to employers)	7,226	
Rent paid in advance	13,231	Part V, Housing Act, 1919 (local authorities : Urban housing)	410,403	
Departmental	714	Rural Housing Act, 1939	154,999	
Miscellaneous	6,254			
	35,819		666,879	
Insurance Reserve	318,350	Instalments of principal overdue	3,130	
Reserves: Rented properties (new) (rates, maintenance, bad debts, and vacant tenancies)	883,316	Interest receivable—		
Profit and Loss Account	37,900	Overdue	2,709	
		Accrued	2,289	
		Recoverable expenditure	249	
			675,256	
		Less amount in hand unallocated	4,196	671,060
		Rented properties (old)	683,137	
		Less Depreciation Reserve	81,274	
				601,863
		Rented properties (new)	20,620,738	
		Less Depreciation Reserve	650,815	
				19,969,923
		Rent receivable—		
		Overdue	24,522	
		Postponed	368	
		Accrued	8,305	
				33,195
		Insurance Reserve investment (Government stock) and accrued interest		9,859
		Sundry debtors		18,583
		Writings-off Suspense		1,548
	<u>£21,306,031</u>			<u>£21,306,031</u>

NOTE.—Dwellings under construction and vacant land are under the control of the Public Works Department, and all expenditure in connection therewith is included in the accounts of that Department.

W. G. DENT, B.Com., A.R.A.N.Z., for Chief Accountant.

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

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

Approximate Cost of Paper.—Preparation, not given ; printing (634 copies), £15.