

1947
NEW ZEALAND

STATE ADVANCES CORPORATION OF NEW ZEALAND

REPORT AND ACCOUNTS FOR THE YEAR ENDED 31st MARCH, 1947.

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 Right Hon. the MINISTER OF FINANCE, Wellington.

WE have pleasure in submitting the Balance-sheet and Revenue Accounts for the year ended 31st March, 1947, together with a report on the administration for the year, as required by subsection (1) of section 43 of the State Advances Corporation Act, 1934-35.

PART I.—GENERAL

The year has been an exceedingly busy one, no fewer than 22,676 loan applications having been dealt with, quite apart from the day-to-day administration involved in 70,316 loan accounts held as at 31st March, 1946. It can be truly said that the handling of this large volume of business would not have been possible without an administrative organization equipped to handle the problems that arise in all phases of lending, including business loans, and in addition an efficient field organization, particularly in relation to rural and urban properties.

In reports submitted to Parliament during recent years reference has been made to the policy adopted by the Board of Management of organizing the business of the Corporation in a manner that would enable the greatest possible assistance to be given in carrying into effect the Government's rehabilitation scheme. The training of officers for the task of undertaking the inspection of property and the supervision of all work associated with acquisition by ex-servicemen of farm and residential properties has been one of the major considerations in this regard. The Corporation has been fortunate to obtain the services of men who have good practical experience in the different phases of its work, and by a process of training and the provision of special courses of instruction the standard of the service has been progressively raised. We feel we can justly claim that the Corporation has been able to make a substantial contribution towards the rehabilitation of our ex-servicemen.

A policy has been in operation of conserving capital funds for the purpose of meeting the loan requirements of ex-servicemen, and the Board has accordingly set aside capital repayments received from existing borrowers over a period of several years, thus providing a sum exceeding £6,000,000 for such purposes. With this reserve and subsequent repayments it has been possible to meet the requirements of ex-servicemen

both for farm and residential loans up to August, 1946. Then, in accordance with the arrangements made with the Government, further capital advances were obtained from the Treasury to carry on the rehabilitation lending programme. Up to the 31st March, 1947, additional loan-moneys amounting to £4,100,000 were drawn under this heading. The Board estimates that for the year ending 31st March, 1948, approximately £9,000,000 additional loan-moneys will be required.

The Corporation has acted as agent for the Rehabilitation Board since its inception, and, as was expected, following general demobilization the volume of business has rapidly increased, and during the past year the advances made for various purposes under the rehabilitation scheme have reached what will probably prove to be the peak of the demand. It has been stated on behalf of the Government that there is no unreasonable limit to the period during which an eligible ex-serviceman may receive assistance under these schemes, and it will therefore be necessary to continue to make loans under this heading for a number of years. Arrangements for the necessary staff and finance have been made accordingly. The management of the investments, which are mostly in the form of long-term mortgages, will continue to be the responsibility of the Corporation, and it is anticipated that the staff now largely engaged on the work of investigating and reporting upon loan applications will gradually be transferred to the long-term administration work which must follow. It is fortunate in this connection that a large number of the male officers employed by the Corporation have themselves been engaged in some branch of the Armed Forces and are thus able to understand the outlook and requirements of the ex-servicemen who are seeking assistance.

It has been the endeavour of the Board, as a special measure of rehabilitation, to provide, for junior members of the rural field staff returning from the Armed Forces, refresher courses at the agricultural colleges and opportunities for obtaining further practical experience where such is desirable. Because of the rapidly growing need for additional supervising officers as the number of ex-servicemen settled on the land increases, the field staff has been augmented by the appointment of additional returned men with the necessary farming background, and these also are afforded the opportunity of refresher courses or are encouraged to obtain practical experience in branches of the farming industry of which they have not acquired the necessary degree of competence.

We submit hereunder detailed statistics showing the amount of new business handled during the past financial year, with the figures for the preceding year shown in parentheses. The loans under the headings of farms and residential are inclusive of the advances made to civilians not eligible for rehabilitation assistance, but owing to the policy of giving preference to ex-servicemen the assistance granted in the aggregate to civilian applicants has been of a comparatively small amount.

Statistics for Year ended 31st March, 1947

			Loans authorized.	
			Number.	Amount.
				£ £
Farms	..	..	1,806 (1,168)	7,439,782 (4,401,807)
Stock	..	..	117 (96)	101,908 (81,415)
Houses	..	..	7,334 (5,683)	8,772,521 (6,471,561)
Business	..	..	1,661 (1,640)	1,137,119 (951,868)
Furniture	..	..	8,131 (6,755)	754,509 (620,080)
Tools of trade	..	..	169 (399)	6,297 (14,200)
Miscellaneous	..	..	118 (79)	30,077 (13,749)

A better appreciation of the volume of new business which the Board has been required to consider may be obtained from a perusal of the following statement showing the applications received and loans authorized in the farms and residential sections during the past twelve months and the aggregate for the period of its operations from 1935 to 1947 :—

	Applications received.		Loans authorized.	
	Number.	Amount.	Number.	Amount.
During year ended 31st March, 1947—		£		£
Farms	2,485	10,103,202	1,806	7,439,782
Residential	8,678	10,428,141	7,334	8,772,521
	11,163	20,531,343	9,140	16,212,303
During period 1935 to 1947—		£		£
Farms	15,395	39,261,638	8,656	22,416,518
Residential	42,785	41,932,269	31,377	30,566,566
	58,180	81,193,907	40,033	52,983,084

We desire also to place on record the details of the investments and other assets (including Housing Account assets, to which reference is made in Part II of this report) under administration of the Corporation as at the close of the financial year, as follows :—

	Number of Accounts.	Amount. £
Corporation loans	59,114	60,839,969
Housing Account assets	23,684	33,864,775
Returned Services loans (business, furniture, and tools of trade)	21,122	2,540,677
Agricultural Emergency Powers	9	26,998
Farmers' Loan Emergency	252	102,574
Public Works temporary housing units	709	180,626
	104,890	£97,555,619

The Corporation was established in 1935 for the purpose of bringing under the control of one Board the loan accounts previously administered by the State Advances Department and the Lands Department, the latter being the residue of the advances made on behalf of the Government to ex-servicemen in terms of the Discharged Soldiers Settlement Act, 1915. Many borrowers had been adversely affected by the unfavourable

trading conditions between 1930 and 1935, and the Mortgagors and Lessees Rehabilitation Act provided an opportunity for the adjustment of liabilities that exceeded the value of security held by the mortgagee. The result of adjustments thus approved is reflected in the table of "losses written off" submitted hereunder:—

	Amounts written off.					
	For Year ended 31st March, 1947.			Total from 1935 to 1947.		
Loans approved prior to 1935—	£	s.	d.	£	s.	d.
Farm	45,155	15	8	2,286,229	13	11
Residential	5,857	6	6	510,176	3	6
	51,013	2	2	2,796,405	17	5
New Corporation loans since 1935—	£	s.	d.	£	s.	d.
Farm .. .. .	..	..	..	5,828	17	11
Residential	12	12	0	385	16	3
	12	12	0	6,214	14	2

FIELD-WORK AND STAFF

In the introduction to this report reference has been made to the work undertaken by the Corporation's field officers in dealing with the new business and the administration of loans granted, and we feel that this important phase of the Corporation's work justifies the inclusion of a more detailed explanation of the services that are provided for clients in this respect. Dealing firstly with an application for financial assistance to enable the applicant to acquire an existing house, as soon as the branch office of the Corporation receives the application, the advice of a technical officer is sought on the suitability of the site and the value of the building. The full use of the expert knowledge of the field staff is utilized in checking up on the type of materials used, the standard of construction, and the extent of the deterioration that has resulted from age of the building and possibly lack of maintenance. The extent of borer infestation is recorded, and where effective treatment of the timbers seems possible this is made a condition of any loan. If the applicant is buying a section and building a house, he is advised on such matters as the suitability of the section, the design and planning of the dwelling, and the materials to be used. The wide experience of the members of the field staff in all matters pertaining to the property market and the erection of houses in this way is, of course, essential for Loan Committees, and provides a valuable service to both returned servicemen and civilians having a limited knowledge of these matters and protects them from the danger of embarking on a project that may prove to be an unsatisfactory home and ultimately a poor investment. Under to-day's difficult housing conditions there is a tendency on the part of some applicants who are urgently seeking homes to make hasty decisions in regard to the purchase of house property, and we cannot stress too strongly the desirability of intending applicants for loans from the Corporation consulting a representative of our nearest branch office before entering into a firm contract.

As a preliminary to farm settlement, each ex-serviceman applicant is required to submit evidence of his ability and experience to the satisfaction of the district Farming Sub-committee, comprised of a local practical farmer and representatives of one or both of the Lands Department and the Corporation. If not fully qualified, the applicant is advised and assisted by this Committee in completing his training. Having been granted his Grade "A" certificate, he is then eligible for assistance, with any qualification imposed by the Committee as to district, &c., to acquire a farm in either of the following ways:—

- (a) By ballot for a farm becoming available through the operations of the Land Settlement Board under one of its subdivision schemes or in respect of a farm acquired by the Crown under section 51 of Servicemen's Settlement and Land Sales Act.
- (b) By purchase of a farm from an existing owner with the aid of a loan under the Rehabilitation Act.

Irrespective of the manner in which he acquires his farm, and even if he makes his first start as a share-milker or a lessee of private land, he is entitled to consideration for financial assistance within the limits specified by the Rehabilitation Board, and it is at this stage that the Corporation is called upon to advise—

- (a) If a private purchase, on the assessment of value and investigation of all factors likely to have a bearing on the suitability of the property for the permanent rehabilitation of the applicant.
- (b) On the purchase of farm stock and plant.
- (c) On the preparation of a farming programme for the coming season and, if the farm is not fully improved and equipped, to formulate a scheme for the progressive improvement of the property to its full productive capacity.

It is in the latter type of case that the fullest use is made of the practical experience of the field staff, and a number of men already assisted in this way have appreciated and readily acknowledged the help that successfully carried them over the first few years of development. Although the maximum amount of assistance is given to the new settlers, each man is encouraged to become fully self-reliant as soon as possible, rather than continue on a system of annual budgeting with seasonal advances. Even where budgeting is unavoidable in the initial stages, the earliest possible opportunity is taken to allow the borrower to take over complete control. Experience so far has proved the wisdom of this policy, and provided prices for farm produce remain at approximately present levels for a few years it is expected that the majority of the borrowers will become firmly established with equities for themselves in their stock and land. A factor that will contribute in no small measure towards the success of all farm settlement under the rehabilitation scheme is the policy adopted by the Lands Settlement Board and the Corporation, with the approval of the Rehabilitation Board, of insisting that each farm, whether it be used for sheep-raising, dairying, orchard, or other type of farming, should constitute an economic unit by itself, assessed on a fair budget for average conditions in the hands of the average farmer.

TERMS OF LENDING AND INTEREST RATE

Although the Board's policy has been to give preference to the provision of finance for rehabilitation purposes, there are still available to others requiring loan finance the normal borrowing facilities provided by the Corporation. Loans may be obtained on long-term table mortgages for the purchase of farms or houses and for the purpose of erecting new houses or carrying out improvements on farming or residential securities. The interest rate is $4\frac{1}{8}$ per cent. The Rural Intermediate Credit system of providing

loans for farmers on the security of farm stock and plant through Co-operative Rural Intermediate Credit Associations or direct from the Board is now operated by the Corporation and provides a method of financing the purchase of additional stock or implements or a programme of farm improvement which can with advantage be arranged on a current-account basis repayable by suitable annual instalments.

RURAL INTERMEDIATE CREDIT (STOCK) LOANS

In terms of the Rural Intermediate Credit Amendment Act, 1946, the investments of the Rural Intermediate Credit Board were amalgamated with the Corporation's business, but this in no way affected the position of existing borrowers. The step was taken with the sole purpose of simplifying the system of book-keeping and facilitating the financial adjustments, which necessitated a considerable amount of duplication. At the date of the merger—1st October, 1946—there were thirteen Co-operative Rural Intermediate Credit Associations in existence, and these now obtain their loan requirements from the Corporation for the purpose of making advances to their members. Loans to associations at date of transfer amounted to £70,584 5s. 11d. Rural Credit stock loans made direct to farmers by the Board at the same date amounted to £126,655 1s. 6d. Advances under this system now form part of the investments appearing in the Corporation's Balance-sheet under the heading of "Current Account."

The policy of delegating to district Loan Committees and Association Boards power to make advances and readvances has been continued to the full extent previously operating, thus assisting in obtaining prompt decisions on new loan applications and retaining the advantages of local administration. Ex-servicemen seeking assistance in the purchase of stock and plant required to take up share-milking engagements or to take over leasehold properties have frequently been granted loans under this scheme.

REHABILITATION AGENCY : GENERAL

Eligibility for assistance under the rehabilitation scheme is determined by the Rehabilitation Board, and it then becomes the duty of the Rehabilitation Loans Committee (or one of the District Executive Committees to whom authority has been delegated) to give a decision on such questions as the suitability of the proposition—*e.g.*, if a farm, its productive capacity; or if a house, the material and standard of construction; or if a business, the value of the assets and the prospects of maintaining or increasing the turnover. To enable the appropriate Committee to arrive at its decision, each of these proposals is thoroughly investigated and reported upon by one of the Corporation's field officers or, in the case of a business, by an accountant or some expert experienced in the class of business submitted.

For the period from June, 1941, to the 31st March, 1947, rehabilitation loans have been authorized under all headings for the aggregate numbers and amounts shown below :—

Type of Loan.	Number.	Amount. £
Tools of trade	1,001	33,405
Furniture	20,475	1,884,302
Business	4,596	2,653,841
Farms	3,609	14,040,220
Houses	14,659	17,047,545
Miscellaneous	256	52,333
	<hr/> 44,596	<hr/> £35,711,646

In addition, 297 stock loans aggregating £240,948 have been authorized.

Supplementary interest-free loans in pursuance of Government policy are granted where necessary, having regard to the cost of the proposition in relation to normal rental and resale value. The total amount of the supplementary loans thus granted up to 31st March, 1947, was £1,269,067. This sum is included in the table shown above. No interest or principal repayments are required in respect of these loans whilst the property is used and occupied by the ex-serviceman borrower.

The following classification of business loans granted to ex-servicemen gives an indication of the wide sphere of the operations of the rehabilitation scheme :—

	Number.	Total. £		Number.	Total. £
Butchery	107	84,220	Carrier and mail contractor	794	516,493
Grocery and general store ..	354	272,593	Hairdresser and tobacconist	68	29,838
Bakery, dairy, refreshment-rooms	244	152,526	Bootmaker	115	35,090
Milk-round	103	65,301	Painter and paperhanger ..	107	29,712
Building trades	333	156,577	Launch and fishing gear ..	68	42,406
Mechanical repairs	227	128,252	Agricultural contractor ..	285	209,685
Manufacturing business ..	154	101,540	Chemist	17	17,830
Stationery and fancy goods ..	71	49,156	Miscellaneous	348	180,598
Professional equipment ..	468	208,216			
Radio dealer and electrician ..	104	45,291	Total	4,596	£2,653,841
Hotel and guest-house	26	22,575			
Taxi, service car, and transport ..	603	305,942			

All these loans are repayable on the instalment basis, and the term over which repayment may be spread is decided by the Loans Committee or the appropriate District Executive Committee after considering the type of asset to be purchased with the loan-money and the income resources that will be available to the borrower. It is pleasing to report that the payments due in respect of both farm and house loans have been well maintained and, on the average, there has been quite satisfactory progress shown in business loans. In the latter category the failures, of which there have been comparatively few, have mostly arisen from the inability of the ex-serviceman to apply himself consistently to the management of his business. Temporary set-backs caused by shortage of supplies have arisen in a number of cases, but these have been rectified wherever possible by the intervention of the Corporation and the Rehabilitation authorities in obtaining increased quotas. In cases where market conditions have precluded any such adjustment, loan repayments have been suspended or suitably amended. The majority of borrowers in the business-loan section have met their engagements and many have accelerated the repayments agreed upon when the loan was authorized. A recent return obtained from our branch offices discloses that of the total of 4,596 business loans approved since the inception of the scheme, over 800 have been fully repaid. Some of these borrowers have for various reasons sold their business and taken up other forms of employment, but it is obvious that the majority of these men have made good use of the financial assistance granted to them.

The appended statement of arrears of instalments in respect of the various classes of rehabilitation loans as at the 31st March, 1947, will be of interest. The unfavourable feature of this return is the unfortunately large number and amount of arrears in the furniture and tools-of-trade sections. In view of the very favourable terms on which these loans are granted—viz., free of interest and easy instalments as agreed to by the borrower—it is disappointing to find that there is still a fairly large percentage of borrowers in these classes who are not giving a reasonable degree of co-operation. There have unfortunately been a few cases where, owing to continued default without any sufficient reason, it has been necessary to take legal action to enforce payment, but this action is taken only after thorough investigation, and then only with the concurrence of the local Rehabilitation Committee.

(1) Arrears as at 31st March, 1947, on Farm and Dwelling Loans

	Accounts.		Arrears.		Percentage in Arrears to Number of Accounts.
	Number.	Amount.	Number.	Amount.	
		£		£	
Farm	2,788	10,097,213	114	12,443	4.1
Residential	10,104	10,356,080	443	3,266	4.4
	12,892	20,453,293	557	15,709	4.3

(2) Arrears as at 31st March, 1947, on other Rehabilitation Loan Accounts

	Accounts.		Arrears.		Percentage in Arrears to Number of Accounts.
	Number.	Amount.	Number.	Amount.	
		£		£	
Furniture	17,772	1,132,966	1,553	12,465	8.7
Tools of trade	404	6,169	137	1,141	33.9
Business	2,844	1,441,281	321	22,349	11.3
	21,020	2,580,416	2,011	35,955	9.6

Losses written off in respect of loans granted to returned servicemen under the rehabilitation scheme up to 31st March, 1947, are shown hereunder :—

For Year ended 31st March, 1947.					Total to Date.				
				Number.	Amount.				
					£ s. d.				
Farm	16	1,754	5	3	19	2,535	0	5	
Residential .. .. .	..	..	..	..	..	..	..	..
	16	1,754	5	3	19	2,535	0	5	
Business	17	2,395	14	8	27	3,399	11	9	
Furniture	9	293	10	6	22	621	13	9	
Tools of trade	4	83	6	2	7	91	14	2	
Miscellaneous	1	14	0	0	1	14	0	0	
	31	2,786	11	4	57	4,126	19	8	

PRESERVATION AND PROTECTION OF TIMBER

Treatment of Timber.—In collaboration with the Department of Scientific and Industrial Research and others concerned with the processing and use of timber, the Corporation has assisted in extensive research work, from which we are pleased to report there is now a rapidly growing appreciation of the need for adopting measures that will enable the utilization of the maximum quantity of available material. As part of the Corporation's policy of providing long-term loans particularly for home-builders, it is required that buildings to be erected with loan-moneys shall be constructed of high-grade durable materials. Unfortunately, during recent years heart building-timbers have become increasingly difficult to obtain and the Board of Management has, as a consequence, actively fostered and encouraged the development of wood-preservation with a view to the utilization of lower-grade timber.

One of the first processes of wood-preservation which has been developed in New Zealand consists of immersing dressed timber, which has been previously kiln dried, in a bath of preservative liquid until maximum absorption is achieved. Some 4,000,000 super feet of lower-grade timber has been processed in this way. By this means a large proportion of this timber is being used for flooring in State rental houses. The technical limitations of the immersion process were realized from its inception, and the Corporation has therefore consistently encouraged the establishment of commercial pressure impregnation plants as an alternative means of preservation. The Corporation's technical officers, with the assistance of overseas technicians, have investigated various aspects of the pressure treatment as applied to both indigenous and exotic timbers, and as a result of this work it has been possible to draw up a specification for the pressure treatment of building-timbers which both the Corporation and the Housing Construction Department have accepted. It is pleasing to record that, working under this specification, a British firm has now established its first pressure preservation plant in Auckland, and this is already in production. The establishment of this extensive and costly plant in the Dominion so soon after the termination of the war speaks well for the initiative and drive of British industry. The Corporation confidently expects that further pressure plants will be installed in the near future and that, as a result, a supply of pressure impregnated timber will be available in all the main centres of building activity.

Termites Act, 1940.—The Corporation is also responsible for certain administrative and technical duties under the Termites Act, 1940. This Act was introduced for the purpose of initiating and conducting methods of control against subterranean termites, which have unfortunately become established in some parts of this country. In the Poverty Bay district, where termite infestation was discovered, active steps were taken by the Waikohu County Council in co-operation with the Corporation, and as far as can be ascertained the active colonies of termites in that area have all been destroyed. This work is also proceeding satisfactorily in Auckland and New Plymouth, these being the only other districts where this destructive insect is known to be active. The infestations within these centres are still being confined to comparatively small areas and the damage to dwellings and other property is not widespread. Nevertheless, owing to the large amount of timber within the infested areas that is vulnerable to the activities of this pest and the reproductive capacity of the insect, it is apparent that the termite-control work must continue for some years.

A danger which may accompany the importation of Australian hardwoods has been emphasized by the discovery of further colonies of termites in such timbers, both in Auckland and Wellington. These timbers, especially transmission poles, are distributed throughout the country, and if they should be infested by termites there is a very real danger that these insects will become established over a much wider area. A system of inspection of all hardwoods entering this country from Australia has been initiated and the responsibility for this work has been accepted by State Forest Service, which is the authority mainly concerned with the importation of timber.

STAFF

With the amount of new business increasing to a degree much in excess of the normal turnover, it has been necessary to call upon all sections of the staff to work at high pressure throughout the year, and the Board appreciates that it has been possible to deal with this unusual volume only because of the keen and efficient service given by the whole of the personnel employed both in Head Office and at the branches.

The arrangements which have been made for the provision of facilities for the training of juniors and the organization of refresher courses for officers who have returned after varying periods of absence with the Armed Forces are already showing favourable results and will ensure that a high standard of efficiency is maintained in the future.

BALANCE-SHEET

Reference has been made in the introduction to this report to the rapid and substantial increase in the volume of new business that the Corporation has handled during recent years, mostly as the result of the Government's rehabilitation scheme, and the effect of this activity is disclosed by a comparison of the Balance-sheet for the year ended 31st March, 1947, with that for the previous year. The funds temporarily invested in Government securities have been reduced from £3,000,000 to £110,000, and mortgage investments have shown a net increase of nearly £8,000,000. When it is realized that the amount becoming available to the Corporation for reinvestment by way of instalment and principal repayments from existing borrowers is in the vicinity of £4,000,000 per annum, it can be seen that total new advances paid out during the year amount to almost £12,000,000. These figures do not include the advances made to rehabilitation borrowers for the purchase of businesses, furniture, or tools of trade, which are financed from funds provided for the purpose by the Treasury.

The increase in Current Account advances of approximately £185,000 arises mainly from the taking-over of the Rural Intermediate Credit business (previously operated as a separate account) and the granting of seasonal advances to borrowers recently financed into new farm properties.

The Corporation's liabilities are increased under the heading of "Stock and Debentures" by the sum of approximately £4,000,000, this representing further borrowed capital raised to cover the loan requirements for the year.

REVENUE ACCOUNTS

The transfer of substantial sums from temporary investments to advances on mortgage, and the investment of the additional borrowed capital as outlined in the previous paragraph, has resulted in a higher gross interest return of approximately £120,000, but as a set off, interest payable on new stock issued by the Corporation is increased to the extent of £43,500. The gross profit is higher by £65,557, but management expenses and administration costs of rehabilitation business, furniture, and tools-of-trade loans are £91,428 greater than for the previous year. The net profit for the past year is £74,394, as compared with £94,099 for 1945-46. The amount available for payment to Treasury after making full provision for taxation and reserves is £8,394.

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

REVENUE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 1947

Interest Account

Dr.	£	Cr.	£
Interest on stock and debentures	1,654,141	Interest on mortgages and current accounts	1,893,095
Interest on General Reserve Fund investments—		Interest concessions on rehabilitation advances: Paid from	
Payable on State's contribution	106,041	War Expenses Account	230,963
Credited to General Reserve Fund	58,758	Interest on Government and local-body securities and on tem-	
Gross profit transferred to Profit and Loss Account	502,517	porary investments	197,399
	<u>£2,321,457</u>		<u>£2,321,457</u>

Profit and Loss Account

Dr.	£	Cr.	£
Management expenses	297,404	Gross profit transferred from Interest Account	502,517
Administration of rehabilitation advances from War Expenses		Rentals: Properties acquired	1,365
Account (business, tools of trade, furniture, and miscellaneous		Less miscellaneous expenses thereon	389
loans)	83,733		
Earthquake-damage insurance	10,187		976
Reserve for losses: Ex-State	17,500		
Reserve for losses: New business	20,275		
Net profit, transferred to Appropriation Account	74,394		
	<u>£503,493</u>		<u>£503,493</u>

Profit and Loss Appropriation Account

Dr.	£	Cr.	£
Reserve for taxes	66,000	Net profit, transferred from Profit and Loss Account	74,394
Balance: Profits payable to Treasury	8,394		
	<u>£74,394</u>		<u>£74,394</u>

BALANCE-SHEET AS AT 31st MARCH, 1947

		£	
<i>Liabilities</i>			
Authorized capital	.. ..	1,000,000	
Stock and debentures	.. ..	51,822,590	
Accrued interest	.. ..	272,371	
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 £442,735 in respect of rehabilitation advances	.. ..	52,094,961	
Specific reserves—			
Reserve for losses—			
Ex-State	.. ..	2,327,985	
New business	.. ..	320,000	
Investment Fluctuation Reserve	.. ..	120,000	
Sundry creditors	.. ..	2,767,985	
Provision for taxation	.. ..	327,829	
Liability to the Crown—			
Surplus for year	.. ..	76,873	
Interest payable on State's contribution to General Reserve	.. ..	8,394	
	.. ..	106,041	
		114,435	
		<u>£60,839,969</u>	
<i>Assets</i>			£
Mortgages and accrued interest	.. ..		55,333,501
Securities in course of realization	.. ..		114,015
Advances on current account and accrued interest	.. ..		441,232
Government and local-body securities and accrued interest	.. ..		4,504,408
Office furniture, equipment, and motor-vehicles, at cost, less depreciation	.. ..		33,705
Current assets—			
Sundry debtors	.. ..		161,691
Lodgments in transit, cash in bank and on hand	.. ..		251,417
			<u>413,108</u>

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

A. D. PARK, F.I.A.N.Z., F.R.A.N.Z. } Managing Directors.
T. N. SMALLWOOD }£60,839,969

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.

Wellington, N.Z., 21st May, 1947.

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

PART II.—HOUSING ACCOUNT

As a result of the acute housing shortage which has existed in New Zealand during recent years, the Corporation's duties and responsibilities under the Housing Act, 1919, and amendments and other legislation related thereto have greatly increased, both as regards the provision of loan finance and the administration of housing units erected by the Government for letting. Our report hereunder provides a brief summary of the activities with which the Corporation is concerned.

RURAL HOUSING

In terms of the Rural Housing Act, 1939, the Corporation is empowered to provide loan finance to local authorities, which in turn may grant loans to farmers within their respective districts for the purpose of erecting new houses or improving existing houses on farm properties. There are special provisions which enable a farmer to raise finance in this way through the County Council, even although his property may already be subject to mortgage. The consent of the existing mortgagees is, however, required. The rate of interest charged on loans granted to County Councils is 3 per cent., and the farmer may borrow at $3\frac{1}{2}$ per cent. from his County Council if it is operating under the scheme. These loans are arranged on the amortization system, repayable over periods up to twenty-five years. The local authority concerned arranges its borrowing on a similar basis. Building operations in rural districts have been retarded during the war period to a greater degree than in the towns and cities, and for this reason there has been little activity under the Rural Housing Act for some years. However, it is pleasing to note that there is already some revival of interest in the scheme, and it is hoped that as material and labour become more readily available, both the local authorities and the farming community in general will recognize the advantages to be gained in this method of improving rural housing.

URBAN HOUSING

The Corporation is concerned in various phases of house-building in urban areas for letting purposes, and for the purposes of this report it is desirable that each section be dealt with separately.

(a) *New State Rental Houses*.—The erection of houses under the current building scheme is the responsibility of the Housing Construction Department, which on completion of the buildings hands over the dwellings to the Corporation for administration. As the result of increased activity in the field of construction, the number of houses delivered to the Corporation has again increased to levels comparable with the pre-war standard, and it is anticipated that still further increases will be shown in the next few years. For the year ended 31st March, 1947, 2,392 new units were handed over, this bringing the total units completed to that date to 22,511. The Corporation's administration of these housing units involves :—

(i) The selection of tenants, the completion of tenancy agreements, and the collection of rent.

(ii) The supervision and maintenance of the buildings.

During recent years, when the demand for tenancies has been much in excess of the supply of houses, many difficulties have been experienced in dealing with the allocation of the new houses. The large number of applications received for tenancies has created a problem of administration which has become more difficult as the number of unsatisfied applications has increased. At the 31st March, 1947, there were 52,759

applications on hand, and, of these, 15,278 were from eligible ex-servicemen. The committees appointed to deal with this phase of the work have endeavoured, by a process of investigation and classification of the various outstanding applications, to decide upon an order of priority which will do justice to all the families concerned.

(b) *Old Rental Houses.*—In addition to the housing units provided under the new construction scheme, the Corporation has 1,069 houses under its control which have been erected prior to 1935 or otherwise acquired for housing purposes and which are let to tenants in a similar manner to that operating for the new houses. In pursuance of the Government's policy of making provision to the greatest possible degree for tenants of various types, the Corporation has of recent years purchased on the open market older houses which are suitable for occupation by large families or have other features which specially fit the needs of other types of applicants—for example, the location of the house as regards the places of employment of members of the family.

This scheme has also been extended to assist in the provision of housing for public servants on transfer. It had been found that many public servants on transfer were suffering a considerable hardship owing to their inability to find housing accommodation in the town to which they were transferred, and in co-operation with the Public Service Commission a Housing Bureau was established at the office of the Commission. The Corporation is the channel through which this Bureau is able to provide assistance for the officers affected. In addition to purchasing properties suitable for inclusion in the scheme, there is also included in the arrangement a system of exchanging tenancies between officers transferred to or from the various towns throughout the Dominion.

(c) *Transit Housing.*—As a means of providing temporary accommodation for families which have an urgent need for better housing but who are not immediately in line for the allocation of a permanent tenancy, local authorities have, with the assistance of the Government, arranged for the establishment of transit housing camps in many places throughout the Dominion. In bringing these schemes into operation it has generally been the practice of the Government to provide from surplus buildings under the control of the War Assets Realization Board the bulk of the material necessary to construct temporary housing units. The local authority then provides the land on which the buildings are to be erected, and also undertakes the installation of the necessary water and drainage systems. Although the accommodation thus provided is not of a standard equal to that provided in the Government's permanent housing scheme, it has been the means of providing relief for quite a number of families which had been living under most unsatisfactory conditions. In the administration of the majority of these transit camps the local authority has worked in co-operation with the State Advances Corporation in selecting the tenants to be placed in the temporary quarters, and the provision of permanent tenancies is then arranged in the order of priority to which the applicants would normally be entitled. There are cases, however, where the local authority has decided to take full responsibility for the selection of the tenants for the transit camps, and in these cases the provision of permanent tenancies is arranged on a different basis, under which the claims of recent arrivals are deferred until long-standing applications have been satisfied. On the whole, the scheme is working satisfactorily and has made a worth-while contribution in easing the housing situation.

For those local authorities which require loan finance to enable them to proceed with a transit housing scheme, the Corporation is able to make advances from the Housing Account, with interest at 3 per cent., and the loans are repayable over appropriate periods as approved by the Local Government Loans Board.

(d) *Allocations to Ex-servicemen.*—With the approval of the Government, 50 per cent. of all the permanent housing units which become available for letting are available for eligible ex-servicemen, and the selection of the latter for tenancies is the responsibility of the local Rehabilitation Committees in the various towns and cities where the State houses are available.

FUTURE REQUIREMENTS

The number of unsatisfied applications, both as regards civilians and ex-servicemen, has shown a progressive increase over recent years, which is an indication that the rate at which it has been possible to erect new buildings has been insufficient to keep pace with the demand. From an examination of many of the applications it is, however, apparent that the reason for making application has not always been the urgent need of the families concerned, but that the conditions of tenancy offered by the State rental scheme are considered to be more favourable than those operating in respect of privately owned property, and therefore the total number of applications on hand cannot be accepted as a clear indication that there is a shortage in the number of houses comparable with the number of outstanding applications. It has previously been suggested that if it were possible to have 25,000 new units provided within a short period of years, this would have the effect of overcoming the difficulties which are now being experienced by so many of the families who have not been able to make provision for housing from their own resources. It must be remembered that as more houses are built by private individuals (and, according to the statistics which have recently been made available by the Building Controller in regard to permits granted, this avenue of overcoming the shortage is operating at an accelerated rate) this will result in existing accommodation being released for the purposes of other families.

LOANS TO LOCAL AUTHORITIES FOR HOUSING SCHEMES

The Corporation has authority to make advances from the Housing Account to local bodies which are willing to undertake permanent housing schemes, and, although this facility has not been widely availed of during recent years, there has been considerable activity in certain areas where the controlling local authority has accepted responsibility for undertaking some portion of the urgent work that is obviously necessary to provide a better standard of housing within the area under its control. Loans for this purpose may be made by the Corporation from the Housing Account, with interest at 3 per cent., and repayable over terms approved by the Local Government Loans Board.

LOANS TO EMPLOYERS

There is provision in the Housing Act for loans to employers who are desirous of erecting houses for the accommodation of their employees, and in terms of this authority the applications made by various dairy companies and co-operative lime companies have been approved. The advantages of this system of housing employees of industries which are operating in districts somewhat removed from established centres of settlement are very apparent, and the retention of workers who are happily placed in housing units provided with all the modern amenities is thus simplified.

HOUSING FOR TIMBER-WORKERS

Under the provisions of Part III of the Finance Act (No. 2), 1946, a scheme is provided which enables millowners to arrange for the erection of additional houses in the vicinity of their mills. Subject to certain conditions which are laid down in the legislation, the millowners may apply for the construction of houses, which will be erected on approved sites, and these are available for occupation by timber-workers employed at the mill. The tenancies are granted on favourable terms to the workers, and, subject to the mill-owner attending to the maintenance and insurance of the buildings and paying into the Housing Account an amount equal to the rent which has been fixed for these units, he will acquire full ownership of the assets at the end of twenty years. The houses are constructed in such a way that they will be suitable for transfer to other sites as this becomes necessary in order to continue milling-work in other locations as the need arises. The introduction of this legislation was considered justified in view of the need for

production of greater quantities of timber suitable for housing, and, having regard to the advantages thus obtained from a national point of view, provision was made in the Act for making a levy on all timber that is milled, and by this means the industry is made responsible for the ultimate financial success of the scheme. Quite a number of applications have already been received from millowners, and the Housing Construction Department, which has been made responsible for the letting of contracts for the construction of houses, has already arranged for a considerable number of contracts. Much of the organization work in introducing the new scheme has been carried out by the State Forest Service, and the officers of that Service will continue to co-operate with the Corporation and the Housing Construction Department in administering the assets which are created under the new legislation.

REVENUE ACCOUNT AND BALANCE-SHEET

For the purposes of showing clearly the result of the year's transactions in the various sections of the Housing Account, the revenue accounts for the year have been prepared in the usual columnar form under the following headings:—

- (1) Properties sold under Agreement for Sale and Purchase.
- (2) Advances to Local Authorities (Urban).
- (3) Advances to Employers.
- (4) Advances under the Rural Housing Act.

Although there are in the aggregate substantial investments under the four sections mentioned, there has not been any great amount of new business handled during the past year, and each section shows a profit for the year.

- (5) Rented Properties (Old).

Many of the houses acquired under this section have been erected for a number of years, and for this reason the maintenance and the provision for depreciation has necessarily been on a comparatively high scale. The trading loss for the year on the units involved was £2,619, as against a loss of £3,142 for the year ended 31st March, 1946.

- (6) Rental Properties (New).

The annual rent roll for these properties is showing an increase proportionate to the number of housing units under administration, and for the past financial year gross receipts amounted to £1,479,662, as compared with £1,293,157 for 1945-46. After payment of interest and meeting the cost of management, which includes the multitudinous duties undertaken by the Corporation's branches and agencies in handling the applications for tenancies, the allocation of houses, the collection of rent, the supervision of maintenance and repair work, and attending to all the incidental book-keeping, the Revenue Account is charged with local-body rates and an appropriate annual assessment for depreciation, insurance, maintenance, and losses of rents and vacant tenancies. These assessments are based on experience of the average expenditure that is incurred throughout the period during which a house property is in use—*e.g.*, depreciation is allowed for on the assumption that the buildings will be tenanted for sixty years; the insurance fund is credited annually with amounts which approximate the aggregate of premiums that would be payable on similar property where the risks are carried by insurance offices trading in New Zealand; maintenance at $1\frac{1}{4}$ per cent. on the cost of improvements, as provided, is considered to be a fair average of the expenditure under this heading; losses incurred through non-payment of rent or for vacant tenancies, although not heavy to-day, must be considered on a long-term basis, and reserves are made accordingly.

As expenditure on replacements, maintenance, and interest is directly allied to current building costs, the annual charges made to Revenue Account for such purposes are based on the capital costs on new housing units as supplied to the Corporation by the

Housing Construction Department. The effect of higher building costs is thus reflected in the Revenue Account, and this factor, together with the increased cost of management, has resulted in a deficiency for the year in this section of the Housing Account amounting to £58,833.

In the Profit and Loss Account, to which the balances of the subsidiary accounts are transferred, there was at the 31st March, 1946, a credit of £52,786. Interest charges on loan capital in respect of assets taken over from the Construction Branch have in past years been assessed on estimates of capital costs, but we have now completed a final adjustment with the Department under which the Housing Account has been charged with an additional loan liability of £609,204. The interest due for past periods in respect of this capital, amounting to £27,414, is charged to Profit and Loss Account, and after allowing for some minor adjustments there is a debit balance of £23,255 to be carried forward.

In terms of section 35 of the Housing Act, 1919, the following statement is submitted :—

	£	s.	d.
(1) Payments received during the year ended 31st March, 1947 ..	1,455,438	10	5
(2) Amount of arrears in respect of rentals (old and new houses) and instalments under agreements for sale and purchase as at 31st March, 1947	30,412	16	10

Further statistical information of general interest is summarized below :—

(a) Number of new housing units taken over up to 31st March, 1947 (in addition, there are 1,276 old houses under administration) ..	22,511
(b) Book value of new housing units as at 31st March, 1947 ..	£31,968,235
(c) Total amount of rent receivable on all new housing units from 31st March, 1937, to 31st March, 1947	£7,741,346
(d) Amount of rent in arrear as at 31st March, 1947, in respect of new housing units	£6,422
(e) Total amount of rent in respect of new housing units written off from 1937 to 1947	£4,466

An important feature in the foregoing report is the low percentage of loss and arrears of rent. The good performance of tenants in this respect is highly regarded, as also is the manner in which the buildings and grounds have been maintained.

A. D. PARK, Chairman of Directors.

T. N. SMALLWOOD, Deputy Chairman of Directors.

B. C. ASHWIN

D. BARNES

R. G. MACMORRAN

} Directors.

HOUSING ACCOUNT

TABULATED REVENUE AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31ST MARCH, 1947

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.	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<i>Revenue</i>	£	£	£	£	£	£	£	£
Interest .. .. .	..	4,836	..	20,374	..	137	..	4,226
Rent .. .. .	..	..	..	..	..	..	..	..
<i>Expenditure</i> (including allocations to Reserve marked*)								
Interest	1,675	..	10,509	..	70	..	2,144	..
Management expenses	1,132	..	202	..	17	..	246	..
Depreciation .. .. .	..	..	..	..	..	..	..	..
Insurance (including war-damage and earthquake insurance)	25	..	..	..	1	..	..	..
Rates .. .. .	..	..	..	..	..	..	..	..
Maintenance .. .. .	..	..	..	..	..	..	..	..
Losses and vacant tenancies ..	..	..	..	..	..	..	..	..
Excess of revenue over expenditure, transferred to Profit and Loss Account	2,004	..	9,663	..	49	..	1,836	..
Excess of expenditure over revenue, transferred to Profit and Loss Account	..	..	..	..	..	..	..	..
Totals	4,836	4,836	20,374	20,374	137	137	4,226	4,226

Item.	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.
<i>Revenue</i>	£	£	£	£	£	£
Interest .. .. .	..	..	..	..	..	29,573
Rent .. .. .	..	58,055	..	1,479,662	..	1,537,717
<i>Expenditure</i> (including allocations to Reserve marked*)						
Interest	11,314	..	409,046	..	434,758	..
Management expenses	5,900	..	120,839	..	128,336	..
Depreciation	15,697*	..	280,221*	..	295,918	..
Insurance (including war-damage and earthquake insurance)	1,895*	..	80,480*	..	82,401	..
Rates	11,503	..	238,593*	..	250,096	..
Maintenance	14,309	..	335,333*	..	349,642	..
Losses and vacant tenancies ..	56	..	73,983*	..	74,039	..
Excess of revenue over expenditure, transferred to Profit and Loss Account	..	..	..	..	..	..
Excess of expenditure over revenue, transferred to Profit and Loss Account	..	2,619	..	58,833	..	47,900
Totals	60,674	60,674	1,538,495	1,538,495	1,615,190	1,615,190

HOUSING ACCOUNT—continued
BALANCE-SHEET AS AT 31st MARCH, 1947—continued

	£		£
Brought forward	31,706,608	Brought forward	1,146,641
Insurance Reserve	555,042	Instalments of principal overdue ..	3,279
Reserves: Rented properties (new), (rates, maintenance, bad debts, and vacant tenancies)	1,623,125	Interest receivable—	
		Overdue	2,703
		Accrued	5,609
		Recoverable expenditure	18
			<hr/>
		Less amount in hand unallocated	1,158,250
			4,081
			<hr/>
		Rented properties (old)	746,414
		Less Depreciation Reserve	131,414
			<hr/>
		Rented properties (new)	33,382,929
		Less Depreciation Reserve	1,414,694
			<hr/>
		Rent receivable—	
		Overdue	28,495
		Postponed	343
		Accrued	12,337
			<hr/>
		Sundry debtors	41,175
		Cash in hand of S.A.C.	397
		Writings-off Suspense	61,030
		Profit and Loss Account	1,514
			23,255
			<hr/>
			£33,864,775
			<hr/>

NOTE.—Dwellings under construction and vacant land are under the control of the Public Works Department, and expenditure in connection therewith is not included in these accounts.

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

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

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 set out the position as disclosed thereby, subject to the above departmental note.—J. P. RUTHERFORD, Controller and Auditor-General. 16th September, 1947.