

1948
NEW ZEALAND

STATE ADVANCES CORPORATION OF NEW ZEALAND

REPORT AND ACCOUNTS FOR THE YEAR ENDED 31st MARCH, 1948

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, 1948, together with a report on the administration for the year, in accordance with the provisions of subsection (1) of section 43 of the State Advances Corporation Act, 1934-35.

PART I.—GENERAL

A review of the year's operations discloses that 19,958 applications for loans under various headings were dealt with, as against a total of 22,676 for the preceding year, or a reduction of 2,718. It is true to say, however, that the handling of these applications, in itself a formidable task, has meant another year of constant and heavy pressure for all concerned, particularly having regard to the fact that the administration of loans granted during recent years is adding a cumulative burden which the administration machinery must take care of. The following table may be of interest as illustrating the number of applications received for the past two years under classified headings :—

Year.	Urban.	Rural.	Tools of Trade.	Furniture.	Business.	Miscellaneous.	Total.
1947 ..	8,678	2,485	210	8,602	2,636	65	22,676
1948 ..	7,150	1,696	283	8,411	2,392	26	19,958

It will be seen that the main falling off is in the urban and farm loan applications. In the report covering the 1947 operations it was suggested that the peak of rehabilitation lending had then been reached, and this is borne out by the figures now available. The demand for loan finance is nevertheless still heavy, but indications are that, with the passing of the years since general demobilization, the downward trend of applications from ex-servicemen will continue until a basic level is reached. The figures quoted include applications from civilians and from ex-servicemen not immediately eligible for rehabilitation assistance, and cover, therefore, the whole of the activities of the Corporation in the categories as listed.

The Board has continued its policy of conserving capital funds to meet the loan requirements of ex-servicemen, and consequently there has been no extension of the existing lending facilities to civilians, loans to whom are, in the main, restricted to those requiring special loans to erect dwellings, and to those whose requirements can be met within the normal lending margins.

The operations of section 51 of the Servicemen's Settlement and Land Sales Act, 1943, has had the intended effect of reserving all economic farm units for ex-servicemen, and consequently applications from civilians for finance to purchase farms have been almost negligible.

Capital repayments from existing borrowers have provided a substantial reserve for rehabilitation loan purposes, but in addition it has been necessary during the year to obtain from Treasury, in accordance with arrangements made with the Government, additional capital moneys totalling £6,700,000. The Board anticipates that approximately £7,000,000 will be similarly required for the ensuing year.

With the exception of a prolonged dry summer in the lower portion of the North Island and the northern part of the South Island, the year generally has been a good one from a climatic point of view, and farming returns so far available indicate that our rural mortgagors have had a successful season. Many have far exceeded budgetary receipts, and with stability of prices for farm products the successful rehabilitation of the great majority should be assured. Technical assistance and advice from the field staff of the Corporation has been readily availed of and has in no small measure helped to overcome the inevitable difficulties that arise from time to time, especially during the initial establishment period.

With 61,687 loan accounts representing investments of Corporation funds and 54,156 rehabilitation, housing, rental, and other agency loan accounts under administration at 31st March, 1948, the year has been a very busy one, and when it is realized that no fewer than 1,250,000 receipts were issued during the twelve months, covering an inflow of cash totalling nearly £10,250,000, it will be apparent that the work involved could not be handled expeditiously without an efficient and competent staff using modern business methods. It is worth recording, too, that no less than ninety-one thousand cheques were issued during the year, involving an outflow of cash of approximately £20,750,000. These figures indicate the sheer volume of the transactions with which the staff have to deal, and it is right to say in this regard that the bulk of the transactions cannot be classified in the "routine" class. The accounts are on a fully mechanized basis, and the Board has, in accordance with its traditional policy, continued to keep abreast of developments in this field. It will, as occasion requires, introduce mechanical aids best suited to its needs and calculated to assist in extending an even more expeditious service to the public.

Reference has already been made to the number of loan applications received during the year, and we now submit statistics showing the total numbers and amounts of loans actually authorized. Corresponding figures for the year 1947 are shown in brackets:—

Statistics for Year ended 31st March, 1948

Classification.	Loans authorized.			
	Number.		Amount.	
			£	£
Farms	1,149	(1,806)	5,299,741	(7,439,782)
Stock	53	(117)	55,353	(101,908)
Houses	5,998	(7,334)	7,209,120	(8,772,521)
Industrial	3	(—)	75,500	(—)
Business	1,344	(1,661)	996,878	(1,137,119)
Furniture	7,954	(8,131)	729,058	(754,509)
Tools of trade	187	(169)	5,401	(6,297)
Miscellaneous	56	(118)	15,647	(30,077)
Totals	16,744	(19,336)	14,386,698	(18,242,213)

A more complete understanding of the importance of the Corporation's part in assisting in the development of the Dominion will be obtained from the following statistics showing firstly, the number of applications received in the past year and the loans authorized for farms and dwellings and secondly, the aggregate for the period of its operations from 1935 to 1948.

	Applications received.		Loans authorized.	
	Number.	Amount.	Number.	Amount.
During year ended 31st March, 1948—		£		£
Farms	1,696	7,062,000	1,149	5,300,000
Residential	7,150	8,735,000	5,998	7,209,000
	8,846	15,797,000	7,147	12,509,000
During period 1935 to 1948—		£		£
Farms	17,091	46,324,000	9,852	27,921,000
Residential	49,935	50,667,000	37,356	37,659,000
	67,026	96,991,000	47,208	65,580,000

In the following table is shown the total number of loan accounts under all headings being administered at 31st March, 1947, with the number of loans repaid and new accounts opened during the year, the resulting balance being the number under administration as at 31st March, 1948 :—

Number of loan accounts as at 31st March, 1947	80,245
Less repaid during the year	8,237
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Add new loan accounts opened during the year	72,008
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Number of loans accounts as at 31st March, 1948	16,771
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	88,779
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We also place on record herewith the details of investments and other assets (including the Housing Account assets referred to later in this report) being administered by the Corporation at the end of the year :—

Assets Administered by Corporation

	Number of Accounts.	Principal Investment. £
Mortgage investments—		
Urban	40,780	31,395,829
Rural	19,307	31,109,415
Loans to local authorities	1,600	4,407,066
Housing Account—		
Dwellings let	25,721	37,985,322
Dwellings sold	189	105,800
Loans to local authorities	91	974,052
Loans to employers	6	15,195
Rural Housing Act : Loans to local authorities	41	134,376
Advances under Rehabilitation Act, 1941—		
Furniture, tools of trade, business, and miscellaneous	26,946	3,224,270
Interest-free supplementary loans .. ..	..	1,291,345
Other principal agencies—		
Agriculture Emergency Powers Act, 1934	8	22,179
Farmers' Loans Emergency Regulations 1940	172	64,834
Public Works Department hutments rented to farmers	281	65,317
Rural Housing Emergency Scheme, 1944	259	28,057
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Total	115,401	£110,823,057
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It will be noted that, for the first time in the history of the Corporation, the total capital investment in respect of mortgages and other accounts under administration is in excess of £110,000,000, and there seems to be little question but that the Corporation is the largest institution of its type in the British Commonwealth, and it will play an ever-increasing part in the economic structure of the Dominion. Its responsibilities are correspondingly great and may be classed as twofold—firstly, it is responsible to the Government for the administration and control of assets which represent very substantial public funds, and, secondly, it has a responsibility to its borrowers and other clients who look to a national institution such as the Corporation for a measure of advice and guidance not only in the matter of their initial borrowing project, but also in their day-to-day problems of finance while they continue to be clients of the institution.

This is in some small measure reflected in the table given below, which, in accordance with the procedure adopted in previous reports records the amounts that have been written off (as irrecoverable losses) through the operations of the Mortgagors' and Lessees' Rehabilitation Act, 1936, or otherwise, for the past year and since the Corporation commenced to function. Losses in respect of rehabilitation loans, to the extent that they are attributable to normal lending limits having been exceeded, are not a charge against the Corporation's reserves, but are recoverable from War Expenses Account. These losses are not included in the figures below, but are recorded separately in the section "Rehabilitation Agency General."

Losses Written Off in Respect of—	Amounts written off.	
	For Year ended 31st March, 1948.	Total from 1935 to 1948.
Loans approved prior to 1935—	£ s. d.	£ s. d.
Farms	25,080 18 0	2,311,310 11 11
Residential	5,676 15 9	515,852 19 3
	30,757 13 9	2,827,163 11 2
New Corporation loans since 1935—	£ s. d.	£ s. d.
Farm	38 1 2	5,866 19 1
Residential .. .. .	..	385 16 3
	38 1 2	6,252 15 4

These figures might well be studied, because they do indicate an extremely low loss ratio in respect of loans granted since the Corporation was established. It would not be fair merely to contrast the figure of £6,252 15s. 4d. in respect of such loans with the very large sum of £2,827,163 11s. 2d. written off in respect of loans granted prior to 1935, because other factors intervene which did have the effect of increasing substantially the loss ratio in respect of such loans. There was the aftermath of the 1931-35 slump, the operation of the Mortgagors' and Lessees' Rehabilitation Act, 1936, and so on, but the Board is convinced that one of the reasons for the large disparity between the loss ratio in respect of loans granted in the two different periods lies in the fact that one of the first duties of the Board when it was appointed was the recruitment of a competent field staff to report on loan applications received and generally to act in a liaison capacity with clients. Evidence is not lacking that the substantial loss ratio in respect of loans granted prior to 1935 was due in a considerable measure to the fact that the then State Advances Office had to rely for its field reports on reporting officers with whom it had no direct contact whatever. In the report of the previous year comment was made on the duties and responsibilities of the field officers of the Corporation, and it is well that the comments made in that report should be read and studied in the light of financial trends evidenced in the foregoing table.

INTEREST RATE AND LOAN TERMS

The interest rate for loans granted to other than ex-servicemen has been maintained at 4½ per cent. This rate has been in force since the inception of the Corporation in 1935 and is competitive, fair to the borrower, and provides a barely sufficient margin to cover administration costs and tax requirements. Although preference is given to ex-servicemen in all the Corporation's lending activities, ample funds are available to meet the needs

of civilians who qualify for special loans for the erection of dwellings and also those whose requirements can be met within the normal lending limits of two-thirds of the assessed value of the security offered. From time to time suggestions are made that interest rates and the lending margin should be reduced. It is, however, obvious that money alone will not build houses, and the provision of cheap finance, which could not be related in any way to the rate at which either the Corporation or the Government could borrow from genuine savings of the people, would merely create a greater demand for labour and goods already in short supply and would assuredly cause building costs to harden further against the very people a more liberal lending policy would be intended to assist. It is essential that lending policy should always be co-ordinated with the national economy, and any factors which would have the effect of increasing consumer demand—*i.e.*, for labour, materials, or completed houses—without at the same time increasing production of those materials in short supply should be eliminated. Any other course would imperil the stabilization policy which is concerned just as much with houses and materials for houses as it is with any other necessity of life such as the food and clothing of the people.

Ex-servicemen immediately eligible for rehabilitation benefits continue to enjoy the lower rate of 3 per cent., reduced to 2 per cent. for the first year, for house and farm loans and 4 per cent., reduced to 2 per cent. for the first year for business loans.

RURAL INTERMEDIATE CREDIT (STOCK) LOANS

In terms of the Rural Intermediate Credit Amendment Act, 1946, the Rural Intermediate Credit system established by the Rural Intermediate Credit Act, 1927, was amalgamated with the Corporation's other lending operations. During the past year facilities continued to be available for farmers who desired to obtain short-term finance principally on the security of their farming stock and chattels, and applications for loans were received both from farmers applying direct to the Corporation and from those who sought their requirements through co-operative Rural Intermediate Credit Associations operating in accordance with the provisions of the legislation. As in recent years, the demands for accommodation were not extensive, owing to the favourable conditions generally which primary producers are enjoying, but during the year 64 loans, aggregating £82,727, were granted to farmers who applied direct to the Corporation, the applicants being mainly ex-servicemen of the recent war who were eligible for rehabilitation assistance, and 30 loans, totalling £21,392, were granted to farmers who applied through associations, no rehabilitation lending being involved under this heading. At the end of the year the total amount outstanding under current loans granted direct to farmers was £132,752 in respect of 216 loans, and, in addition, the sum of £46,630 was outstanding in respect of 206 loans granted through associations. The total loans outstanding were consequently 422 for the aggregate amount of £179,382.

REHABILITATION AGENCY : GENERAL

The Rehabilitation Loans Committee and (under delegated authority) the various District Executive Committees are charged by the Rehabilitation Board with the responsibility of considering all loan applications from eligible ex-servicemen. These lending authorities, in turn, look to the Corporation's administrative and field staffs to obtain and assemble the necessary data to enable a correct decision to be made. It will be readily apparent that these investigations must be exhaustive and thorough, and this is particularly so where business loan applications are concerned. Not only must the physical assets being purchased represent full value for the price asked, but, where available, past accounts records must be analysed to ensure that the average turnover is such as to indicate that the ex-serviceman will have a reasonable prospect of being successful and that his rehabilitation on a permanent basis may be assured. Each application,

whether for business, farm, or dwelling, carries its own problems, and it is therefore pleasing to note that by far the great majority of ex-servicemen assisted to date are proving successful and are rapidly becoming firmly established. The relatively few failures that have occurred have been due mainly to the personal element, either the borrower being temperamentally unsuited to the particular venture or revealing poor managerial capacity rather than to the proposition itself being economically unsound.

The table hereunder shows the aggregate numbers of loans and amounts authorized from June, 1941 (the inception of rehabilitation policy), to 31st March, 1948. As a record of substantial and successful rehabilitation it requires little elaboration:—

Type of Loan.	Number.	Amount. £
Tools of trade	1,188	38,806
Furniture	28,429	2,613,360
Business	5,940	3,650,719
Farms	4,716	19,237,489
Houses	20,194	23,752,605
Miscellaneous	312	67,980
Stock (R.I.C.)	350	296,301
Totals	61,129	£49,657,260

Included in the amount shown above is the sum of £1,742,587, representing the total authorized by way of supplementary interest-free loans to 31st March, 1948. As indicated in previous reports, no interest or principal repayments are required in respect of these loans whilst the ex-serviceman borrower remains the owner occupant of the property.

Ex-servicemen have entered into almost every phase of business life from taxi transport to inter-colonial freight shipping, from bootmaking to hotel ownership. In a necessarily condensed form the following table shows, under classified headings, the various types of business loans authorized:—

Classification of Business Loans

Number.			Total. £	Number.			Total. £
Butchery	142	115,815	Taxi, service car, and transport	794	446,227		
Grocery and general store	445	356,801		953	672,030		
Bakery, dairy, refreshment-rooms	302	202,454	Hairdresser and tobacconist	83	37,655		
Milk-round	172	128,916	Bootmaker	128	38,869		
Building trades	437	225,385	Painter and paperhanger	144	44,927		
Mechanical repairs	296	178,351	Launch and fishing gear	81	50,598		
Manufacturing business	209	140,438	Agricultural contractor	348	249,033		
Stationery and fancy goods	85	60,825	Chemist	24	25,130		
Eggs, poultry, &c.	40	25,668	Miscellaneous	435	264,870		
Professional equipment	656	290,704					
Radio dealer and electrician	136	70,048					
Hotel and guest-house	30	25,975					
			Total to 31st March, 1948	5,940	£3,650,719		

All loans are granted on terms providing for reasonable repayments over a number of years determined by the Rehabilitation Loans Committee or the District Executive Committee in relation to the type of asset and the estimated profit-earning capacity of the particular business. In many cases borrowers have found it possible to increase their instalments, thus reducing the loan term and clearing their liability in a shorter period than that originally fixed. On the other hand, through temporary setbacks due to ill health, shortage of supplies, or some other factor outside the borrower's control, it has been necessary in some cases to ease the rate of repayment. Such cases are considered sympathetically by the Committee concerned, and, where warranted on the facts, appropriate relief is extended.

As in previous years, a return is appended showing arrears under rehabilitation loans as at 31st March, 1948. In last year's report unfavourable comment was made on the large number of furniture and tools of trade accounts in arrear, and, unfortunately, the position shows no improvement. Since this type of loan carries no interest charge and the principal repayments are modest in amount it is reasonable to expect a very low percentage of accounts in arrear. The reverse, however, appears to be the case, and it would seem that it is because they are interest-free that the borrowers concerned display a lesser sense of responsibility for the repayment obligations they have entered into. When viewed in relation to the average family income there is little justification for such a large percentage being in arrear and recommendations with a view to improvement in the position have been made to the Rehabilitation Board.

(1) Arrears as at 31st March, 1948, on Farm and Residential Loans

	Accounts.		Arrears.		Percentage in Arrears to Number of Accounts.
	Number.	Principal Outstanding.	Number.	Amount.	
		£		£	
Farm	4,285	15,914,870	156	18,728	3·6
Residential	14,287	16,125,565	392	5,590	2·7
	18,572	32,040,435	548	24,318	2·9

(2) Arrears as at 31st March, 1948, on other Rehabilitation Loan Accounts

	Accounts.		Arrears.		Percentage in Arrears to Number of Accounts.
	Number.	Principal Outstanding.	Number.	Amount.	
		£		£	
Furniture	23,295	1,418,594	2,371	20,030	10·2
Tools of trade	334	4,805	108	902	32·3
Business	3,061	1,733,252	327	26,088	10·7
Miscellaneous	176	45,649	28	367	15·9
	26,866	3,202,300	2,834	47,387	10·5

Losses written off after realization of securities in respect of loans granted to returned servicemen under the rehabilitation scheme up to the 31st March, 1948, are shown hereunder :—

				For Year ended 31st March, 1948.			Total to Date.		
				Number.	Amount.		Number.	Amount.	
					£	s. d.		£	s. d.
Farm .. .. .	..	..	14		2,235	7 9	33	4,770	8 2
Residential .. .. .	..	..	1			5 14 5	1		5 14 5
			15		£2,241	2 2	34	£4,776	2 7
					£	s. d.		£	s. d.
Business .. .. .	..	..	25		3,782	13 10	52	7,182	5 7
Furniture .. .. .	..	..	15		454	3 8	37	1,075	17 5
Tools of trade .. .. .	..	..	5		17	10 1	12	109	4 3
Miscellaneous .. .. .	..	..	..			..	1	14	0 0
			45		£4,254	7 7	102	£8,381	7 3

It will be of interest to record that, while the Corporation still has a very large number of rehabilitation loans on its books, there is nevertheless a considerable number of loans granted under this heading which have in fact already been repaid, and the relative figures (as to number of accounts only) are shown in the following table :—

Type of loan.	Number of Accounts Repaid, 31st March, 1948.
Farm	76
Residential	777
Stock (R.I.C.)	44
Business	1,745
Furniture	2,519
Tools of trade	706
Miscellaneous	99
Total	5,966

It should be explained that some of the loans have been repaid as a result of the sale of farms, houses, and businesses by the original borrowers, who for various reasons have found it necessary to change their employment or the location of their place of residence. The properties thus sold have in most cases been acquired by other ex-servicemen, to whom new loans have been granted.

PRESERVATION AND PROTECTION OF TIMBER

Treatment of Timber.—As part of its policy of providing long-term finance for the erection of buildings, the Corporation requires that such buildings be constructed with high-grade durable materials. Heart grades of native timbers have been difficult to obtain in recent years, and, with the likelihood in the future of further reduced supplies and an increased use of exotics, the Corporation has actively encouraged the development of preservation methods to enable the acceptance of the lower grades of timber with confidence.

Up to the present most of the preservative treatment has been by the kiln-drying and dipping process. In addition to other advantages the kiln drying ensures that the timber is sterile prior to treatment, and the subsequent dipping process offers a desirable measure of protection against subsequent attack by insect, fungi, or other wood-destroying organisms. The method is, however, not ideal, partly because of the expert and close supervision necessary, and partly because of the technical difficulties encountered. Particular care has also to be taken to ensure that the only chemicals used are harmless to persons operating the dipping-plants or to users of the timber, and that the painting and other essential requirements of timber are not affected. The great advantage of the dipping process is that wherever proper kiln-drying facilities are available, it can be initiated quickly and economically without the installation of expensive plant. The amount of timber treated by this method is considerable, and up to the present approximately 5,000,000 super. feet of low-grade timbers, otherwise unsuitable, have been made available for building purposes.

More recently pressure-impregnation methods of treatment have been instituted in New Zealand. Commercially operated plants have been installed in Auckland and Christchurch, while plants in other centres are contemplated. A considerable proportion of the non-durable grades of timber being used in the State rental houses and in Corporation securities is already being treated in these plants. To date approximately 2,500,000 super. feet of these timbers have been pressure treated. These are mainly native timbers such as rimu, matai, and tawa, but approximately one-quarter of the total is exotics, mainly *pinus radiata*.

The Board confidently anticipates that the extended use of pressure-impregnation methods will largely solve the problems involved in the use of the lower grade timbers.

Termites Act, 1940.—Under the Termites Act, 1940, the Corporation has certain administrative and technical responsibilities for the detection and control of non-indigenous termites, several species of which have become established to some extent in various parts of New Zealand. One means of the introduction of termites into this country is in the hardwoods which are regularly arriving from overseas, and, by arrangement, the State Forest Service has assumed the responsibility for the inspection of all hardwoods imported, together with the isolation and treatment of any infested timbers found.

Up till 1947 eight local authorities had been declared local authorities to which the Act applied. In one of these, the Waikohu County, the known active colonies have been destroyed and the order declaring that it should be a local authority to which the Act applied was revoked in 1946. During the past year one additional local body, the Waipa County, has also been brought under the provisions of the Act, mainly as a result of active infestations being found near Cambridge. These local bodies are responsible for the inspection within their boundaries of buildings, poles, stumps, and other timber likely to be attacked. The number of properties inspected and the number of infestations recorded up to 31st March, 1948, is as follows :—

Local Bodies.				Properties inspected, including Re-inspections: Total as at 31st March, 1948.	Properties in which Infestations found : Total as at 31st March, 1948.
Auckland City Council	..	..	..	16,276	323
New Plymouth Borough Council	..	..	..	1,304	23
Onehunga Borough Council	..	..	..	1,231	111
Mount Albert Borough Council	..	..	..	569	4
One Tree Hill Borough Council	..	..	..	1,040	2
Mount Eden Borough Council	..	..	..	337	2
Mount Roskill Road Board	..	..	..	699	23
				21,456	488

Staffing difficulties have prevented this inspection work proceeding as expeditiously as is desirable and, except for the Auckland City Council, which has displayed commendable energy, and possibly the New Plymouth Borough, in which the infestations may now have been destroyed, there is a good deal of leeway to be made up. With the possibility of more Inspectors being secured in the near future it is hoped to secure some improvement in the coming year.

The proportion of inspected properties infested is not high, as will be gathered from the following table indicating the incidence reported as a result of the inspections carried out by the Auckland City Council up to 31st March, 1947 :—

Location of Activity.					Active.	Inactive.	Total.
Utility poles, &c.	..	..	..	..	15	90	105
Building properties, &c.	..	..	..	..	40	121	161
Total	..	..	..	..	55	211	266

It will be noted that the analysis in the above table shows that some 266 infestations were under observation as at 31st March, 1947, and subject to inspection and control measures. Of these, 211 were inactive and only 55 active. Nevertheless, the importance of the work is to be measured not so much by the number of infestations being dealt with as by the necessity for ensuring that each infestation is controlled, and, if possible, eliminated, before it becomes the centre of an extensive outbreak.

During the year a Termites School of Instruction was conducted by the Corporation at Cambridge. This was attended by Inspectors from the local bodies adjacent to the Waipa County, and as a result of the subsequent examinations five officers secured certificates as Inspectors under the Act.

STAFF

This report would not be complete without some reference to the co-operation that the Board has received from its administrative officers and staff, both office and field. The standard is high and has, in no small measure, contributed to a year of successful administration. Pressure has been heavy and will continue to be so for some time yet, but the Board is confident that, with the able assistance of a keen and efficient staff, it can cope with whatever demands are made upon it. In its capacity as agent for the Rehabilitation Board the Corporation has accepted the responsibility not only for the provision of finance on a basis that will enable ex-servicemen to establish themselves successfully, but also for ensuring that all the help and advice so necessary to these men in their early years of settlement is readily available. Upon the establishment of the Corporation in 1935 the Board enunciated a policy of recruiting and training a competent field organization. This policy was put into effect, and, as a result, the Corporation had available a nucleus of experienced field officers to withstand the impact of rehabilitation and to develop and train additional staff necessary to cope with the large increase in loan applications. In addition to this the Corporation provided an advisory service to ex-servicemen, the great majority of whom were just commencing their chosen careers. It is not only in the rural field of activity that the Board's policy has proved its value. In the urban field also an efficient team of Property Supervisors conversant with building methods and trends in modern construction was available to advise ex-servicemen, to suggest improvements in plans and designs and to help them generally in their building problems.

It needs no emphasis that the success of the Corporation must in a large measure be bound up with the success of its clients, and it is only by close co-operation between the Corporation and its clientele through an efficient field organization that the success of both can be assured. The Board wishes to stress this aspect, because it is one which has been a guiding principle with the Board from the time it commenced to function.

The wisdom of this policy has been amply proved not only by the exceptionally small losses of capital that have been incurred since the Corporation was first established, but also by the success that has attended the rehabilitation scheme generally through an organization able and willing to function from the moment the Government proclaimed its policy and created legislation.

BALANCE-SHEET

Mortgage investments have continued to increase in volume during the year, principally due to loans under the rehabilitation scheme on farms and dwellings. The increase for the year has amounted to almost £7,000,000 being a rise from £55,333,501 in 1946-47 to £62,261,350 for the year 1947-48. It will be appreciated that existing mortgages are being steadily reduced each year by the payment of instalments of principal, and lump-sum repayments of principal in many cases, and for the year under

review approximately £4,000,000 was repaid in this way. When allowance is made for this the actual amount paid out during the year under the heading of "New Loans" approximated £11,000,000.

There is a corresponding increase on the Liabilities side of the balance-sheet in that the item "Stock and Debentures" has increased by £6,700,000, this amount being additional loan-moneys raised to meet the calls for new advances to clients.

REVENUE ACCOUNTS

The expanding scale of lending operations has meant in its turn an increase in interest earned on mortgages and current accounts, and for the year under review this increase amounts to £288,240, while interest payable on loans raised by the Corporation also shows a corresponding increase of £185,405. Gross profit transferred to Profit and Loss Account was £570,792, as compared with £502,517 for the preceding year.

Management expenses including administration costs in connection with rehabilitation advances for business, tools of trade, and furniture loans have shown an increase of £14,916, and it is worth recording that, as in past years, the Corporation has continued to meet, without any claim on other Government funds, the total cost of administering the rehabilitation loans under the category mentioned above. This year the charge under this heading amounts to £87,735, as against £83,733 during the preceding year. Had this amount been recovered from the appropriate departmental account, the balance of profit payable to the Treasury would have been increased. A change has been made this year in the matter of provision for reserves. In the past the provision for reserves has been made in the Profit and Loss Account, but this year the charge has been carried down to Profit and Loss Appropriation Account, which accounts for the fact that the net profit for 1947-48 is shown at £165,353, as compared with £74,394 for 1946-47.

However, the important point is that, after making full provision for taxation and reserves, the balance in the Profit and Loss Appropriation Account available for payment to Treasury is £15,934 for 1947-48, as compared with £8,394 for 1946-47.

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 THE YEAR ENDED 31ST MARCH, 1948

Interest Account

<i>Dr.</i>	£	<i>Cr.</i>	£
Interest on stock and debentures	..	Interest on mortgages and current accounts	..
Interest on General Reserve Fund investments—	..	Interest concessions on rehabilitation advances: Paid from	2,045,908
Payable on State's contribution	..	War Expenses Account	366,390
Credited to General Reserve Fund	..	Interest on Government and local-body securities	171,767
Gross profit transferred to Profit and Loss Account	..		
	<u>£2,584,065</u>		<u>£2,584,065</u>

Profit and Loss Account

<i>Dr.</i>	£	<i>Cr.</i>	£
Management expenses	..	Gross profit transferred from Interest Account	..
Administration of rehabilitation advances from War Expenses	..	Rentals: Properties acquired	1,112
Account (business, tools of trade, furniture, and miscellaneous loans)	..	Less miscellaneous expenses thereon	512
Earthquake-damage insurance	..		600
Net profit, transferred to Appropriation Account	..		
	<u>£571,392</u>		<u>£571,392</u>

Profit and Loss Appropriation Account

<i>Dr.</i>	£	<i>Cr.</i>	£
Provision for taxation	..	Net profit, transferred from Profit and Loss Account	..
General Reserve Fund (on account of taxation on Reserve Fund accretions)	..		167,353
Reserve for Losses—New Business	..		
Balance: Profits payable to Treasury	..		
	<u>£165,353</u>		<u>£165,353</u>

PART II.—HOUSING ACCOUNT

The duties and responsibilities of the Corporation under the Housing Act, 1919, and amendments and other legislation related to housing have greatly increased both as regards the provision of loan finance and the administration of the housing units erected by the Government for letting. The report hereunder provides a brief summary of the activities with which the Corporation is concerned :—

RURAL HOUSING

The Rural Housing Act, 1939, is still in operation, although we regret to record that the revival of interest on the part of local authorities and the farming community which was noted in the report for the preceding year has not been maintained to the extent which the Board would like. The special provisions under which farmers are enabled to raise finance through the County Councils, even though their properties may already be subject to mortgage, are liberal in operation, in that loans may be granted to County Councils by the Corporation at 3 per cent. interest, and the farmers may borrow at $3\frac{1}{2}$ per cent. from County Councils, if they are operating under the scheme. The Corporation will, however, continue to play its part in an endeavour to popularize this scheme still further so that housing conditions in rural areas may be improved as far as possible.

URBAN HOUSING

The Corporation is concerned with various phases of house-building in urban areas for letting purposes as more particularly detailed hereunder :—

(a) *New State Rental Houses.*—In this field the Corporation is responsible for administration and maintenance of dwellings after completion by the Housing Construction Department. For the year under review the number of houses delivered to the Corporation has again increased, and it is anticipated that there will be a still further increase for the following year. For the current year 2,715 new units were handed over, as compared with 2,392 units in the preceding year, while the total of new units completed and under administration by the Corporation as at the 31st March, 1948, reached the substantial total of 25,226. The administration of this scheme throws a considerable burden of work upon the Corporation in that it is responsible not only for supervision and maintenance of the dwellings after completion, but also for the selection of tenants, the completion of tenancy agreements, the handling of the numerous unsatisfied applications involving correspondence with and investigation of the circumstances of applicants, and other incidental duties. The very substantial volume of applications received for tenancies of State rental houses has continued to create a problem of administration which has not become any easier of solution as time has gone on. At the 31st March, 1948, the number of unsatisfied applications on hand totalled 52,186, and of these, 14,137 were from eligible ex-servicemen. It will be noted that there has been a slight reduction in the total of applications on hand as compared with the previous year. This does not necessarily mean that there has been a falling off in applications received during the year, but it is indicative of the fact that the Corporation has endeavoured to review all applications and to “purge” the lists as far as practicable on account of the fact that the circumstances of many applicants have substantially changed since their applications were first lodged, and many indeed have solved their own housing difficulties. Nevertheless, the sum total of applications is still very large.

During the year the Government decided to set up independent committees in selected localities to deal with the task of allocating houses as they are completed to those applicants who, in the opinion of the committee, were most deserving of immediate assistance. The committees are now functioning, and have in the main relieved the officers of the Corporation of a burden of criticism which was inevitable, having regard to the problem involved. It is no easy matter to decide upon an order of priority amongst the large volume of applications which will do justice to all the families concerned.

(b) *Old Rental Houses.*—The Corporation has 1,149 houses under its control which were erected prior to 1935 or have been acquired for housing purposes. These houses are let to tenants in a similar manner to that operating for new houses. The Corporation has continued to purchase, as opportunity offers, houses which are suitable for occupation by large families or have other features which are suited to the needs of other types of applicants.

In addition, the Corporation also continues to co-operate with the Public Service Commission in the operation of a Housing Bureau established at the office of the Commission. This Bureau has rendered considerable assistance to public servants on transfer, either in the direction of exchange of tenancies between officers transferred to or from the various towns throughout the Dominion, or in selected cases the Corporation has been able to make finance available to enable some officers to acquire suitable properties.

(c) *Transit Housing.*—The Transit Housing scheme previously established as a means of providing temporary accommodation for families who have an urgent need for better housing, but who are not immediately in line for the allocation of a permanent tenancy, continues to operate through local authorities with Government assistance, and transit housing camps have been established in many places throughout the Dominion. These schemes have made a worth-while contribution in easing the housing situation, and, on the whole, the schemes are working satisfactorily. It is worth recording that as at the 31st March, 1948, nearly 800 transit units were occupied by families. In general, it can be said that the aim is to place selected tenants in these temporary quarters and make provision for permanent tenancies in the order of priority to which the applicants would normally be entitled, but there are some few cases where the local authority has decided to take full responsibility for the selection of tenants for the transit camps, and in such cases the provision of permanent tenancies is arranged on a different basis. As at the 31st March, 1948, the number of applicants who were first allocated tenancies in transit camps, and who were subsequently allotted permanent accommodation, approximated 950.

(d) *Allocation of State Rental Houses to Ex-servicemen.*—It is still Government policy to set aside not less than 50 per cent. of all permanent housing units which become available for letting to eligible ex-servicemen. The selection of ex-servicemen tenants is the responsibility of the local Rehabilitation Committees in the various towns and cities where State houses are available.

FUTURE REQUIREMENTS

Although, for reasons already stated, there has not been an increase in the number of unsatisfied applications for the year under review, it is true to say that the applications still on record represent a very formidable total, but there is no reason to suppose that the housing condition of all these applicants is totally unsatisfactory. In past years, when considering future housing requirements, it has been suggested that if it were possible to have 25,000 new units provided over a short period of years this would have the effect of overcoming in a very large measure the difficulties which are now being experienced by so many families who have not been able to make provision for housing from their own resources. There does not appear to be any reason why this figure should be revised at this stage, although it would not be right to give the impression that there is a shortage only of 25,000 houses, but the provision of this number would certainly go a long way towards relieving the pressure caused by those families whose living conditions cannot be regarded as being in accord with modern requirements. It is pleasing to record that many more houses are being built by private individuals, and this will, in itself, result in releasing for occupation by other families existing accommodation which, if not ideal, will nevertheless, in the long run, assist in meeting the most urgent needs.

LOANS TO LOCAL AUTHORITIES FOR HOUSING SCHEMES

A worth-while contribution towards the solution of the housing problem is being made by some urban local authorities who are taking advantage of loans made by the Corporation from the Housing Account, and it is hoped that this facility may be more widely availed of as the years go by. Loans to local authorities for this purpose bear interest at 3 per cent. and are repayable over terms approved by the Local Government Loans Board, having regard to the life of the asset being created.

HOUSING FOR TIMBER-WORKERS

The housing scheme introduced by Part III of the Finance Act (No. 2), 1946, has been actively operated during the past year.

Subject to the conditions set out in the legislation, the scheme enables the provision to sawmillers of houses, situated adjacent to milling operations, the houses being so constructed as to be transferable as the need arises, for occupation by timber-workers at moderate rentals. The sawmiller is required to maintain and insure the units, and to pay to the Housing Account an amount equal to the rental payable by employees. Full ownership of the units passes to the sawmiller at the end of twenty years. Apart from the rentals payable by the timber-workers, the scheme is primarily financed by means of a levy on all timber (indigenous and exotic) milled in New Zealand, the industry thus being responsible for the ultimate financial success of the scheme.

The scheme is administered by the Corporation, with the assistance of the State Forest Service and the Timber Production Advisory Committee, the Housing Construction Department being responsible for the letting of contracts for construction of the houses.

Up to 31st March, 1948, a total of 386 units (comprising 228 three-bedroom units and 158 two-bedroom units) had been approved by the Board in respect of applications by seventy sawmillers, and there are indications that activity under the scheme will be maintained and probably increased.

It may be said, therefore, that the scheme is a valuable contribution towards the objective of facilitating, in the national interest, the greater production of timber for housing purposes, and in the provision of improved housing for the workers in the industry.

REVENUE ACCOUNT AND BALANCE-SHEET

In the tabulated Revenue and Expenditure Account a profit for the year is shown on the following classes of account:—

	£
(1) Properties Sold under Agreement for Sale and Purchase	1,655
(2) Advances to Local Authorities for Urban Housing	14,357
(3) Advances to Employers	178
(4) Advances to Local Authorities under Rural Housing Act, 1939	1,919
These profits however were more than offset by losses on	
(5) Rented Properties (Old)	1,033
and	
(6) Rented Properties (New)	116,224

The latter account, which comprises dwellings, flats, shops, and garages erected under the Government's new housing scheme, calls for special comment. The rentals receivable for 1947-48 amounted to £1,662,003, as compared with £1,479,662 in 1946-47. Included in the charges against this revenue are the following provisions based on the average expenditure, which it is estimated will be incurred during the life of a dwelling—depreciation at a rate sufficient to write off the construction cost in sixty years; insurance premiums for credit to the Housing Insurance Reserve at the average rate

chargeable on these types of dwellings by tariff insurance companies; interest on the capital cost; maintenance at $1\frac{1}{2}$ per cent. on the cost of improvements; losses and vacant tenancies at 5 per cent. of the gross rental. Though losses by way of bad debts and vacancies have been very light to date, the latter charge is considered prudent and necessary from a long-term point of view.

The expenses of management which amount to £132,186 for the year cover an extensive volume of work over and above the services normally rendered by a collecting agency, the principal aspects being the recording, control, and investigation of applications for tenancies, arranging exchanges of tenancies throughout New Zealand, legal services in respect of the 25,000 houses let, and, finally, the technical and clerical work in respect of maintenance. The volume of this latter class of work may be gauged from the fact that during 1947–48 over 48,000 repair jobs were let.

The excess of charges over revenue from the new State rental units resulted in a working loss of £116,224 in 1947–48, as compared with the loss of £58,833 incurred in 1946–47. The increased rate of loss is directly related to the steady increase in building costs over recent years which has resulted in higher charges per unit for interest, depreciation, insurance, and maintenance, and the quantum of loss will tend to increase as more houses are built at present prices.

In the Profit and Loss Account, to which the balances of the subsidiary revenue and expenditure accounts were transferred, the debit balance of £23,255 carried forward from 1946–47 was increased to £123,582 as at 31st March, 1948.

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

	£
(1) Payments received during the year ended 31st March, 1948 ..	1,933,150
(2) Amount of arrears in respect of rentals (old and new houses) and instalments under agreements for sale and purchase as at 31st March, 1948	10,217

Further statistical information in respect of the new State housing scheme is summarized below:—

(a) Number of new housing units let up to 31st March, 1948 ..	25,226
(b) Book value of new housing units as at 31st March, 1948 ..	£37,229,125
(c) Total amount of rent receivable on all new housing units from 31st March, 1937, to 31st March, 1948	£9,403,349
(d) Amount of rent in arrear at 31st March, 1948, in respect of new housing units	£6,145
(e) Total amount of rent in respect of new housing units written off from 1937 to 1948	£4,745

Viewed in relation to the capital investment and rental receivable, losses of rent and arrears are gratifyingly low. The care taken by tenants in the maintenance of dwellings and grounds is also worthy of special mention.

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, 1948

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 .. .. .	..	4,877	..	27,619	..	312	..	4,068
Rent .. .. .	..	..	..	..	..	..	..	..
<i>Expenditure</i>								
(including allocations to Reserve marked*)								
Interest	1,521	..	13,019	..	118	..	1,917	..
Management expenses	1,092	..	243	..	16	..	232	..
Depreciation .. .. .	..	..	..	..	..	..	..	..
Insurance (including earthquake insurance)	39	..	..	..	..	..	..	..
Rates .. .. .	..	..	..	..	..	..	..	..
Maintenance .. .. .	..	..	..	..	..	..	..	..
Losses and vacant tenancies ..	570	..	..	..	..	..	..	..
Excess of revenue over expenditure transferred to Profit and Loss Account	1,655	..	14,357	..	178	..	1,919	..
Excess of expenditure over revenue transferred to Profit and Loss Account	..	..	..	..	..	..	..	..
Totals	4,877	4,877	27,619	27,619	312	312	4,068	4,068

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 .. .. .	..	..	..	..	..	36,876
Rent .. .. .	..	63,205	..	1,662,003	..	1,725,208
<i>Expenditure</i>						
(including allocations to Reserve marked*)						
Interest	11,478	..	483,983	..	512,036	..
Management expenses	6,115	..	132,186	..	139,884	..
Depreciation	18,158*	..	328,213*	..	346,371	..
Insurance (including earthquake insurance)	1,996*	..	93,630*	..	95,665	..
Rates	12,318	..	266,993*	..	279,311	..
Maintenance	13,958	..	390,122*	..	404,080	..
Losses and vacant tenancies ..	215	..	83,100*	..	83,885	..
Excess of revenue over expenditure, transferred to Profit and Loss Account	..	..	..	..	..	..
Excess of expenditure over revenue, transferred to Profit and Loss Account	..	1,033	..	116,224	..	99,148
Totals	64,238	64,238	1,778,227	1,778,227	1,861,232	1,861,232

HOUSING ACCOUNT—*continued*

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1948

<i>Dr.</i>	£	<i>Cr.</i>	£
Balance, 1st April, 1947..	..	Balance, 31st March, 1948	..
Administration of Termites Act, 1940	..		..
Borer-treatment investigation	..		..
Pre-treatment of timber	..		..
Loss for year (see combined Revenue and Expenditure Account)	..		..
	23,255		123,582
	527		
	95		
	557		
	99,148		
	<u>£123,582</u>		<u>£123,582</u>

BALANCE-SHEET AS AT 31ST MARCH, 1948

<i>Liabilities</i>	£	<i>Assets</i>	£
Loan liability ..	..	Principal owing under agreements for sale and purchase ..	102,802
Sundry creditors—	..	Advances under—	..
Tenancy deposits	..	Part III, Housing Act, 1919 (loans to employers)	15,095
Rent paid in advance	..	Part V, Housing Act, 1919 (local authorities : Urban housing) ..	973,987
Departmental	..	Rural Housing Act, 1939 ..	134,281
Miscellaneous	..		<u>1,226,225</u>
Timber levy	..		..
	343,981		..
	<u>36,900,475</u>	Carried forward	<u>1,226,225</u>
Carried forward	..		..

HOUSING ACCOUNT—continued

BALANCE-SHEET AS AT 31ST MARCH, 1948—continued

	£		£
Brought forward	36,900,475	Brought forward	1,226,225
Insurance Reserve	628,239	Instalments of principal overdue ..	3,200
Reserves : Rented properties (new), (rates, maintenance, bad debts, and vacant tenancies)	1,952,035	Interest receivable—	
		Overdue	2,331
		Accrued	6,956
		Recoverable expenditure	6
		Less amount in hand unallocated	1,238,718
			3,571
			1,235,147
		Rented properties (old)	908,149
		Less Depreciation Reserve	151,952
			756,197
		Rented properties (new)	38,993,252
		Less Depreciation Reserve	1,764,127
			37,229,125
		Rent receivable—	
		Overdue	38,254
		Postponed	350
		Accrued	12,772
		Sundry debtors	51,376
		Cash in hand of S.A.C.	70,399
		Writings-off Suspense	14,177
		Profit and Loss Account	746
			123,582
	£39,480,749		£39,480,749

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. 5th October, 1948.

Approximate Cost of Paper.—Preparation, not given ; printing (893 copies), £64.

By Authority: E. V. PAUL Government Printer, Wellington.—1948.

Price 9d.]