

1950
NEW ZEALAND

LOCAL GOVERNMENT LOANS BOARD

REVIEW OF OPERATIONS FOR THE YEAR ENDED 31ST MARCH, 1950

Laid on the Table of the House of Representatives by Leave

To the Right Hon. the MINISTER OF FINANCE.

THE Local Government Loans Board presents hereunder a review of its operations for the year ended 31st March, 1950.

Applications considered by the Board, while still being large in number and value, showed some decline from the immediate post-war years, indicating that a considerable part of the capital programmes of local bodies, necessarily deferred during the war period, has been completed or has been provided for.

The summary given below sets out details of proposals considered by the Board, the figures for the previous year being included for comparison :—

	1948-49.		1949-50.	
	£	£	£	£
Applications	8,934,705		8,062,758	
Previously referred back	1,195,593		911,717	
	<u>£10,130,298</u>		<u>£8,974,475</u>	
Sanctioned—	£	£	£	£
*New loans	6,977,289		6,602,220	
Redemptions	1,542,177		761,957	
Referred back or declined	1,610,832		1,610,298	
	<u>£10,130,298</u>		<u>£8,974,475</u>	
	1948-49.		1949-50.	
*New loans—	£	£	£	£
Waterworks	413,000		381,610	
Drainage and sewerage	126,000		539,275	
Roads and bridges (counties)	79,650		145,525	
Street works (boroughs)	631,550		761,960	
Municipal buildings, &c.	22,750		433,950	
Recreational facilities	15,650		262,875	
Transport	1,353,336		160,000	
Housing	256,100		163,695	
Electricity supply—	£	£	£	£
Power Boards	1,441,500		1,320,850	
Other supply authorities	828,100		41,860	
	<u>2,269,600</u>		<u>1,362,710</u>	
Hospital works	1,263,100		1,277,050	
Harbour works	208,000		511,000	
Fire Board loans	18,900		109,540	
Gasworks	57,500		134,500	
Abattoirs	7,300		34,800	
Educational authorities	117,778		6,730	
Machinery	64,425		16,125	
Flood damage and river works			43,275	
Miscellaneous	72,650		257,600	
	<u>£6,977,289</u>		<u>£6,602,220</u>	

Approval was given under section 47 of the Finance Act, 1929, to the diversion of unexpended balances of loans amounting to £7,363, and the use of capital moneys amounting to £16,756 was consented to under section 20 of the Finance Act, 1934.

Significant figures in the tables quoted are the drop in requirements of power supply authorities, the continuance at a high level of hospital construction, and the decline in the number of renewal loans found necessary.

Most power supply authorities would appear to have reached the stage where the major construction programmes are complete, and considerable portions of this year's authorizations are to enable Power Boards to reconstruct their reticulation systems so that the carrying capacity of lines may be increased. Many supply authorities are taking this step now in anticipation of increased demand by consumers when the present shortage of electric power is relieved by the operation of generating-stations now under construction. High costs prevent all of this work being financed from depreciation funds, and it is sound accounting practice to charge to loan moneys the cost of capital extensions.

The cost of hospital work shows no decrease from the preceding years, and the Board reiterates its concern at the increasing burden on the community to provide these essential services. Under the existing system, for every £1,000,000 of loan sanctioned for hospitals, approximately £59,000 additional loan charges require to be met by the State each year. In effect, all capital expenditure is met by the State and no contribution is made by the local authorities. The Board is of the opinion that the capital cost and resultant charges could be reduced if the various local projects were timed to avoid neighbouring Hospital Boards being obliged to compete for the same construction force.

Renewal loans have not figured so largely in this year's operations, as borrowing authorities have been able to obtain their requirements over a longer term. Further, in most cases the provision for repayment of loans is on a more satisfactory basis, as the more popular and preferable method now is to redeem part of the loan each year. Where local authorities raise loans which are to be repaid at the end of a given term from a sinking fund, the Board recommends that a careful watch be kept on the earning-power of sinking fund investments so that when, as has happened in recent years, the yield falls below the previously assumed level, the annual contribution to the fund can be augmented to ensure that sufficient cash is available at maturity to redeem the loan in full.

A notable increase this year is the amount sanctioned for miscellaneous purposes. This increase is largely accounted for by the borrowing in anticipation of revenue by local authorities in respect of trading undertakings and by two authorities whose function is exclusively trading. In the latter cases the normal low local-body rate of interest is not normally available and for capital and current requirements bank overdraft is the most suitable method of borrowing.

The increases under the headings of drainage, street works, buildings, and recreational facilities are largely accounted for by large proposals of the Wellington City Council affecting those classes of work.

During the year the Board was notified of results of polls taken on thirty-five loan proposals, 85 per cent. of which were successful. The outstanding feature is that, on an average, only 26·4 per cent. of the eligible votes were exercised, the percentage ranging from as low as 8 per cent. up to a maximum of 58·5 per cent. The Board draws attention to the fact that over the years enabling legislation has been enacted so that for many non-essentials the necessity for a poll has been dispensed with, while for some essentials, notably water and sewerage and even improvements to existing systems, a poll is necessary. The Board considers that the rights of the ratepayers would be safeguarded if in all cases, as for electricity reticulation loans under section 15 of the Finance Act (No. 2), 1936, 5 per cent. of the ratepayers could demand a poll, with the further provision that the Board could in proper cases require the local authority to take a poll.

Local-body debt, which reached a peak of £72,686,000 in 1931, has receded to £57,117,475 as at 31st March, 1948, the last date for which statistics are available. The domicile of this debt is as follows: United Kingdom, £5,970,900; Australia, £1,255,269;

New Zealand, £49,891,306. As opportunity offers, most overseas debt, which cannot be redeemed at maturity, is being transferred to New Zealand, with a resultant saving in interest. The following table illustrates the movement of gross local-authority debt.

	London.	Australia.	New Zealand.	Total.
	£	£	£	£
1915	*	*	*	24,538,721
1920	*	*	*	30,187,942
1925	*	*	*	53,353,466
1930	*	*	*	71,207,539
1931	17,533,425	8,574,529	46,578,082	72,686,036
1935	16,088,525	2,564,693	52,592,240	71,245,458
1940	12,284,225	2,264,220	54,938,525	69,486,970
1941	9,893,025	2,198,211	55,883,451	67,974,687
1942	9,381,825	2,043,718	55,220,447	66,645,990
1943	8,461,325	1,851,273	53,656,498	63,969,096
1944	7,837,225	1,624,458	53,891,145	63,262,828
1945	7,074,925	1,544,382	52,618,630	61,237,937
1946	6,604,725	1,484,400	51,936,739	60,025,864
1947	5,990,325	1,286,783	50,488,345	57,765,453
1948	5,970,900	1,255,269	49,891,306	57,117,475

* Not available.

It is the policy of the Board to limit the term of a loan to the estimated economic life of the asset to be acquired out of the loan moneys, and in considering this question the Board is guided by the technical reports submitted by the Government Departments reporting on the proposal. As a result of technical improvements and past experience, the Ministry of Works is at present engaged on a review of the estimated lives of various classes of assets, and schedules have been prepared indicating the maximum term likely to be approved in respect of the various types of assets incorporated in water-supply and sewerage schemes. That information has been circulated to local authorities, consulting engineers, and other interested parties. It is hoped that the information will prove useful to local authorities when formulating loan proposals, and as further schedules are prepared they also will be circulated.

During the year the Board prepared a new edition of its handbook containing the Local Government Loans Board Act, the Local Government Loans Board Regulations, the Board's Rules of Procedure, and Instructions to Local Authorities. The Rules of Procedure and Instructions to Local Authorities have been revised and brought up to date. It is hoped that the information now contained therein will assist local bodies and their officers in complying with statutory and Loans Board requirements. The booklet is at present being printed, and as soon as copies are available a distribution will be made to all local authorities and others interested.

Past procedure has been followed during the year in that the Secretary, in some cases with a Board member, has visited areas concerned in loan proposals, and the consequent inspections and discussions have been mutually beneficial.

Throughout the year the Board's task has been simplified by ever-ready co-operation of local bodies which submit applications and of the various Government Departments which submit reports on relevant phases of each application.

B. C. ASHWIN, Chairman.

The Treasury, Wellington, New Zealand.

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