

## MAIN HIGHWAYS ACCOUNT.—INTEREST ON HUTT ROAD LOANS.

Audit had occasion to question a payment made in terms of section 33 of the Finance Act, 1927 (No. 2), from the Main Highways Revenue Fund to the Wellington City Council, in respect of overdraft interest on moneys borrowed by hypothecation of debentures.

The section quoted authorizes the Government to recoup the City Council in respect of interest and sinking fund charges on loans raised under the authority of the Hutt Road Amendment Act, 1917, the Wellington City and Suburban Highways Construction and Hutt Road Amendment Act, 1924, and the Wellington City and Suburban Highways Construction and Hutt Road Amendment Act, 1927. The Wellington City Council obtained authority to raise a loan for a sum of £20,000, and in order to save time hypothecated debentures with the bank and arranged for an overdraft.

When the vouchers for payment of the interest charges were presented for examination it appeared to Audit that interest payments were restricted by the section above-mentioned to interest on loans actually raised, and that payment of overdraft interest imposed an extra liability on the fund which apparently was not contemplated by the Legislature.

The matter was accordingly referred to the Crown Law Office, and the Crown Solicitor's ruling was to the effect that although the payment was legal and that the Main Highways Board was bound to make the payment, he was impressed with the Audit contention, and considered there was a very pressing reason for revising the legislation, or at least for telling the Wellington City Council that unless it floats the loan without delay this step will be recommended.

In view of the increased cost to the fund in respect of interest charges as a result of moneys being raised by the hypothecation of debentures, it is considered by Audit that the legislation in question should be revised, and that the City Council should be required to float the loans the interest in respect of which is recouped from the public funds.

## NEW ZEALAND STATE-GUARANTEED ADVANCES ACT, 1909.

Pursuant to section 30 of the New Zealand State-guaranteed Advances Act, 1909, and corresponding provisions of earlier Acts, now repealed, certain sinking funds were established for repayment of loans raised for the Advances to Settlers, Advances to Workers, and Advances to Local Authorities Branches of the State Advances Office. On the repeal of the above-named Acts the sinking fund was continued by section 26 (3) of the State Advances Act, 1913, and thereafter was known as the Advances Office Sinking Fund. Annual contributions to this sinking fund were discontinued pursuant to section 50 of the Finance Act, 1921-22, but the then existing fund was not in any way disestablished, and continued to accumulate at interest. By sections 17 to 20 of the State Advances Amendment Act, 1922, provision was made for further payments to this sinking fund, consisting of the net profits, if any, from the various branches after providing for certain fixed reserves and other appropriations of profit.

During the year 1928-29 payments amounting to £607,966 7s. 5d., representing contributions made to the sinking fund in past years out of capital, have been made from the Advances Office Sinking Fund for the redemption of debentures covered by the sinking fund and held by the Post Office, as follows :—

## Advances to Settlers Branch :—

	£	s.	d.	£	s.	d.
Government Advances to Settlers Act, 1908—						
4-per-cent. debentures redeemed at maturity ..	153,665	1	11			
New Zealand State-guaranteed Advances Act, 1909-10—						
4½-per-cent. debentures redeemed at maturity ..	205,000	0	0			
				358,665	1	11

## Advances to Workers Branch :—

Government Advances to Settlers Act, 1908 (Part III, Workers)—						
4-per-cent. debentures redeemed at maturity ..	..	..	..	21,091	7	11

## Advances to Local Authorities Branch :—

New Zealand State-guaranteed Advances Act, 1909—						
3½-per-cent. debentures redeemed before maturity ..	..	..	..	228,209	17	7
				£607,966	7	5

The Post Office immediately repaid the moneys so applied from the sinking fund, and these moneys were then treated as fresh investments by the Post Office in new loans for the State Advances Office issued under the State Advances Act, 1913.

The effect of these transactions is that the sinking fund has been utilized to the extent of £607,966 7s. 5d. without effecting any actual diminution in the total amount of State Advances loans outstanding, and the interest which would have been earned by this portion of the sinking fund and credited to the Sinking Fund Account will now be diverted to the general Profit and Loss Account of each branch. In other words, the capital sum of £607,966 7s. 5d., and the income therefrom, which were hitherto available only for the redemption of loans, have become available for the general purpose of the State Advances Account.

In view of the fact that these sinking-fund moneys have been invested in the same class of security as other moneys belonging to the State Advances Office, there is no apparent advantage to be derived by earmarking a certain proportion of the securities as a sinking fund, and possibly this may be partly the reason for transferring the above sum from sinking fund to the general moneys of the Department which are available for lending purposes. As the law stands, however, these transactions appear to infringe the intention of the Act, which not only established the sinking fund, but has been careful to provide for the continuance and accumulation of the existing funds even though a compulsory fixed annual contribution has been discontinued. It is not clear, however, that the transactions