

FINANCE ACT, 1926, SECTION 22.

Prior to the year 1925 certain of the separate accounts constituted by statute and forming part of the Public Account had, under statutory provisions, made contributions to sinking funds for the redemption of the loans raised for the purposes of such accounts. On the coming into operation of the Repayment of the Public Debt Act, 1925, the investments of the sinking funds in question became part of the Public Debt Redemption Fund, the interest on which was payable to the Consolidated Fund, thus in effect depriving the separate accounts of the sinking funds which they had built up.

On the other hand, the Consolidated Fund has on occasion either directly or through the operation of the Repayment of the Public Debt Act, 1925, and without any contribution from the separate accounts, paid off loans of various separate accounts.

To cover the position thus created provision was made by the Finance Act, 1926, section 22 (as amended by the Finance Act, 1927, sections 18 and 19, and the Finance Act, 1928, section 16) for the amount of any loans of separate accounts paid off by the Consolidated Fund to become a liability of the separate account to the Consolidated Fund, bearing interest, if the Minister of Finance so directs, at such rate as he might determine. Provision was also made for the amount actually contributed by separate accounts to any sinking fund now forming part of the Public Debt Redemption Fund, together with simple or compound interest thereon for such periods and at such rates as the Minister of Finance might determine, to become an asset of the separate accounts, to be applied in reduction of the liability to the Consolidated Fund arising from the repayment of loans as mentioned above, as and when such liability accrues.

In determining the rate of interest to be charged on the liability and allowed on the asset of each separate account, the Treasury has fixed *simple* interest at 4 per cent. on the liability of the separate account, and *compound* interest at 4 per cent. on the asset of the separate account. The effect of charging simple interest on the one hand and compound interest on the other is similar to charging a different rate of interest, and appears to be inequitable in principle. In the opinion of Audit the same rate of interest should be allowed on both sides of the account. It is impossible to say whether the separate accounts will or will not be able to meet their liability for interest to the Consolidated Fund annually as and when it accrues. They have not done so in the past in all cases. It is therefore advisable to provide a system which will ensure an equitable effect whether interest is paid annually or not.

Further, in ascertaining the amount of the asset representing sinking funds the amount of the sinking fund *accumulations* has in some cases been taken as the basis instead of the amount of the actual *contributions* paid from the separate accounts, as required by the Act.

The rate charged, 4 per cent., also appears to be unduly low when compared with current rates of interest. It seems undesirable that the Consolidated Fund should receive interest at only 4 per cent. on the liabilities of separate accounts, for this in effect means that the Consolidated Fund is subsidizing such separate accounts by the difference between 4 per cent. and the current rate of interest on Government loans. In the majority of cases there is little, if any, sinking fund to set off against the liability, and the Consolidated Fund will therefore suffer by reason of the fixing of a low rate of interest. As the amounts involved will in the course of time be very large, it appears to be a matter of considerable importance that an adequate and equitable rate of interest should be decided on, as the accuracy of the separate accounts and also of the departmental balance-sheets is affected.

EARTHQUAKE RELIEF FUND.

It was arranged by the Government that moneys received as contributions to the Earthquake Relief Fund should so far as possible be paid into the Public Account, and expended therefrom for the purposes for which they were subscribed. The transactions were passed through an account opened for the purpose under the heading "Deposits Account—Earthquake Relief Fund," particulars of which will be found in B.—1 [Part II], page 67.

Owing to the fact that in many cases the vouchers for payments from the Deposit Account did not indicate the exact nature of the expenditure, it was considered by the Treasury to be impracticable to closely analyse such expenditure, and the broad headings adopted give only an approximate indication of the purposes for which the moneys were expended. Under these circumstances the audit of the transactions of the Deposit Account was confined to ensuring, as far as possible, that all contributions were properly accounted for, and that the expenditure made had the approval of a responsible officer of the Treasury and was supported by acquittances.

WORKING RAILWAYS ACCOUNT.

Sections 19 and 20, Finance Act, 1929.

These sections repealed the provision for transfer from the Consolidated Fund to the Working Railways Account of a sum equal to the losses on branch lines and isolated sections, and at the same time reduced the capital on which the Working Railways Account is required to pay interest to the Consolidated Fund by the sum of £8,100,000.

The effect of such legislation is to reduce the amount of subsidy received by the Working Railways Account by a sum, based on the figures of previous years, of approximately £490,000 per annum, and at the same time to reduce the interest paid by the railways by a sum, based on the present rate of interest fixed by regulation, of £344,250 per annum, for which sum the Consolidated Fund is now responsible.