

1303. (1) The amount derived from the indigenous forests is credited to the State Forests Account, but this is a diminishing quantity, and, although the decline is probably largely due to present economic conditions, **the fact remains that this so-called revenue is now barely sufficient to meet the cost of administration of indigenous forests.** The receipts have declined from £150,000 in 1924-25 to approximately £55,000 in 1931-32, while the estimated receipts for 1932-33 amounts to only £41,000. **It seems to be worthy of special comment that the receipts from the forests with which New Zealand was endowed by Nature are even at this stage insufficient to meet purely administrative costs.** It is admitted that in the past there has been a surplus over and above administrative costs, and this surplus has been used to meet, in part, the cost of exotic plantations.

1304. In regard to the revenue derived from indigenous forests and the administrative costs in connection therewith, **the foregoing statement raises the question as to whether the return from exotic plantations will be sufficient to meet the capital cost, compound interest thereon, and annual maintenance costs until maturity.**

1305. In so far as the expenditure of the Department in connection with indigenous forests is concerned (Subdivisions II and III of the vote) it would appear that there are some items of expenditure which might be reduced, and **we recommend that the total of these subdivisions be reduced by 20 per cent.**

1306. There are other charges on the revenue from indigenous forests which should be abolished. We refer particularly to payments to local authorities (£9,065) under section 17 of the Finance Act, 1924, which appear under Subdivision VIII of the vote. This section provides that one-fifth of the revenue derived from the sale of timber from provisional State forests shall be paid to the local authorities in whose districts the timber is situated, to assist them to construct and maintain the roads in the district. We have carefully considered the principle underlying this provision, and believe that, while these payments to local authorities may have been justified when the legislation was introduced, circumstances have altered to such an extent that the payments should not be continued. The original idea apparently was that portion of the revenue derived from indigenous forests should be utilized in assisting to make good the damage caused to county roads by the transportation of timber. We are informed, however, that a very large proportion of the timber now being milled is transported to the rail-head by logging tramways, and that the question of damage to roads does not arise to such an extent as formerly. The local authorities, since 1924, have received considerable assistance from the Main Highways Fund for the maintenance and construction of roads, and it appears that they are obtaining benefits in more than one way—*e.g.*, by way of "fifths" under section 17 of the Finance Act, 1924, and out of the taxation paid by lorries in which the timber is transported. **We strongly recommend the repeal of section 17 of the Finance Act, 1924.**

1307. It may be mentioned, in passing, that **the Timber Royalties Commission of 1924 also recommended that the system of handing over a portion of the timber revenue to local bodies should be wholly abolished by legislation.** In addition to any reasons which that Commission may have had for the abolition of the system, there is now the further reason that the local authorities are obtaining a direct and real benefit from motor-taxation which they did not obtain in the past.

Annual saving, £8,000.

1308. The foregoing recommendation in connection with "fifths" deals with a direct subvention of revenue derived from the sale of timber. The State Forests Account does not at present reflect other timber revenues which should, we think, be credited to it. There are large sums collected annually by the Department from timber-sales in the Nelson and Westland Regions which are credited to the Consolidated Fund as goldfields revenue available for distribution to local authorities. The statutory provision in regard to this revenue appears in sections 6 and 7 of the Forests Amendment Act, 1926. The Department is involved in administrative costs in the collection of this revenue, and, although 10 per cent. is retained in respect of these costs, the balance is payable by the Treasury to the local authorities in whose districts the revenue is collected. This is in accordance with a long-standing custom, but **we consider that revenue of this description, which is, in fact, forest revenue, should be credited to the State Forests Account.** Under present conditions, and in view of the assistance which local authorities have received in other directions, the continuation of the policy of paying forest revenue to them is not justified. **We recommend an amendment to the law to provide that the revenue derived from the sale of timber in goldfield areas should be credited to the State Forests Account.**

Annual saving, £11,000.

1309. (2) The greater part of the expenditure of the Department is in respect of the establishment and maintenance of exotic plantations, and it has already been shown that only a relatively small part of the proceeds derived from indigenous forests is available for the establishment of such plantations. It should again be mentioned also that the annual appropriations on the State Forests Account do not give an accurate idea of the cost of forestry operations to the State, for the reason that interest on loan capital is not subject to annual appropriation. It is a recognized principle of forestry accounting practice to provide for the compounding of interest until plantations reach maturity. This is being done in the accounts of the Department, **but the most undesirable feature is that interest on loans already raised is met each year out of fresh loan capital.** In view of the uncertain ultimate value of the asset, and the time of maturity of the forests being problematical, we are of opinion that this practice should cease as soon as possible, and that the annual charge for interest on loans raised for purposes of the State Forests Account should be met from general taxation—*i.e.*, from the Consolidated Fund.