REPORT OF THE ROYAL COMMISSION ON LOCAL AUTHORITY FINANCE

SEPTEMBER
1958

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APPENDICES

Royal Commission to Inquire Into and Report Upon Local Authority Finance

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ELIZABETH THE SECOND, by the Grace of God of the United Kingdom, New Zealand and Her Other Realms and Territories Queen, Head of the Commonwealth, Defender of the Faith:

To OUR Trusty and Well-beloved the Honourable Sir JOSEPH STANTON, Knight Bachelor, a Judge of the Supreme Court of New Zealand; WILLIAM HALL MASTERS, Esquire, of Dunedin, Public Accountant; CLAUDE JAMES LOVEGROVE, Esquire, O.B.E., of Auckland, Barrister and Solicitor; and WILLIAM RITCHIE BEATTIE, Esquire, of Lower Hutt, Retired Public Servant:

Now know ye that We, reposing trust and confidence in your integrity, knowledge, and ability, hereby appoint you, the said

The Honourable Sir JOSEPH STANTON,
WILLIAM HALL MASTERS,
CLAUDE JAMES LOVEGROVE, and
WILLIAM RITCHIE BEATTIE

to be a Commission to receive representations, inquire into, and report regarding the sources of finance at present available to local authorities and their adequacy for the proper discharge of the statutory functions of those authorities and the provision by them of such services and amenities as are deemed necessary throughout New Zealand, having regard to the growth of population, the expansion and diversification of industry, and the trend of national income and production, and in particular to receive representations, inquire into, and report as to the following matters:

1. (a) The sources and the adequacy of the revenues available to local authorities:

(b) The trend of such revenues in relation to national income and production:

(c) In respect of local authorities depending for their income substantially on rates—

(i) Whether the proportion of total revenue derived from rates is reasonable, having regard to all relevant circumstances, and whether a greater part of revenue should be obtained from user or service charges:

(ii) Whether present rate levies impose an undue burden on the owner or occupier of residential property or other property not producing income and, if so, whether any special provision can be made to alleviate the burden on this class of ratepayer:

(d) Whether other sources of revenue should be made available to local authorities, and whether there should be changes in existing sources including compensating adjustments:

2. (a) The sources and the adequacy of capital money available to local authorities for permanent works and development:

(b) The desirability and practicability of financing capital work by means other than borrowing:

(c) Whether a greater degree of lending to local authorities can be achieved without adverse effect on other essential development:

3. Any associated matters which should be deemed by you to be relevant to the general objects of the inquiry:

And We hereby appoint you, the said

The Honourable Sir JOSEPH STANTON

to be Chairman of the Commission:

And for the better enabling you to carry these presents into effect you are hereby authorised and empowered to make and conduct any inquiry under these presents at such time and place as you deem expedient, with power to adjourn from time to time and from place to place as you think fit, and so that these presents shall continue in force, and the inquiry may at any time and place be resumed although not regularly adjourned from time to time or from place to place:

And you are hereby strictly charged and directed that you shall not at any time publish or otherwise disclose save to His Excellency the Governor-General, in pursuance of these presents or by His Excellency's direction, the contents of any report so made or to be made by you, or any evidence or information obtained by you in the exercise of the powers hereby conferred upon you, except such evidence or information as is received in the course of a sitting open to the public:

And it is hereby declared that the powers hereby conferred shall be exercisable notwithstanding the absence at any time of any one or two of the members hereby appointed so long as the Chairman, or a member deputed by the Chairman to act in his stead, and one other member are present and concur in the exercise of the powers:

And we do further ordain that you have liberty to report your proceedings and findings under this Our Commission from time to time if you shall judge it expedient so to do:

And, using all due diligence, you are required to report to His Excellency the Governor-General in writing under your hands and seals not later than the 31st day of May 1958, your findings and opinions on the matters aforesaid, together with such recommendations as you think fit to make in respect thereof:

And, lastly, it is hereby declared that these presents are issued under the authority of the Letters Patent of His late Majesty King George the Fifth dated the 11th day of May 1917, and under the authority of and subject to the provisions of the Commissions of Inquiry Act 1908, and with the advice and consent of the Executive Council of New Zealand.

In witness whereof We have caused this Our Commission to be issued and the Seal of New Zealand to be hereunto affixed at Wellington this 16th day of October 1957.

Witness Our Right Trusty and Well-beloved Cousin, Charles John, Viscount Cobham, Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, upon whom has been conferred the Territorial Decoration, Governor-General and Commander-in-Chief in and over New Zealand; acting by and with the advice and consent of the Executive Council of New Zealand.

COBHAM, Governor-General.

By His Excellency's Command—

JACK T. WATTS, Minister of Finance.

Approved in Council—

[L.S.] T. J. SHERRARD, Clerk of the Executive Council.

Extending Time Within Which the Royal Commission to Inquire Into and Report Upon Local Authority Finance May Report

ELIZABETH THE SECOND, by the Grace of God of the United Kingdom, New Zealand and Her Other Realms and Territories Queen, Head of the Commonwealth, Defender of the Faith:

To Our Trusty and Well-beloved the Honourable Sir JOSEPH STANTON, Knight Bachelor, Retired Judge of the Supreme Court of New Zealand; WILLIAM HALL MASTERS, Esquire, of Dunedin, Public Accountant; CLAUDE JAMES LOVEGROVE, Esquire, O.B.E., of Auckland, Barrister and Solicitor; and WILLIAM RITCHIE BEATTIE, Esquire, of Lower Hutt, Retired Public Servant:

WHEREAS by Our Warrant dated the 16th day of October 1957, issued under the authority of the Letters Patent of His late Majesty King George the Fifth dated the 11th day of May 1917, and under the authority of and subject to the provisions of the Commissions of Inquiry Act 1908, and with the advice and consent of the Executive Council of New Zealand, you were appointed to be a Commission to Inquire into and report upon the matters in Our said Warrant set out being matters concerning local authority finance:

And whereas by Our said Warrant you were required to report to His Excellency the Governor-General not later than the 31st day of May 1958 your findings and opinions on the matters aforesaid, together with such recommendations as you might think fit to make in respect thereof:

And whereas it is expedient that the time for so reporting should be extended as hereinafter provided:

Now, therefore, We do hereby extend until the 30th day of September 1958 the time within which you are so required to report without prejudice to the continuation of the liberty conferred upon you by Our said Warrant to report your proceedings and findings from time to time if you should judge it expedient to do so:

And we do hereby confirm Our said Warrant and the Commission thereby constituted save as modified by these presents:

And it is hereby declared that these presents are issued under the authority of the said Letters Patent of His late Majesty and under the authority of and subject to the Commissions of Inquiry Act 1908, and with the advice and consent of the Executive Council of New Zealand.

In witness whereof We have caused these presents to be issued and the Seal of New Zealand to be hereunto affixed at Wellington this 26th day of May in the year of our Lord one thousand nine hundred and fifty-eight and in the seventh year of Our reign.

Witness Our Right Trusty and Well-beloved Cousin, Charles John, Viscount Cobham, Knight Grand Cross of our Most Distinguished Order of Saint Michael and Saint George, upon whom has been conferred the Territorial Decoration, Governor-General and Commander-in-Chief in and over New Zealand; acting by and with the advice and consent of the Executive Council of New Zealand.

COBHAM, Governor-General.

By His Excellency's Command—

A. H. NORDMEYER, Minister of Finance.

Approved in Council—

[L.S.] T. J. SHERRARD, Clerk of the Executive Council.

ROYAL COMMISSION ON LOCAL AUTHORITY FINANCE

To His Excellency the Right Honourable Viscount Cobham, Knight Grand Cross of the Most Distinguished Order of Saint Michael and Saint George; upon whom has been conferred the Territorial Decoration, Governor-General and Commander-in-Chief in and over New Zealand:

May it Please Your Excellency:

We, the undersigned Commissioners appointed by Warrant dated 16 October 1957, have the honour to present to Your Excellency our report under the terms of reference stated in that Warrant. We were originally required to present our report by 31 May 1958, but this date was extended by later Warrant to 30 September 1958.

We have the honour to be,

Your Excellency's most obedient servants,

J. Stanton, Chairman.
W. H. Masters, Member.
C. J. Lovegrove, Member.
W. R. Beattie, Member.

Dated at Wellington this 19th day of September 1958.

REPORT

PART I: INTRODUCTORY

A. Outline of Proceedings

1. Although the decision to set up a Royal Commission on Local Authority Finance was announced in July 1957 the order of reference and the personnel of the Commission were not gazetted until 16 October. The Commission held a preliminary meeting on 6 November at which it was decided to issue a general invitation to all persons or organisations interested in the matters falling within the Commission's order of reference to place their views and proposals before the Commission. It was also decided that all those who desired to do so should have the opportunity to appear personally or to be represented at public hearings conducted by the Commission.

2. Because of the impending holiday period, the visit of Her Majesty Queen Elizabeth the Queen Mother, and the necessity to give the various local authority associations and other interested parties a reasonable time to prepare their evidence, it was decided that it would not be possible to commence public hearings until early in the new year. Letters were written to all the local authority associations advising them of the Commission's intention to hold public hearings early in 1958 and requesting them to forward their written submissions by 10 February. Each of the associations was requested to advise its members accordingly. Separate letters were sent to those local authorities which are not members of any association. Suitably worded advertisements were also inserted in all the daily papers throughout the country and also in the main local authority publications, calling for written submissions to be made by 10 February 1958.

3. The Commission held a further meeting on 19 and 20 February 1958 in order to formulate its programme of public hearings. However, as no submissions from major associations had been received by this date the Commission decided that it should meet representatives of the Municipal Association of New Zealand and the New Zealand Counties Association to arrive at the earliest date these associations would be ready to proceed. The Municipal Association advised that its case was nearly completed but that it would have to be submitted to the Municipal Association's conference before it was presented to the Commission. This conference was held at Christchurch in the first week of March. The New Zealand Counties Association advised that it could not have its case ready until the end of March. As it was considered desirable to take the Municipal Association's submissions first, the Commission decided to defer the opening of its public hearings until Wednesday, 19 March. These public sittings continued, with short adjournments from time to time, until 30 May.

4. Because of the initial delay it was therefore impossible for the hearing of evidence to be completed in time for a report to be prepared by 31 May, which was the date specified in the Warrant of Appointment. An extension of time was therefore sought, and this was granted by Warrant dated 26 May 1958. The date for reporting was fixed by this Warrant at 30 September 1958.

Procedure at Public Hearings

5. At the commencement of the public hearings a statement was made by the Commission as to the procedure to be followed in presenting evidence. It required that all evidence was to be given under oath, and that the person presenting the evidence was to be subject to cross-examination by any parties to the inquiry who wished to cross-examine, and also by the Counsel assisting the Commission and the members of the Commission who would cross-examine after other parties had finished. Where counsel appeared they were given the right to make an opening submission and closing submission if they so desired. It was made clear that while general rules governing the presentation of evidence before a judicial tribunal would apply, these would be relaxed, at the discretion of the Commission, where it was considered that their strict application would preclude evidence being made available to the Commission.

Details of Public Hearings

6. The Commission commenced its public hearings in Wellington in March, and later sat in Auckland, Dunedin, and Christchurch during April and May. It was found necessary to hold a further public hearing in Wellington later in May to hear submissions which it had not been possible to fit in during the March hearings, and to enable final submissions to be made by the principal local authority associations. The dates of all these public hearings were notified in the daily papers circulating in each district. In all, the public sittings occupied 37 sitting days, of which 21 were in Wellington, 9 in Auckland, 4 in Dunedin, and 3 in Christchurch. The volume of evidence offering did not justify public hearings being held in the lesser centres, but in most cases it was possible to make suitable arrangements for evidence from these districts to be taken at the nearest main centre. Every opportunity was afforded to persons to appear before the Commission, and, so far as is known, no person who desired to give evidence was precluded from doing so. The transcript of proceedings covered 2,555 single-space foolscap sheets of typing. With the written submissions included this made a total of 3,867 sheets containing approximately 1,500,000 words.

7. Evidence was received from 95 organisations, Government Departments, and private individuals, and a total of 120 witnesses appeared before the Commission. Details of these are listed in Appendix 1. While a few organisations and Departments gave evidence at the direct request of the Commission, the great majority of those who appeared before the Commission did so in response to the general invitation extended by the Commission in its public advertisements. In no case was it necessary to use the power of subpoena.

8. The Municipal Association of New Zealand appeared on behalf of all municipalities and the New Zealand Counties Association on behalf of all counties. Individual cities, boroughs, and counties, however, were encouraged to give evidence on their own behalf in any case where they disagreed with the group submissions of their associations, or where they had particular problems in their own districts which could not be dealt with in the group submissions, and which they wished to have placed before the Commission. Several individual local authorities appeared before the Commission in one or other of these roles, or in general support of the submissions put forward by their association.

9. At an early stage in the hearing of the Municipal Association's submissions, the Commission intimated that it considered that more factual evidence of the financial problems facing local authorities was required before it would be justified in making any recommendation to Government that relief was required. It therefore requested the association to obtain from its members further evidence of the financial difficulties being experienced by them so that the Commission would be in a better position to assess the degree of assistance that was needed. In response to this request a number of cities and boroughs, which were experiencing serious financial difficulties, did appear before the Commission, and their submissions, together with their association's evidence, enabled the Commission to get a good general picture of the problems facing municipalities. A similar request directed to the New Zealand Counties Association brought forward sufficient factual information to enable the Commission to get a good general picture of the financial position of counties.

10. The views of power boards, hospital boards, harbour boards, and river and drainage boards were put forward by their respective national associations. For the most part the evidence of these associations was directed to the second part of the order of reference dealing with the availability of finance for capital works. Apart from two harbour boards, individual submissions were not made by any of these local authorities. Independent submissions were made by two metropolitan drainage boards and the Christchurch Transport Board.

11. Valuable factual information on problems of national and local finance, and on matters related to the Commission's order of reference, was tendered to the Commission by the Reserve Bank, the National Roads Board, and the National Provident Fund Board, and by the Treasury, Ministry of Works, and other Government Departments. Various other organisations and many private individuals also came before the Commission in order to give evidence on the aspects of the Commission's order of reference in which they were particularly interested.

Written Submissions

12. In addition to the evidence presented orally the Commission received and considered several written submissions where the person making the submission either did not wish to appear in person or was unable to do so. The names of the persons who made such submissions are shown in Appendix 2, and copies of their submissions have been included in the bound volumes of the proceedings of the Commission.

General

13. With such a wide variety of problems in the sphere of local government and such diversification of interest amongst the different classes of local authorities it is perhaps understandable that some of the evidence presented before the Commission was not directly relevant to its order of reference. In its report the Commission has confined itself to the major issues of local authority finance and it has not attempted to find solutions for many of the local problems which were put before it by individual local authorities. It does feel, however, that many of these problems will be helped to some extent by the general recommendations which the Commission has brought down in its report.

14. The Commission was impressed by the willingness of all those who came before it to give evidence and to assist it in its task. It particularly appreciated the thoroughness with which the local authority associations and many of the individual local authorities prepared and presented their submissions and the cooperation they extended to the Commission in preparing and submitting additional factual information when asked to do so. It also appreciated the ready response from insurance interests, brokers, savings banks, and various Government Departments who willingly came forward to supply information when this was requested. It was most helpful to the Commission to have evidence placed before it by such a representative group of interested parties.

15. The Commission wishes to record its appreciation of the cooperation extended to it by the Secretary to the Treasury and the Governor of the Reserve Bank and their staffs in providing the Commission with necessary background information, and of the assistance rendered by the Government Statistician and his staff in providing up-to-date statistical information whenever this was requested.

16. The members of the Commission desire to express their great appreciation of the assistance given to them by Mr P. J. O'Dea as Secretary of the Commission and Mr J. S. Clendon as counsel assisting the Commission. The knowledge and ability of these gentlemen made an essential contribution to the completion of our task and added immeasurably to its value. We also wish to express our appreciation of the services rendered by the members of the staff of the Department of Internal Affairs who were attached to us throughout the inquiry, and also the reporting staff of the Public Service Commission who so ably reported the proceedings.

B. Changes in Financial and Political Aspects

17. When the Commission was set up New Zealand was enjoying, as it had done for some years, a period of considerable prosperity, and local bodies felt justified in embarking on extensive and progressive projects involving a very high rate of capital outlay by way of loans. Although there were some clouds on the horizon it was generally expected that this state of affairs would continue and the main difficulties that concerned local bodies were a shortage of funds for borrowing and some alarm at the burden – present and prospective – on their ratepayers. Some local bodies had special difficulties such as losses on public transport services and unexpected increases in constructional costs. It was thought that in an apparently buoyant national economy these difficulties could be minimised if not completely overcome without undue strain or disturbance.

18. Since then the dramatic fall in the prices of our staple exports while the prices of our imports were still rising has caused a serious deterioration in our terms of trade resulting at the present time in an embarrassing shortage of overseas funds. In addition there has been a change of Government with a consequent change in financial policy. Many of the submissions made to us were prepared before the results of these changes had or could become apparent, and even now the best that can be said is that the prospect for the future is uncertain and may be ominous.

19. Notwithstanding these changes the Commission felt that, taking the long view and knowing that changes of this nature either for better or for worse are liable to take place in the future, it should endeavour to suggest what it considered to be desirable improvements in the framework of local body finance.

C. General Principles

20. The objects which we have sought to achieve may be briefly summarised as follows:

(1) To suggest some additional sources of revenue for local bodies mainly dependent on rates to enable them to discharge their functions more efficiently and in particular to carry out more capital works out of revenue, thus reducing their loan demands and interest charges. All the capital works of local bodies have ultimately to be paid for out of revenue and when done initially out of loan moneys the ultimate cost may well be more than doubled. Such additional revenues can only come either from taxes collected by local bodies from the members of their own community or from taxes collected by the Central Government from the community generally. So far as they may come from the latter it is in our view essential that distribution to the local authorities be on a fixed and ascertained basis so that the local bodies may retain their independence and status; it should not be by way of general grants or subsidies determined from time to time by the Government of the day.

(2) To give some relief to ratepayers, particularly in respect of residential properties, by transferring part of the cost of local body activities from the relatively small class of ratepayers to all members of the community.

(3) To relieve the pressure of local body loan finance on the investment market both to ensure that investment funds are not drawn on unduly to the detriment of other sectors and to secure that funds are available for necessary and urgent local body projects. It is essential that within the resources available local bodies should be enabled to meet the needs of our increasing population and to secure the well-being of the community.

(4) To suggest measures whereby the operations of local bodies may be rendered more efficient and economical and their usefulness increased.

(5) In framing our report we have thought it desirable in the interests of brevity and clarity to avoid detailed discussion of submissions and extensive reference to statistics in the text. However, for the sake of completeness we have included summaries of, or extracts from, some of the main submissions and extensive statistical detail, as appendices to our report.

PART II: REVENUES OF LOCAL AUTHORITIES

21. The first matter referred to us is as follows:

(a) The sources and the adequacy of the revenues available to local authorities.

(b) The trend of such revenues in relation to national income and production.

(c) In respect of local authorities depending for their income substantially on rates—

(i) Whether the proportion of total revenue derived from rates is reasonable, having regard to all relevant circumstances, and whether a greater part of revenue should be obtained from user or service charges:

(ii) Whether present rate levies impose an undue burden on the owner or occupier of residential property or other property not producing income and, if so, whether any special provision can be made to alleviate the burden on this class of ratepayer:

(d) Whether other sources of revenue should be made available to local authorities, and whether there should be changes in existing sources including compensating adjustments.

A. Rating Revenues and Rating Systems

22. The local authorities we have to consider include not only the well recognised so-called territorial local authorities such as borough councils, county councils (with their dependent county towns), town councils, and road boards, but all the diverse *ad hoc* bodies ranging in function from bodies which depend wholly on rates or levies collected through or from territorial local authorities to bodies which exercise no rating or levying powers but depend on their own earnings or, as in the case of hospital boards, on finance provided by the Government. In relation to our present question we have not thought it necessary to give consideration to local authorities who do not levy rates (in which we include levies), and we now proceed to consider the position of the rate-levying authorities.

23. It may be said at the outset that even these authorities presented an extremely diverse pattern of potential capacity and public burden, as well as of current policies, both as between different classes of authorities and between authorities of the same class. There was, however, this feature common to them all, that rates on real property constituted a major portion of their revenue. It was suggested to us that this traditional and universal way of raising revenue should be abolished and that in its stead there should be some form of local income tax or citizens' tax. This view was not shared by local authorities generally and it seemed to be accepted that rates should remain as a major source of revenue but augmented if necessary by some other form of tax or subsidy. We are agreed that rates should remain as the foundation of local body revenue and in view of that decision we feel it necessary to consider various submissions made to us about current systems of rating and some suggested new ones. There are three main systems of rating in New Zealand and they are respectively known as capital value, annual value, and unimproved value rating. Some few river, land drainage, and water supply boards and most rabbit boards rate on an acreage basis and three rabbit boards on stock, but we have not thought it necessary to consider these special systems.

24. The local authorities rating on the three systems abovementioned were, at April 1958, as follows:—

	Unimproved Value	Capital Value	Annual Value	Total
Counties	67	52	..	119
Boroughs	114	14	15	143
Town districts ..	15	13	2	30
Road districts ..	1	2	..	3
	197	81	17	295

Two counties have, by special Act of Parliament, obtained additional powers of differential rating.

25. Originally all rates were levied on the annual value system, as they still are in England. In 1882 capital value was permitted and in 1896 rating on unimproved value was allowed subject to its being approved by a poll of ratepayers.

26. We were strongly urged by the Municipal Association to recommend amending the unimproved value rating system to provide that in respect of each property the unimproved value for rating purposes should not be less than (say) 15 per cent of its capital value, or at any rate to recommend some such minimum, the actual percentage to be determined after discussions between the association and the Valuer-General. Another suggestion made was that the unimproved value should, for rating purposes, be increased by 10 per cent of the value of improvements (if any). A further suggestion which the Valuer-General commended was that so-called invisible improvements such as filling, clearing, stumping, and draining should be regarded as incorporated in the unimproved value for all purposes. It will be observed that all these suggestions involve including some portion of the improvements in the unimproved value, in which case the portion so included would be rated at the amount in the pound applicable to unimproved rating, that is, at a rate which might reach 3s. 6d. in the pound, whereas under capital value rating the statutory limit is 2½d. in boroughs and 3d. in counties.

27. The advantages of the "incorporation" suggestion were mainly administrative in that under that system valuations were in some cases more easily made. It would be a definite departure from the principle that "improvements" were not to be rated or taxed, but we think that if the incorporation were confined to levelling and filling and was not to take effect while the person who did the work remained the owner of the property, this would be a desirable improvement. This could well be effected by an amendment of the third proviso to the definition of "improvements" in the Valuation of Land Act 1951, which would then read as follows, the amendment suggested being the words in italics.

"Provided further that work done or material used on or for the benefit of any land by the expenditure of capital or labour by any owner or occupier thereof in the provision of roads or streets or in the provision of water, drainage, or other amenities in connection with the subdivision of the land for building purposes, *or in the levelling or filling of any land for residential, commercial, or industrial purposes,* shall not be deemed to be improvements after the land has been sold or another person has taken actual occupation of the land (whether by virtue of a tenancy for not less than six months certain or not)."

It would not affect a large number of properties and would greatly simplify the valuation of land which has perhaps in distant years had its contours altered.

28. The first two modifications suggested were supported because they removed supposed anomalies in the unimproved value system, as for instance, where two sections of equal value were occupied, one by a modest private residence and the other by a block of flats. These are not really anomalies but are the intended operation of the unimproved value system, and logically the difference in value of improvements should be ignored in rating the two properties quoted. Whether any such alteration in the system would be so great an advantage as to justify its introduction was a matter on which opinions varied, and it can hardly be expected that ratepayers whose properties were adversely affected would be pleased to see any such alteration. We feel that it would be both undemocratic and unwise to impose by legislation any alteration of the unimproved value system upon all the local authorities whose ratepayers have by a poll resolved to adopt that system and it would probably create as many anomalies as it would remove.

29. Another system of rating suggested was that known as average value which is a combination of unimproved value and capital value. It was supported mainly by county representatives. This is a makeshift system which is said to have the advantages and disadvantages of the systems it is designed to replace, and therefore would tend to minimise the extremes of those systems. Whether it or any other system should be allowed as an alternative to be introduced either with or without a poll will be considered later. Other systems were suggested such as:

(a) An assessment rate comprising a flat primary charge on each property.

(b) A system combining an assessment rate and a valuation made from time to time by the local authority on a system of points allocated for contour, locality, land use, and amenities.

(c) Eliminating the value of the dwelling in calculating the value of improvements on farms.

We do not think that any of these systems is suitable for general adoption. Finally, we were urged to recommend that all local authorities be compelled to adopt a uniform system of rating and that this system should be rating on the unimproved value, either as that system now exists or with some of the modifications abovementioned. We do not think any such compulsion should be imposed, but that the rights of choice now enjoyed by local authorities and their ratepayers should continue. We were, however, impressed with the view that changes in the rating system of a local authority were unsettling and undesirable. Agitations for change as well as the changes themselves tend to create a ferment of discontent and uncertainty. We think, therefore, that there might well be an alteration in the law relating to such changes.

30. It is apparent that there would be considerable advantages in having only one rating system throughout the Dominion, and in view of the predominant number of local bodies which have by poll adopted the unimproved value system it would seem that this is the only system which could become a universal one. We think it would be right to alter the existing legislation so that provision be made for any local authority to change to unimproved value by means of an ordinary poll (as applies at present), but having changed to that system or

being already on unimproved value it may not change back to capital or annual value without a 60 per cent majority at a poll. Polls should be taken coincidently with the triennial elections of councillors and at intervals of not less than six years.

31. We think that to introduce more systems of rating for general adoption would tend to confusion rather than to improvement. Many of the difficulties now being experienced will probably be overcome or minimised as town and country planning schemes are completed and areas finally zoned. There is no perfect system and even the carefully devised differentials obtained by special Act of Parliament have not in practice proved wholly satisfactory, and further amendments are in contemplation. If in any particular area a new system is desired it should only be introduced when the local body can satisfy Parliament that the enactment of special legislation is justified.

32. In considering the revenues of boroughs and counties we feel we can ignore such sources of revenue as trading undertakings which produce a profit or at least pay their way. There is, however, one trading undertaking that in the hands of a local body uniformly results in large annual losses, namely, transport services. Practically the only source from which at present these losses can be made good is local rates. This source is also, speaking generally, the only one under the local authority's control from which its main expenditure can be provided. True there are fees and charges for services and these will be considered later, but the amounts obtained from them are relatively insignificant and the main question for our consideration is whether the rating receipts of local authorities are adequate and, if not, whether they can reasonably be increased or whether some other source of revenue should be made available to local bodies. It is undeniable that all the services and amenities provided by local bodies have during (say) the last 10 years increased enormously in cost, not only because the same service costs so much more than it did 10 years ago, but because higher standards and more amenities are now considered necessary.

B. Trend of Rates in Relation to National Income

33. In considering whether this increase can reasonably be met out of rates it is necessary to consider the trend of revenues (that is rates) in relation to national income and production. A table prepared by the Treasury for the period from 1940 to 1957 shows rate receipts in relation to national income and gross national production and this is included as table D in the Treasury submission in Appendix 12 to this report. These figures show that as a percentage both of national income and gross national product rates have declined. Dealing for convenience only with national income (which is in any case probably the better comparison) the percentage of rates in relation to national income was 3·454 in 1940 and 2·338 in 1957, but it should perhaps be noted that the trend in recent years is a rising one and should national income fall to any material extent on account of falling export prices while rates continue to rise, as they have done in every year since 1940, the rate percentage would be appreciably higher.

34. In spite of these figures there was strong and widespread insistence, particularly from municipalities, that rates had already become a burden and that the figures were misleading, but no one was able to

suggest a better yardstick to demonstrate this proposition. It was suggested that the only proper comparison was between the income at the relative periods of persons in the separate local districts but there were no figures available for this purpose. We think, however, that the figures are not conclusive or entirely satisfactory. The period covered was not a normal one as it included the war and post-war years when national income, particularly the rural portion of it, progressively and consistently increased but local development was retarded, leaving the local bodies with a very large backlog both of maintenance and constructional work. This accumulation has not yet been overtaken and expenditure in the near future will normally be much heavier than in the past. This is shown to some extent in the figures of local body borrowing. At 31 March 1956 (that is at the beginning of the financial year ending 31 March 1957) the total loan indebtedness of local bodies (including hospital boards) was about £100½ million, but at 31 March 1957 it was £114½ million, requiring for debt service an additional expenditure of approximately 10 per cent on £14 million, or £1,400,000. At 31 March 1958 the total was £132 million, requiring a further servicing expenditure of (say) 10 per cent on £17½ million, or £1,750,000. Not all this increase relates to rating authorities but it would be safe to assume that those authorities would have to meet an increased debt service charge of at least £1,000,000 in 1957 and of £1¼ million in 1958. It will also be safe to assume that completion of projects already in hand and the initiation of essential new works will entail an increase in the indebtedness of these authorities of another £10 million a year, necessitating a further increase of £1,000,000 per annum in their debt service charges. These amounts are cumulative and show that within the next three years, that is in the year 1961, debt service charges of rating authorities will be £4¼ million more than in 1957. The percentage figure of rates to national income for 1958 is not available, but if rates show the same increase as in 1957 the percentage may be higher, while in the present year it may well exceed the 1940 figure.

35. There is also this fact to be borne in mind. In the period under review some rating authorities made good their transport losses out of reserves instead of collecting more rates. At the same time, in certain years, the actual incomes of large numbers of primary producers increased by drawing on reserves. In the result in the figures given in the table the national income was artificially increased and the amount of rates was artificially reduced. In addition the reserves so used by the rating authorities will have to be replaced, probably by increased levies in the present and future years.

36. The amount of rates per head of population increased from £4·7 in 1940 to £8·47 in 1956, an increase of approximately 90 per cent, and it is certainly higher now.

37. The saving made by the abolition of hospital board rates has been more than swallowed up in the increases in other costs.

38. It may be significant that while the totals of capital rateable value have increased continuously over the last 20 years the rental value of owner-occupied houses as a percentage of private income has decreased from 3·2 in 1939 to 2·6 in 1957. Local authority rating on dwellings as a component of the Consumers' Price Index increased from 1000 in 1949 to 1544 in 1958, while the increase in all groups over the same period was from 1000 to 1529.

39. Figures supplied by the Auckland City Council show that rates per head in that city increased from £4·38 in 1937 to £13·25 in 1958 and that rates on typical properties have increased by nearly 300 per cent during the same period. In all these cases the increases have been considerably greater during the last 10 years and it seems clear that the increases will be greater in the next 10 years. It may be noted that in this city in 1937, with a total capital rateable value of £50 million, rates of 3s. 11½d. in the pound were sufficient whereas in 1958, with a total value of £174 million, rates of 5s. 4d. in the pound were necessary. It is estimated that by 1961 rates of 6s. 3¼d. in the pound will be necessary, a figure approaching one-third of the annual value of properties.

40. In the past the amount of capital work done out of revenue has been negligible but in our view it will be essential in the future for a large proportion of such work to be done out of revenue and this would be clearly impossible without some additional source of revenue. The burden of rates falls most severely on residential properties – on industrial and commercial properties it falls into costs of production and is deductible for income tax – and we think that if in any district rates are not already a burden on the home owner the trend is for them to become so, and the inevitable change from doing most capital work out of loan moneys to doing a substantial portion out of revenue could not be implemented without some additional source of revenue.

C. Sources of Additional Revenue

41. We think, therefore, that the revenue from rates is or will be inadequate for the requirements of local bodies and additional sources of revenue should be made available to them, and that with or without those additional sources the cost of local body services should be more equitably distributed so that some part of that cost may be borne by citizens as a whole and not by ratepayers alone.

42. It was suggested that there might be local income taxes imposed by the different local authorities as in some European countries and in several cities in the United States of America. While in theory this suggestion has much to commend it we think it impracticable in New Zealand. Income tax here is, and for many years has been, a major instrument of Central Government, not only for collecting revenue but for redistributing the national income, and it would be impossible to engraft upon the system a possible income tax imposed and collected by some 300 local bodies, restricted and complicated by their local boundaries and varied circumstances, and we do not recommend its adoption.

43. Other suggestions were:

(i) A poll or head tax.
(ii) A citizens' tax raised locally.
(iii) A householders' tax.
(iv) Grants in aid from the Government.

The first three proposals seem to us both impracticable administratively, and undesirable in that their effect would be to transfer the incidence from the well-to-do classes and business premises to the smaller homeowner, and the fourth is undesirable if the status and independence of local bodies is to be maintained.

44. We were impressed with the large and increasing cost of the construction, maintenance, and control of roads and the burden under modern conditions which the greatly increased volume, weight, and speed of motor vehicles imposes on local bodies, and the still greater burden likely to be faced in the future. Other factors are the development of hill and marginal areas in the rural districts involving the provision of more and better access roads and the necessity for constructing motorways and renewing bridges. The congestion of traffic in the towns is a serious problem, both to the authorities and the community. Professor Cumberland says that on a most conservative estimate traffic congestion in the Auckland metropolitan area costs no less than £4 million a year and that if traffic were to increase at the rate apparent in recent years and if it were to be confined to the present street system losses from congestion would in the period 1960–70 amount to a total of from £50 to £100 million a year. (*Local Government in New Zealand* (1956), R. J. Polaschek, p. 81.)

45. To enable problems of this nature to be dealt with it is evident that moneys must be obtained from other sources than rates. A significant contribution is already being made by motor owners through the National Roads Board, but more money will be required and it seemed to us that these owners might well be called on to contribute a substantial part of it. In our earlier considerations we had in mind to recommend an increase of 3d. a gallon in the petrol tax for roading expenditure, an amount which we think would have been considered reasonable and would have been almost if not quite negligible in increasing costs or reducing consumption. The position has been complicated by the recent decision of the Government to increase this tax by 1s. a gallon, not for roading but as a contribution to general taxation. It has, however, been authoritatively stated that the purpose of this new tax is not so much for raising revenue as for conserving overseas funds. It may therefore be that as a general revenue contribution the tax, or at any rate some portion of it, will be only temporary and that the way may soon be open for a reduction in the present rate and the diversion of the remainder to the National Roads Board for roading expenditure. We hold very strongly the view that the real justification for taxing motorists is in the application of the "user pay" principle. We endorse the carefully considered conclusion of the Roading Investigation Committee that "as all taxation from petrol consumed in road using vehicles is directly and inseparably related to road usage all such taxation should be applied to roading needs". That committee pointed out that road transport "plays such a vital part in the general economic activity of the community and private motoring is such a strongly established feature of modern life that the provision of good roads is of first-rank importance to every citizen". It recommended that the cost of the country's annual roading activities should be borne as to 62½ per cent by road users, 25 per cent by ratepayers, and 12½ per cent by the Central Government apart from any form of motor taxation. (Report of the Roading Investigation Committee, pp. 144, 145, and 148): Since that report was presented in 1953 roading expenditure has greatly increased and even greater expansion is envisaged in the near future. The Government has made an annual contribution to the Roads Board of £1 million instead of the £2½ million recommended by the committee, and does not appear to have contributed the 12½ per cent suggested which, in our view, was a reasonable allocation.

46. We recommend that in addition to its present revenues the National Roads Board should receive the proceeds of 3d. per gallon of the additional tax on petrol together with the appropriate proportion of milage tax. This additional revenue should be regarded as a further contribution from road users and not as a contribution by the Government as part of the suggested allocation of 12½ per cent. On present figures this would amount to approximately £3 million per annum but if, as is thought likely, petrol consumption should decrease in consequence of the extra 1s. tax, and as there are considerable exemptions from the new tax, we suggest that this contribution should not be less in any year than £3 million.

D. National Roads Board

47. We have carefully considered the question of the allocation of Roads Board subsidies to local bodies. It is at present as follows:

To counties—

(a) 8s. for each £1 of general rate and special and separate roading rates collected, all to be expended on roading.

(b) Subsidies on construction and maintenance of main highways at the rate of £3 for £1.

To boroughs under 6,000 population—

(a) 15s. per head of population, to be spent on roading.

(b) Subsidies on main highways as in counties.

To boroughs with a population of 6,000 or over—

22s. per head of population, to be spent on roading.

There are also subsidies for bridge renewals and flood damage and provision for special grants which apply to all local bodies.

48. Until quite recently there were no State or main highways in boroughs over 6,000 population, but as from 1 April 1958 the Roads Board has decided to declare as State highways those routes through larger municipalities which can be considered extensions to the national arterial network.

49. We think it was an anomaly that State and main highways were recognised in counties and small boroughs only, stopping in each case at the boundaries of the larger boroughs. We think – as did the Roading Investigation Committee – that these highways should have continued through the boroughs, and we welcome the decision of the Roads Board to continue State highways through the larger boroughs.

50. We think it would be a great advantage if all local authorities could be treated alike in respect of their roading subsidies. To do this it would, however, be necessary to simplify the present road classification by abandoning the present system of main highways in the counties and smaller boroughs and having only two major classifications of roads, that is, State highways entirely provided by the Roads Board and county roads or borough streets the responsibility of the local bodies. This would entail converting a proportion of the existing main highways, which could properly be considered a part of the national arterial network, into State highways and reverting the balance, which are secondary routes, to the status of county roads or borough streets. We feel that this change will have ultimately to be made, particularly if subsidies are to be based on expenditure and any uniformity of subsidy policy is to be obtained. We understand that the Roads Board itself has given some

consideration to such a proposal. For these reasons we have based our recommendations on the assumption that something of this kind will be done.

51. The present allocation of Roads Board funds has not been unsatisfactory to the counties but it is entirely disapproved by the boroughs, many of whom complain that they are receiving less than they would have received had the system of payments remained as it was before the National Roads Board began to function.

52. It was generally agreed, and it is our view, that the best method of allocation is as a subsidy on all the roading expenditure of each local body, all classes of such bodies being treated alike. Some counties may suffer in consequence of existing main highways in their district becoming county roads and so losing the benefit of a 3-to-1 subsidy, but we think in most cases the new subsidy policy will mainly, if not wholly, compensate, and special cases can be dealt with as a matter of special assistance. We think the minimum rate of subsidy should be 10s. in the pound and the maximum 13s. 4d. in the pound on all roading expenditure, thus allowing the Roads Board to have the discretion within these limits to fix the total amount of subsidy payable to local authorities in any one year, having regard to the preservation of a proper balance between the amount to be allocated for such subsidy and the amount required for State highways and the other activities of the Roads Board.

53. A more detailed description of our proposals is as follows:

(a) The amount at present available for population and rate subsidies as provided in the Act is up to a maximum of 10 per cent of motor revenue for boroughs and 12 per cent of motor revenue for counties, making a total of 22 per cent of all motor taxation revenue. With the additional revenue from 3d. per gallon from petrol tax and the appropriately increased milage tax (with a minimum of £3 million) the equivalent percentage to this 22, assuming that the increase is only £3 million, will be 33 per cent of total motor revenue.

(b) In the interest of local authorities we consider a suitable minimum should be provided and we recommend that this minimum should be 30 per cent of all motor revenue, which approximates the amount of rate and population subsidies at present being received plus the additional £3 million recommended.

(c) The above minimum of 30 per cent and maximum of 33 per cent of motor revenue will require consequential adjustments to take care of alterations of main highways to State highways and county roads when the effect of these alterations is known and their effects on subsidy payments calculated.

(d) The Roads Board shall determine the amount to be distributed each year to local authorities by way of subsidy on roading expenditure, but this amount shall be within the limits of 30–33 per cent referred to above, adjusted if necessary in accordance with paragraph (c). Should the amount of additional revenue in any year exceed £3 million these percentages should be further adjusted accordingly.

(e) All local authorities shall submit to the National Roads Board annually by a date to be arranged full estimates of all roading work which is proposed for the coming financial year.

(f) If the estimates of such work total not more than one and a half times the sum available for subsidies as calculated above, the Roads Board should make available to all local authorities the sum of 13s. 4d. in the pound on their respective roading expenditure for that year.

(g) If, however, the total expenditure as estimated should be more than one and a half times the sum available but not more than twice that sum as calculated above, the Roads Board should make available to local authorities such amount in the pound as the sum available will provide, but not less than 10s. in the pound.

(h) If the sum available from the Roads Fund should be insufficient to pay all local authorities a subsidy of 10s. in the pound on estimated work, power should be given to the Roads Board to reduce the estimates of work to be done and, in reducing these estimates, it should take into consideration the roading needs of the particular local authority in relation to the standard of all New Zealand roads.

(i) If the estimates of any local authority should be reduced, the reduction should not be to a figure less than twice the sum which the Roads Board paid as rate or population subsidies to that local authority for the average of the three years to 31 March 1958.

(j) In any case where the estimates by local authorities in any year are not equal to one and a half times the minimum amount of 30 per cent of motor revenue in the Roads Board accounts, the undistributed balance of the 30 per cent shall be carried forward to the next year and from year to year and be available for subsidies to local authorities.

This would not preclude the possibility of negotiations between the Board and any local body for a lower rate of subsidy on a larger total of work or for any other adjustments within the framework of the scheme.

54. Some suitable definition of "roading expenditure" requires to be formulated. At present it is understood as including:

(a) Construction, maintenance, and improvement of carriageways including acquisition of land.
(b) Street lighting.
(c) Cycle tracks.
(d) Purchase of plant.
(e) Traffic control including street marking, traffic signs, and traffic lights.
(f) Stormwater drainage.
(g) Annual loan charges for road works.

It does not include—

(a) Footpaths construction and maintenance.
(b) Kerbing and channelling.
(c) Street trees and grass verges.
(d) Street cleansing and watering.
(e) Street names.

We think that kerbing and channelling should be added to the items to be included in roading expenditure; it is in many cases the only way in which stormwater drainage can be provided. We think, too, that the inclusion of footpaths might well be considered, particularly in view of the difficulty in separating the expenditure on these from that on carriageways, and because footpaths are essential for safety on roads carrying heavy or fast-moving traffic.

55. Proper roading accounts would have to be kept by all roading authorities so that the Audit Department could readily ascertain whether Roads Board subsidies had been properly applied.

56. The scheme of distribution we have suggested may seem complicated, but we think that with cooperation between the Board and the local bodies it would be found to be both workable and equitable.

57. Arising out of roading problems was a suggestion that heavy-traffic fees should be increased. It seemed clear that heavy vehicles, and trolley buses in particular, do cause considerable damage to roads, probably beyond what their heavy traffic fees provide for, but we accept the opinions expressed that it is not practicable to increase heavy-traffic fees.

58. As a matter of Government policy trolley buses do not pay any milage tax, but as these are all operated by public bodies who are conducting public passenger services at heavy annual losses, and as these losses have in the main to be borne by the local bodies over whose roads the trolley buses run, it would not seem reasonable to add to those losses by subjecting the buses to a tax, the proceeds of which would go, not directly to the local bodies whose roads were damaged, but to the Roads Board from which those local bodies could at the best obtain only a partial refund.

59. Milage tax payable by diesel vehicles is calculated to give such vehicles a 40 per cent concession in tax as compared with the tax payable by similar petrol driven vehicles for comparable milages. Diesel vehicles cause as much wear and tear on the roads as similar petrol vehicles and this seems an unfair advantage. However, many of the diesel vehicles are buses engaged in the public passenger services above referred to, and as to all diesel vehicles it has also been Government policy to encourage the use of such vehicles on grounds relating to the national economy. At present the number of diesel vehicles is relatively small but it has increased considerably in recent years and should the number become considerable the position may call for reconsideration so that the Roads Board funds are not unduly depleted. At the moment we can do no more than call attention to the position.

60. The provision of extra funds for roading in New Zealand was urged in various submissions, while a submission was also made suggesting that no such extra funds were necessary until it is proved that existing funds are being spent wisely and without wastage. It was further submitted that information as to costs of or charges for work undertaken for the National Boards Board by the Ministry of Works was not made available to district roads councils by the Roads Board nor were tender prices when such tenders had been received and dealt with.

61. No evidence was submitted by the National Roads Board or its members as to any dissatisfaction with the present arrangement whereby the Ministry of Works does not itself tender to the National Roads Board

for work to be undertaken but proceeds with the work and submits its account for that work.

62. However, evidence and cross-examination brought out the following information:

(a) That the National Roads Board regards itself as a trustee of public money subscribed by motoring, transport, and other interests.

(b) That there are three full-time employees of the Ministry of Works on the National Roads Board.

(c) That all administrative and technical staff for the National Roads Board are employees of the Ministry of Works.

(d) That the Tenders Board, which decides whether work shall be tendered for by contractors or done by the Ministry of Works, is a Ministry of Works organisation.

(e) That there are substantial variations between the estimates for roading costs and actual final costs as charged by the Ministry of Works.

(f) The Ministry of Works has a costing system which is reconciled with its financial accounting system and does record the annual and cumulative cost of all work done.

63. We feel that district roads councils are vitally concerned with roading in their districts and should be encouraged to take an active interest in roading and in implementing the work of the National Roads Board.

64. The Commission was not charged with the duty of investigating the National Roads Board activities or its relation with the Ministry of Works and has not done so. For this reason it makes no comment on the allegation of wastage of Roads Board funds made by one witness before the Commission.

65. To maintain and encourage the interest above referred to the Commission feels that, as the work of the National Roads Board is closely allied to local authorities and their ratepayers, the National Roads Board should receive from the Ministry of Works and supply to district roads councils in the area where the work is done details of the final costs of all roading construction and maintenance. The Commission does not attempt to prescribe what detailed information should be available but considers it should be at least in a form similar to that supplied by a tenderer in his schedule of quantities and prices. The Commission also considers that information as to the amount of all tenders, whether accepted or not, should be available to the district roads councils concerned as soon as tenders are let or declined.

66. We also think that district councils should be reorganised so as to be reduced in size and otherwise made more useful. They might well be used to organise and coordinate the roading proposals and estimates of the various local bodies in their respective districts.

67. The Ministry of Works provides the Roads Board with the whole of its administrative machinery, for which it makes a charge of 5 per cent on the total amount of the Board's expenditure (including subsidies), and this charge amounts to approximately £1 million per annum. We think it might be better if this charge were by way of a percentage on the work actually carried out by the Ministry of Works.

E. Incidence of Rates

68. Many submissions were made to us that apart altogether from roading problems it was unfair and unreasonable that such a large proportion of the cost of local body activities should be borne by home and property owners only. The increasing burden of rates is tending to destroy the incentive to home ownership, and this, we consider, is most undesirable. It was pointed out that many services were available to citizens generally, not necessarily residents of the particular local district, and that a wider spread of such costs would distribute the burden more equitably and would tend to increase the interest of all citizens in the affairs of their own local bodies. A further consideration is that as rates are not wholly based on ability to pay, rate increases tend to bear more heavily on those who can least afford to pay. The Commission was satisfied that something should be done in this connection but that it should be in some form that would not be difficult or expensive to operate – as would a local income tax, poll tax, or citizen tax – and would represent as near as practicable a contribution by the citizens of each local district to the revenue of their own local body. We accept the suggestion of a local body levy on earnings and company profits, on the same basis as the social security charge, to be levied and collected by the Central Government and distributed to the local bodies on a basis that would ensure as nearly as practicable that each local body received substantially an amount equal to the contributions of its own citizens. Ratepayers would contribute as well as other citizens but would benefit by a reduction in their rates which, in the aggregate, should be greater than their contribution to the levy.

69. It was the Commission's view that if local bodies received the additional assistance from the Roads Board that it has suggested, then they could and should reduce their rates by the amount they received from the local body levy. To implement this intention we suggest that the maximum amount for general rates that can be struck under the existing rating provisions be reduced by the amount of the levy so that the product of the general rate struck and the levy shall not exceed this maximum amount. The amount we suggest for the levy is 2d. in the pound on all earnings and company profits, which should produce between £6 million and £7 million per annum, an amount equivalent to approximately one-third of the rates now struck by all local bodies. The system of distribution to territorial local bodies that we suggest is one-third on the basis of population, one-third on the basis of rateable capital value, and one-third on the amount of rates collected, which we think would give a return to each local body approximating to the amount its citizens contributed to the levy. This levy should not be regarded in any way as a contribution by the State to local bodies but as local revenue collected for convenience by the Government. The collection of the levy would not involve the Government in any additional expenditure and the cost of distribution would be negligible.

70. It was suggested that the proceeds of any such levy should be appropriated towards the cost of providing amenities such as parks, art galleries, etc., which were enjoyed by all citizens and had no special relation to real property or its occupants, but we think this is undesirable. In the first place a classification of such amenities would be diffi-

cult and in the second place the creation of such a fund for what may be regarded as the less essential activities of local bodies might lead to relatively extravagant expenditure which would tend to defeat the object aimed at. We think each local body must decide for itself the relative essentiality of its projects and we feel sure that if all, or substantially all, electors were contributing to the revenue of local bodies they would take all reasonable steps to ensure that the local expenditure was planned as prudently and economically as possible.

F. Cost of Amenities

71. In view of the foregoing recommendation we do not recommend, as was suggested to us, any subsidy for local bodies in respect of the provision of museums, cemeteries, morgues, or other amenities. Special submissions were, however, made to us on the provision of libraries by local bodies. It was pointed out that in the main these were educational facilities and should properly be a charge on the Central Government, which was the authority vested with the responsibility for education. Some local authorities receive considerable assistance from the activities of the National Library Service but many do not and it is recommended that these latter should receive a pound-for-pound subsidy on their library expenditure with a maximum of 4s. per head of population. We commend the suggestions of the Libraries' Association for the coordination of national and local library services but feel this is a matter for discussion and decision among the parties concerned.

G. Exemptions from Rating

72. A matter that was strongly and widely urged upon us was the question of exemptions from rating. It was suggested that these exemptions constituted a hidden subsidy by local bodies in favour of activities which were properly the concern of the Central Government or other public bodies. It was pointed out that approximately 10 per cent of all rateable property in New Zealand was exempt from rates and the burden of these exemptions fell unequally on local bodies, some of whom had a total of non-rateable property well above the average. (See submissions of Valuer-General in Appendix 14.) The largest benefactor from rate exemptions is the Crown, which from time immemorial has enjoyed that immunity. Until recently all local bodies received a subsidy on their rates from the Government, but limited to £450 per annum in boroughs and £2,500 in counties. These subsidies were abolished when the National Roads Board subsidies were provided for and, as we know, the latter come from special taxes on motorists. The Government has recognised that under present conditions a large proportion of its properties should be treated as rateable and it pays accordingly, but it is computed that if all its properties were rated it would pay another £650,000 per annum in rates, and probably more. No doubt the Government does make grants or concessions which may be said to offset its rating immunity but we think that in principle that immunity is now an anachronism and in the interests of local bodies and the Government itself it should be abolished. There may be some Crown properties such as national parks, scenic reserves, and maybe others which, on principle, should not be rated, and perhaps some structures such as hydro-electric

dams call for special treatment, but by and large Crown properties should be made rateable and any exemptions should be specially justified and listed. It has long been established that the Crown must pay for special services to its properties, such as water supply, and it seems to us that on principle it should pay for all other services rendered by local bodies although the source of payment for them is by way of rates.

73. Hospitals and charitable institutions, schools and other educational institutions, all relate to Government functions and responsibilities, and in principle any assistance they require should be provided for by it, and they should make the same contribution to local expenditure as other properties. Churches, chapels, and sunday schools are exempt from payment of rates and public sentiment supports this exemption. They are essentially local activities and we think their exemption is justified. All other exemptions, we think, should be abolished, but the provisions allowing for special relief from rates either by way of special valuations or at the discretion of the local body concerned should be retained.

74. Separate submissions were made to us advocating that landing grounds on aerodromes should be exempted from rates, but in accordance with the principles set out above we can see no justification for this.

H. Crown Exemption from Harbour Dues

75. Complaint was made by harbour boards that the exemption of the Crown from harbour dues was now illogical and was embarrassing to many boards. This exemption, too, should be abolished.

I. User and Service Charges

76. One question asked is whether a greater part of revenue should be obtained from user or service charges. The evidence submitted to us was that such charges, which were mainly fixed by local bylaws, were considered reasonable, and while we think the charges are in some cases susceptible of increase we think this must be left to the discretion of local bodies. However, we suggest that each local body should examine its charges carefully to ensure that the fees charged do completely cover the cost of the services rendered. One charge which is fixed by statute is that for drivers' licences. This has remained for many years at 5s. and is therefore out of line with the general increase in costs. However, in view of the recent increase in petrol taxes we feel reluctant to add further to the imposts on motorists and so do not recommend any increase in the charges for drivers' licences or driving tests at present.

J. Rates on Residential Properties

77. As to the question whether present rate levies impose an undue burden on the owner or occupier of residential properties, we have already said that rates are or are becoming an undue burden on such persons and if no relief were otherwise available we should have been prepared to recommend that relief be granted by a small differential in rating as between residential and commercial properties; but if relief is granted as we have recommended we do not think any further relief

should be required. Another suggestion for the relief of rates on residential properties was that the owners should be allowed to deduct rates as an outgoing for income tax purposes. We think this is not justified in principle and if the recommendations we have made are adopted should not be necessary.

K. Street-lighting Charges

78. One of the measures urged upon us for the relief of ratepayers' burdens was that power boards and other electric supply authorities should be required to pay for all street lighting. We think that street lighting is a service which may properly be regarded as one which each local body should provide at its own cost and we accordingly make no recommendation.

L. Fire-prevention Services

79. Similarly, it was suggested that local bodies should not have to pay their present proportion of the cost of fire services and this proportion should be borne by the insurance companies. We think citizens would obtain little benefit from any such alteration in liability as insurance premiums would naturally be increased and in any case we think the present arrangement is a reasonable one and we do not recommend any change.

M. Payment of Rates by Instalments

80. It was suggested that if rates were made payable by instalments this would not only make payment easier for many ratepayers but would secure earlier payment of rates, with a considerable saving of interest on bank overdrafts. We think there is some merit in this suggestion and we recommend that legislative provision be made to allow local bodies if they so desire to require payment of rates by instalments.

N. Transport Losses

81. A serious problem confronts the four main centres and some other cities in the large annual losses made in operating passenger transport services. Although complete figures were not supplied it is clear that these losses in the year ended 31 March 1957 exceeded £700,000, and it seems probable that they will continue at or near that figure in the future. It was generally agreed that these services must be continued, that they could only be operated at a substantial loss, and that the cause of these losses was diminished patronage owing to the widespread use of private motor cars. It was suggested that the services should be regarded as a national rather than a local responsibility and that the Central Government should bear at least a part of the annual losses. It was pointed out that the Government was itself operating some suburban passenger services and although no figures were given to us it seems safe to assume that these services are operating at a loss. It was said that if the Government was prepared to provide some districts with passenger services and bear the whole of the losses involved it was only fair that it should grant some assistance to the local bodies who were providing similar services. No doubt there is logic in this argument but its natural corollary is that the Government should take over and operate all public

passenger services. This was not suggested by anyone (it was expressly disclaimed by the Wellington Progressive Association), and probably it would not be welcomed by municipalities.

82. Another suggestion was that grants towards transport losses should be made from the funds of the National Roads Board and this was supported on the ground that these funds are derived from motorists whose operations have contributed so largely to those losses.

83. Some local bodies, instead of making up losses out of rates, have drawn on reserves held for other purposes and these will have to be made good in the coming years. We think this was unfortunate; the better course would have been to raise more rates and this would have brought the position more to the notice of the public and emphasised the real burden of rates instead of tending to minimise or conceal it.

84. These losses affect a comparatively small number of local bodies and illustrate the difficulty of dealing with the special difficulties of different districts. We have had a number of these presented to us and it is evident that many local bodies have particular local problems, some of them as pressing and perplexing as transport losses. For this and other reasons we have recommended methods of general relief to local bodies in the belief that if this is given then all local bodies will be better able to meet their special problems and we do not recommend any form of special relief in respect of transport losses. No doubt the local bodies concerned will be encouraged to explore all avenues for the purpose of reducing these losses and there seems some ground for hoping that they may be reduced. Already some assistance has been granted by the Government in exempting buses from sales tax and relieving all public passenger services from the additional petrol and milage taxes recently imposed.

O. Parking Meter Revenues

85. In the same way we have viewed the suggestion that parking meter revenue should be applied to meet transport losses or for other special purposes. Such benefit as local bodies may enjoy from the installation of parking meters will be a relief in various spheres of necessary expenditure and we think local bodies may be left free to so apply it.

PART III: CAPITAL WORKS OF LOCAL AUTHORITIES

86. The next matter to be considered is as follows:

(a) The sources and the adequacy of capital money available to local authorities for permanent works and development.

(b) The desirability and practicability of financing capital work by means other than borrowing.

(c) Whether a greater degree of lending to local authorities can be achieved without adverse effect on other essential development.

Subclauses (a), (b), and (c) may be considered together.

A. Loan Finance

87. It has long been the practice of most local bodies – but to a much lesser degree by counties – to finance their capital expenditure by the raising of loans, and until recent years there has been little difficulty in obtaining the loan moneys sought by local bodies. Prior to 1926 local bodies were free to raise any loans they desired, subject only to certain broad statutory limitations. In that year Parliament passed the Local Government Loans Board Act, which required local bodies to obtain the consent of the Local Government Loans Board before raising any loan and the Board, in giving its consent, fixed the maximum rate of interest, the term of the loan, and the provision for repayment. In 1927 the rate of interest allowed was £6 per cent per annum and it gradually fell till in 1935 it was 3½ per cent, at which it remained till 1939 when the rate rose to 4 per cent and again fell gradually till it was 3¼ per cent in 1947. It remained at that rate until 1952 when it became 4 per cent. In 1955 it was 4¼ per cent, in 1956 4¾ per cent, and in 1957 5 per cent or 4¾ per cent for terms of under six years. Interest rates for local bodies have always followed closely the rates for government loans and have usually been about ¼ per cent higher. The rise in rates of interest from 1952 indicates the increased difficulty in obtaining all the loan moneys sought.

88. The rate of local body borrowing has greatly increased during recent years. From 1928 to 1946 the loans sanctioned by the Loans Board ranged between £2 million and £4 million per annum. From 1947 to 1951 the range was between £7 million and £9 million, and from then on it rose steeply each year to a peak of £26 million in 1955, falling to £16 million in 1956 and £17 million in 1957. In 1958 there was a spectacular rise to over £26½ million notwithstanding that in that year the Loans Board was endeavouring to review loan proposals even more selectively in relation to the overall demand on resources, and that proposals amounting to over £10 million were referred back, deferred, or declined. Local body loan indebtedness has risen steadily during the period from 1951. It was then approximately £62 million, in 1957 it had reached over £114½ million, and the 1958 figure is estimated to be £132 million.

89. Not all the loans authorised have been uplifted and there is thought to be as at 31 March 1958 unexercised authorities of something in the vicinity of £20 million. Nevertheless, very large sums of loan money have been uplifted each year, reaching over £20 million in 1957 and over £24 million in 1958. Figures given to us by a number of local bodies indicate that there will be no falling off in the proposals to be submitted to the Loans Board in the next few years and it is probable those local bodies will be pressing for something like £20 million a year in loans. While no one can estimate what amount of money will be available for local body loans it seems clear that with the present back-log of about £20 million the demand will considerably exceed the supply.

90. At present the only source available for local body loans is investment funds in New Zealand. In earlier years local bodies borrowed extensively from both the United Kingdom and Australia but for many years the Loans Board has refused to allow local bodies to borrow abroad. In 1931, out of a total indebtedness of £74 million, over £26 million was domiciled in London or Australia, but over the years this amount has been steadily reduced until in 1957 it was just over £3

million, and 97 per cent of total local body indebtedness was domiciled in New Zealand. It was suggested to us that the national economy would benefit if New Zealand joined the World Bank, and it will be recalled that the Monetary Commission recommended this. We think that this course should be seriously considered. It might at least enable the Government to obtain some of its capital requirements from abroad (at a lower rate of interest than it paid recently in London) and so free more local funds for the local body and private investment sectors. However, as matters stand we must look to the local investment funds alone. The sources from which local body loans have been drawn comprise private investors, insurance companies, other companies, Government Departments, local authority funds, and a variety of other sources. Of these, private investors have in each year provided more than any other single source. In the year ended 31 March 1957 their contribution was over £8 million. In the same year insurance companies (including savings banks, trustee companies, building societies, and trading banks) contributed over £6 million, which was nearly £4 million more than in the preceding year. All other sources contributed together approximately £5 million. In the six months from March to September 1957 insurance companies actually contributed more than private investors and it may well be that the greatest single contributor will in the future be insurance companies.

B. Loan Priorities

91. With the commitments for capital projects already made by many local bodies and with a restricted supply of loan funds it seems to us that two correctives are called for: the local bodies must curtail their borrowing and the available funds must be rationed so that the most essential works are first provided for. The investment funds come from the savings of the community and in recent years the amount of these savings has been relatively high in relation to the national income. Since 1953, savings in each year have been at the rate of 22 per cent or 23 per cent of gross national product, which is considered high by world standards. Whether under present conditions the total amount is likely to vary is a matter on which opinions differ, but we think it unlikely to increase and may well diminish. As between the three sectors, Government, local body, and private, the proportions of total investment have fluctuated as the following figures show.

	1939 Per Cent	1952 Per Cent	1957 Per Cent
Private sector	44	63	54
Government sector	41	28	32
Local body sector	15	8	14

Considering the large amount of loan moneys uplifted by local bodies in the year 1957–58 it is probable that the figure for that year would be higher than 14 per cent. While there is no yardstick for determining what proportion of total investment each sector would or should receive, it is evident that an increase in any sector must leave less available for the other sectors. Recently imposed import restrictions are likely to call for increased capital expenditure in the private sector and we think that any increase in local body borrowing – and possibly a continuance of the present rate – may well absorb funds which are more urgently required in the national interest in other sectors. A certain amount of control is exercised over the private sector by the Capital Issues Committee, just as a certain amount of control is exercised over the local body sector by the Loans Board. Partial control is necessarily not completely effective and no doubt complete coordinated control would be the only effective way of achieving the desired end. We have, however, hesitated to recommend further controlling authorities, especially in the absence of standard criteria, but we think that there should be close co-operation and coordination between the Loans Board and the Capital Issues Committee. Both bodies should function so as to keep local body and private demands for capital within the available limits, and to ensure that such projects as reach the market are those most essentially desirable in the national interest. As appears from the foregoing we regard the Loans Board as the appropriate authority for determining the relative priorities of local body loans and we approve the suggestions made by the Secretary to the Treasury for the procedure necessary which, for convenience, we set out in Appendix 3 to our report.

92. Some of the difficulties envisaged by Treasury would probably be met by the establishment of a Local Authority Finance Corporation as later mentioned and, possibly, by including (say) the Chairman of the Capital Issues Committee and the Chairman of the Finance Corporation as members of the Loans Board.

C. Capital Works Out of Revenue

93. If local body pressure on the capital market is to be eased it seems that the local bodies will have to postpone some projects and to proceed with others only to the extent that money is available from revenue. Rates of interest for local body loans are historically high, but largely because local bodies are asking for such large amounts of loan capital. The labour force in New Zealand is fully employed – many people say we are suffering from evils due to overfull employment – and overcompetition for the available supplies of labour and material is inflationary and harmful. No doubt there are some projects that can only be carried out by means of loans, but even in these cases where the work can be postponed and a portion of the cost accumulated before the work is commenced the resultant saving in total cost may well compensate for any inconvenience suffered on account of delayed commencement. This is well illustrated in a submission made by the Dunedin City Council which is set out in Appendix 4 to this report. We feel, too, that some limitation of local bodies' borrowing facilities may lead them to examine more closely their annual expenditure and expanding activities with a view to ensuring that all practicable economy is exercised, and that only projects within their financial capacity are undertaken. If the additional revenues we have recommended are granted to local bodies there should be an additional sum of approximately £4 million per annum available from petrol tax and abolition of rating exemptions apart from the local body levy, which has been suggested not as additional revenue but as a partial alternative to rates. In five years this annual sum of £4 million compounded at 4½ per cent would amount to £22,800,000, and in 10 years, to £51,200,000, which is approximately 40 per cent of the present local body loan indebtedness. We do, however, agree that without some additional sources of revenue,

such as we have suggested, most territorial local bodies will be unable to increase materially the amount they now expend on capital works out of revenue.

D. Underwriting of Loans

94. Submissions were made to us regarding the underwriting of local body loans. The Loans Board has in recent years allowed local bodies to pay increased rates of underwriting or placement fees. The present maximum rates fixed in July 1957 are as follows:

Major local authorities	..	10s. per cent plus 10s. per cent brokerage
Secondary local authorities	..	12s. 6d. per cent plus 10s. per cent brokerage.
Strictly minor local authorities	..	15s. per cent plus 10s. per cent brokerage.

Special long-term placement commissions are allowed:

15s. per cent for a 20 year investment
20s. per cent for a 25 year investment

and rising by 5s. per cent for each additional five years plus in all cases 10s. per cent brokerage.

95. It was said that some brokers arranged with large investors such as insurance companies to act as sub-underwriters in consideration of receiving the whole or a portion of the underwriting fees for money which they would themselves provide. This in effect gave these investors a higher rate of interest than was prescribed and a higher rate than private investors received. In cases where a large proportion of the particular loan was subscribed by the public and the underwriters and sub-underwriters received the underwriting fee not only on the amount they provided but on the whole amount of the loan, as was always the case, the effect was to give them a substantial increase in the effective rate of interest. If, for instance, the underwriters underwrote a loan of £100,000 and – as was sometimes the case – the public subscribed half of it, the sub-underwriters might get as much as 15s. per cent on the whole loan equal to 30s. per cent on the half they actually subscribed. It was said that this was unfair to the private investor and an indirect and undesirable method of increasing the authorised maximum rate of interest, and in any case the money from the insurance companies would be available without the additional inducement of underwriting fees. We were therefore asked to recommend the discontinuance of underwriting fees. On the other hand the borrowing local bodies in many cases voluntarily arranged for their loans to be underwritten because it gave them an assurance of getting the loans subscribed, enabled them to spread the period of payment of loan moneys to save interest, and on the whole gave them money for a longer term. Private investors usually prefer the shorter terms of about 6 years, while insurance companies are willing – particularly with the attraction of the higher effective rate of interest – to lend for terms of 20 years or more.

96. We do not think it was established that the insurance companies would necessarily have subscribed the money that they did without the inducement of underwriting fees; they were concerned to get the best return on their investments and they could have got a higher rate of

return ($5\frac{1}{4}$ per cent) by buying local body stock on the market, or an equivalent return of 5 per cent on Government stock. It has been a lender's market and the Loans Board still considers that the underwriting fees are justified to stimulate lending to local bodies. It is significant, too, that the amount invested in these loans by insurance companies has materially increased since these fees have been permitted and, as we have seen, these concerns are tending to become the largest single contributor to them. We do not think, therefore, that we should recommend a discontinuance of the Loans Board's present policy in this matter; if circumstances change the Board can, and no doubt will, review the position. Local bodies who think that they can raise their loans without paying these fees are still at liberty to do so and some have recently achieved it.

E. Table Loans

97. The question of the relative advantages of table loans as against flat loans was not canvassed before us but we are aware that sinking funds do not always produce the amount expected and it therefore becomes necessary to reborrow when the loan falls due, whereas in a table loan this cannot happen. In addition, calculations which have been made suggest that, even with a sinking fund calculated to earn continuously $3\frac{3}{4}$ per cent per annum, on a flat loan of £200,000 for a term of 20 years, the extra cost as against a table mortgage would be 9s. 7d. per cent or a total of £958 6s. 8d. per annum, and over the whole term an additional amount of £27,808 6s. 5d. We think that arrangements could readily be made in a table loan to accommodate those lenders who require only a short-term investment and we suggest that the advantages of table loans be seriously considered by local bodies and the Loans Board.

F. Interest Rates

98. Many suggestions were made for alterations in the law to make local body loans more attractive to investors. It was suggested that interest rates might be increased or preferably that the rate of interest might be freed from control so that local bodies could pay what the market required. We did not find that investors generally complained that interest rates were too low nor did they think that an increased rate would necessarily increase very greatly the amount of money that would be invested in local body loans. While we agree with the Monetary Commission in thinking that the ultimate objective of a free market in money is undoubtedly the best policy, we do not think that can be expected at the present time and we also think that present rates are realistic and reasonable.

99. Concern was expressed that with possible increases in the rate of interest on local body debentures, existing debentures would fall heavily in value, and it was suggested that if local bodies could issue debentures for (say) 20 years with a provision for the interest rate to be reviewed at five-year intervals, this would induce many private investors who now would not consider a longer term than six years to invest in long-term stock. The proposal was not universally favoured and we think it does not offer many advantages over the present system under which local bodies can always negotiate with their short-term lenders for a conversion at the rate ruling on maturity date.

G. Death Duty Stock

100. It was also suggested that local bodies should be allowed to issue "death duty" stock in the same way as the Government, the proposal being that the local body would redeem the stock at par in the event of the purchaser dying before the maturity date. This would probably not be advisable for smaller local bodies or even for larger ones in unlimited amount, but we think it might with advantage be allowed for such amounts in each particular case as the Loans Board might approve.

H. Premium Bonds

101. The issue of premium bonds was also suggested either on the system now existing in the United Kingdom or on a system similar to that operated by building societies. We think these schemes may have some attraction for investors, and the Government might well observe the result of the experiment in England. If that seems strikingly successful it might consider the adoption of some such scheme either for its own loans or for those of local bodies or both.

I. Income Tax on Debenture Interest

102. A suggestion that interest on local body debentures should be exempt from income tax did not impress us and we do not recommend it.

J. Trustee Savings Banks

103. We think that every encouragement should be given to increase savings and we therefore welcome the recently announced decision of the Government to allow the establishment of a trustee savings bank in Hamilton. These savings banks fulfil a useful function and mobilise more forces for the encouragement of saving. We suggest that the Government should go further and allow other savings banks and branches to be established, to increase the amount of maximum interest-bearing deposits to £2,000, and to repeal the provision which requires each trustee savings bank to invest at least half of its funds in Government stock. We think that such a move on the part of the Government would be greatly appreciated by the banks, the local bodies, and the public. The Government would lose little, if anything, local thrift would be encouraged, and local patriotism – so valuable a factor in local body finance – would be stimulated and harmonious cooperation increased.

K. Municipal Bank

104. The establishment of a municipal bank was another method suggested for improving the financing of local body capital projects. This suggestion was made by the Municipal Association as being complementary to a suggested Local Authorities Finance Corporation (which we will presently deal with) and it was urged that while this matter should be seriously considered it should not cause delay in the provision of the Finance Corporation while the question of banking received further consideration. We find some difficulty in seeing the necessity for a municipal bank if the proposed Corporation is established and we think the proposal may well be deferred until it is decided whether or not such a Corporation is to be set up and, if so, whether its operations call for any further banking facilities.

L. Reserve Bank Credit

105. The desirability of providing loans for capital works to local authorities from the Reserve Bank, free of interest or at reduced rates of interest, was submitted to the Commission by several local authorities as well as in several individual submissions. Particular reference was made to the financial help that could be made available to local authorities if funds were provided on the same basis as for State rental houses. In cross-examination it was generally admitted that loans of this nature would all be inflationary to various degrees. It was further admitted that either all finance for local authorities should be on this basis or some degree of priority must be established to decide what local authority or what particular type of project should receive this favourable treatment.

106. We point out that the method of financing State rental houses is and has been a matter of Government policy with a view to providing homes at low rentals for a particular group of citizens. The same principles of preference do not apply to the provision of works, services, or amenities for local authorities. The provision of interest-free money or of loans at a low rate of interest always tends to encourage a borrower to be less provident about expenditure and could encourage local authorities to embark on increased loan expenditure at a time when their existing rate of such expenditure is probably on too generous a scale.

107. We draw attention to the opinion of the Governor of the Reserve Bank who, when questioned by the Commission as to whether the Reserve Bank might be willing to be a beneficent factor in the social community structure by making available to local authorities, free of interest, all loans except those involving competition with private enterprise, stated, "We could, but I am positive we should not. As to being a beneficent institution we would only have the outward and obvious sign of beneficence and we would have the inward disgrace of a Central Bank debauching the currency".

108. If loans free of interest or at reduced rates were to be made available to local authorities there would no doubt be many Government projects as well as other worthy public or private institutions that would claim to be entitled to similar privileges. The greater the amount of such loans the greater the inflationary trend. In addition, such assistance would tend to make local authorities less self reliant. In our opinion no loans free of interest or at reduced interest rates should be provided to local authorities by the Reserve Bank.

M. Local Authority Finance Corporation

109. One submission that was very strongly urged by local bodies was the establishment of a Local Authority Finance Corporation. Various views as to the nature and functions of such a body were put forward. We are indebted to the Reserve Bank for a complete and critical survey of the proposals presented to us and this (slightly abridged) we include in our report as Appendix 5.

110. In general, we approve the establishment of a Corporation with a constitution and functions and powers as follows:

I. *Constitution*—

(a) A Corporation with independent status not under direct Government or Treasury control.

(b) A board of five directors, three appointed by the Government from a panel submitted by local authorities, together with two Government nominees, the chairman to be elected by the board.

(c) A statutory requirement for actuarial valuation and report to Parliament as at present required for the National Provident Fund.

II. *Functions and Powers*—

(a) To take over the local authority superannuation business of the National Provident Fund.

(b) In general to take over those powers and functions of the National Provident Fund now delegated to the Investment Committee. These include:

(i) Purchase and sale of Government and local body securities.

(ii) Temporary advances upon hypothecation of securities.

(iii) Underwriting loans.

(iv) Borrowing on overdraft.

(v) Acting as commissioner for depreciation funds and sinking funds, etc., and to provide investment for all other types of local authority reserve and trust moneys and loan moneys not immediately required.

(vi) Investment of surplus funds.

(c) In general, as a primary function, to lend to local authorities the funds accruing from the above activities and funds raised by Corporation borrowing.

(d) Generally to act in an advisory capacity to local authorities and, as far as possible, to achieve some coordination of local body borrowing.

(e) To issue its own stock or debentures, with trustee status, against the security of debentures held from local authorities.

(f) Power to act as paid agent or broker for local authorities in the raising of loans and to charge fees for services.

(g) Power to raise overseas loans on behalf of local bodies.

(h) Power to discount and rediscount local authority debentures.

(i) Authority to accept debentures in advance of payment of moneys.

(j) Power to accept money raised by public issue and make payment when required.

(k) Power to hypothecate debentures.

(l) All necessary ancillary powers.

(m) Take over from National Provident Fund approximately £15 million of invested funds from local authority superannuation activities, plus about £5 million of local authority reserve and other moneys temporarily deposited with the Fund.

(n) Normal overdraft accommodation to enable the Corporation to keep its funds fully invested with local authorities, and any other financial assistance through the Reserve Bank as may be deemed necessary by the Bank for the implementation and extension of the Corporation's operations.

111. The Corporation would not have, initially, the sole right to raise loans for local bodies, but local bodies should be encouraged to use it and, ultimately, when fully established and operating, it could become the sole issuing authority. It should be the sole underwriter for local body loans but with power to contract and pay for sub-underwriting. We think this is necessary to protect and recognise the status of the Corporation and to prevent undue cutting and competition. We do not think it advisable to authorise the Corporation to act as an insurance company nor to empower it to make a levy on local authorities, except for the purpose of recouping losses – which should not occur. The Corporation should be self-sufficient and self-supporting; it should be able to make some profit but this profit would be retained by the Corporation to increase its lending resources and might well be used for making loans on specially favourable terms to needy local bodies. Particular care should be taken to select and maintain a skilled and experienced staff.

N. Loan Polls

112. We feel that ratepayers do not take the interest that they should in loan polls and we think that local bodies in advertising loan proposals should make it clear how the proposal will affect the rates payable. We understand the Loans Board is anxious that this should be done and is taking steps to ensure it.

PART IV: MISCELLANEOUS ASSOCIATED MATTERS

113. A great many submissions were made to us on a wide variety of other miscellaneous topics related to local body finance. These have all been carefully considered. The following list is not necessarily complete but we think it includes all matters of importance that were relevant to the subject of our inquiry.

A. Reorganisation of Local Authorities

114. One of the problems of finance for capital works is that many local bodies are so small in population and resources that they do not appeal to the investment market and the Government, particularly through its investing Departments, is frequently called upon to assist them with their loans. It was suggested to us that many local body problems could be eased by rationalisation and amalgamation of local bodies, and with this statement we are in complete agreement. This matter was exhaustively reviewed by a Parliamentary Committee known as the Local Government Committee which reported in 1945. It considered that there was a case for a detailed review of local body boundaries and functions and recommended that a permanent Commission should be set up for the purpose. It did not consider that a poll of ratepayers should be required subsequent to the findings of the

Commission. By the Local Government Commission Act 1946 a Local Government Commission was set up, but under pressure from the local bodies it was provided that if the Commission decided to abolish a territorial local body 20 per cent of the electors involved could petition for a poll of electors on the scheme. In 1953 the legislation was altered giving a right of appeal to a special Appeal Authority and extending the right to a poll to cover any alteration of boundaries of a territorial district as well as the abolition of any such district. At the same time the percentage of electors required to petition for any such poll was reduced from 20 per cent to 5 per cent, but it was provided that at least 60 per cent of the votes recorded at the poll had to be against the scheme before it was rejected.

115. To provide this elaborate machinery for independent and impartial investigation and decision but to leave the ultimate decision to a poll of electors seems to us somewhat farcical. Few will deny that local government in New Zealand needs reorganisation. There are some 920 local bodies with approximately 10,000 members. Eleven boroughs and eight counties have a population of less than 1,300. Now, if ever, is the time for members of local bodies and their electors to take an enlightened and unselfish view of their position in relation to the general good. Without their cooperation little can be accomplished and it is notorious that the Local Government Commission has not been able to accomplish very much. We suggest that the Local Government Commission be given power – subject to the right of appeal – to implement its decisions without the power of veto by a poll, but we also suggest that a serious attempt be made to secure the cooperation and support of the relative local body associations to such an amendment of the legislation.

B. Urban Farm Land Rating Act 1932

116. This legislation is designed to give rating relief to farm lands in boroughs on the grounds that such lands do not get the same benefit from municipal services as closely subdivided residential land. The Municipal Association submitted that, because of different conditions prevailing today, the Act should be revised, but it did not offer any definite suggestion as to amendments necessary nor did it produce any conclusive evidence showing that the legislation was resulting in injustice to any particular class of ratepayers. Certain borough councils suggested amendments to overcome administrative difficulties being experienced in the operation of the legislation. The New Zealand Vegetable and Produce Growers' Federation Incorporated stressed the need for the retention of the legislation but considered that it was capable of improvement, although no definite amendments were suggested.

117. From all the evidence which we received we have formed the conclusion that the legislation is necessary and should be retained. We feel, however, that there may be a good case for revision of some of the provisions. A detailed consideration of the statute would involve very careful investigation and we do not think that we are the appropriate authority to undertake this task. We would recommend, therefore, that the Municipal Association should itself undertake a full investigation into the administrative difficulties being experienced and submit for the Government's consideration draft amendments which it considers necessary.

C. Application of Principles of Urban Farm Land Rating Act 1932 to Counties

118. The Urban Farm Land Rating Act 1932 has recently been made applicable to county towns established under Part XXX of the Counties Act 1956. The Counties Association, however, is anxious to obtain some rating relief for county farm lands which are not in county towns but which, because of their value for future urban subdivision, are attracting rates out of all proportion to their value as farms. The effect of such rating has been to drive genuine farmers off their lands as they cannot profitably farm them and meet the very heavy burden of rates. To meet the position it was submitted that the machinery of the Urban Farm Land Rating Act could be applied generally to counties as a means of reducing for rating purposes the high values placed on farm lands because of future subdivisional potential.

119. It is our opinion that the problem will largely be overcome when district planning schemes under the Town and Country Planning Act 1953 are finalised and the use of farm land is controlled in accordance with proper zoning. Values will then adjust themselves in accordance with the permitted use of the land and, if land is zoned as rural, its market value will be directly related to its productive capacity.

120. Where farm lands are included in urban zones they will of course have a value which must reflect their subdivisional potential, and that value may result in a rating burden which will make farming uneconomic. This may force subdivision before it is necessary or desirable and, to prevent this, we would recommend that legislation be provided along the lines of the Urban Farm Land Rating Act 1932 to meet the position where farm lands in a county are included in an urban zone under an operative district planning scheme but it is desirable that they should be retained for primary production for some defined period.

D. Land Drainage and River Boards

121. The submission of the New Zealand Land Drainage and River Boards Association contained three main proposals, which can be summarised briefly as follows:

(1) That the subsidies at present payable to land drainage boards should be increased:

(2) That drainage boards should be empowered, if they consider it desirable, to rate on an acreage basis instead of on the basis of land valuation:

(3) That the Land Drainage Act 1908 and the River Boards Act 1908 should be amended to contain a clear definition of the terms "benefit" and "indirect benefit" in the provisions of those Acts defining the lands which shall be liable for land drainage and river protection rates.

122. With regard to the first submission we feel that there was not sufficient evidence submitted to justify our recommending that a greater proportion of the cost of land drainage should be borne by the general taxpayer to the relief of the landowners whose properties benefit from the drainage work. Capital works, including improvements to existing land drainage systems, are subsidised by the Soil Conservation and Rivers Control Council and, in certain cases, subsidies are also paid for ordinary

maintenance work. We are unable to agree with the suggestion of the association that the Government should provide land drainage boards with their full capital requirements on the grounds that the general taxpayer will eventually benefit from greater national production and higher taxation yields from the improved land.

123. In support of its proposal that drainage boards should be permitted to rate on an acreage basis, the association mentioned that certain boards had already obtained this power by local legislation. Although we are prepared to concede that in special circumstances acreage rating may be equitable for drainage purposes we do not think that an amendment should be made in the general law to allow drainage boards themselves or a majority of the ratepayers at a poll to decide to adopt this system of rating. We feel that the procedure which has been adopted in the past is most appropriate and that if, because of special circumstances, acreage rating in a drainage district is desirable the drainage board should promote a local Bill to obtain the necessary authority so that the claims of all parties involved may be fully investigated.

124. With regard to the final submission, the association at our request has submitted a definition of the terms "benefit" and "indirect benefit" which it suggests should be incorporated in general legislation so that there should be no doubt as to the area which should contribute to the cost of land drainage and river protection works. This definition appears to be a reasonable one and we would recommend that the Government should give consideration to the promotion of legislation incorporating a provision along the lines suggested, subject to any amendments that may be considered necessary following a detailed review of the whole position.

E. Extension of Special Rating Areas

125. The Commission's attention was drawn to a financial problem which is likely to face any municipality where county areas are included within a municipal district. The difficulty arises where a borough's boundaries are extended to bring in new undeveloped or partially developed areas of county land. All the existing amenities of the borough can usually be made available to these areas but the borough's special rates made to service past loans raised to install these amenities can only be levied over the rateable property in the district at the time when the loan was raised. Consequently the new areas cannot, without special legislation, be made liable for these special rates even although they may be getting full benefit from the amenities.

126. In order to meet the position some municipalities have in the past promoted local Bills to empower them to consolidate special rates over the whole of their enlarged districts. In order to save the expense of promoting further local legislation for this purpose we recommend that general legislation be provided enabling municipalities to consolidate special rates over the whole of their districts merely by passing an appropriate special order.

F. Proposal to Base Catchment Board Levies on Unimproved Values

127. The present position is that where all the constituent local authorities in a catchment district rate on the one system of rating, then that system applies for the purposes of the catchment board rates. However,

if any one of the constituent local authorities rates on some other system, then the catchment board decides on what basis its rates will be levied. In some cases catchment boards have adopted the capital value system irrespective of the fact that all the major constituent local bodies are rating on unimproved values. This has led to complaints from municipalities that too great a burden is being imposed on the highly capitalised urban areas. We consider it would be impossible to recommend a uniform system of rating that would produce equity in every case. We therefore decided to make no recommendation in the matter as the correction of some of the anomalies might well lead to the creation of others. Moreover, evidence showed that rating on unimproved values would create a greater burden on urban areas in some *ad hoc* districts than rating on capital values.

G. Proposal for Repeal of Section 43 of the Valuation of Land Act 1951

128. This provision directs the Valuer-General to make certain reductions in valuations in the case of land held for public purposes, or for public reserves or sports grounds where the land is not used for the pecuniary profit of any individual. Such lands can also be given remissions of rates by the local authority in whose district they are situated. Although there is some duplication of powers as between the Valuation Department and the rating authorities, local bodies prefer the provision in the Valuation of Land Act to remain and are generally satisfied with the Department's administration of it. We have, therefore, no recommendation to make on this proposal.

H. Penal Rates on Undeveloped Property

129. In order to prevent useful land being held in an undeveloped state a suggestion was made to us that provision should be made enabling local authorities to levy penal rates in such cases. No practical scheme for the imposition of such rates was submitted and we have reached the conclusion that an amendment of the existing law along the lines suggested is neither practicable nor desirable.

I. Penalties and Discounts on Rates

130. In order to obtain earlier receipt of rating revenue and obviate the necessity for large temporary overdrafts, it was suggested to us that the time allowed in the Rating Act for the payment of rates before the 10 per cent penalty was incurred should be reduced. It was claimed by some local authorities that the provision allowing a discount to be given for prompt payment of rates was not a satisfactory solution, although other local authorities disagreed with this view. If our suggestion is adopted that local authorities be empowered, if they so wish, to levy rates on an instalment basis it will then be possible for authorities adopting this procedure to avoid large overdrafts. Apart from this we feel that no further alteration in the law on this subject is required.

J. Rating of Maori Land

131. One of the principal difficulties experienced in the rating of Maori land is the fact that in many cases the complicated system of Maori land tenure makes the collection of rates difficult. It was submitted

that Maori land should be valued by the Valuation Department, not on the same basis as comparable European land but having some regard to the complexities of the tenure and the legal restrictions on alienation which exist. We feel that we are not in a position to comment on this suggestion, which should be taken up direct with the Valuer-General.

K. Proposal to Extend Provisions of Rating Act 1925 Which Provide for Remission of Rates on the Grounds of Extreme Poverty

132. We consider that these provisions give local authorities powers to grant necessary relief which are reasonably adequate.

L. Proposal that Local Authorities' Rating Powers Should be Increased

133. We think that the present powers are adequate provided the additional sources of revenue which we have recommended are made available to local authorities.

M. Proposal for Automatic Increase in Rents Following Increases in Rates

134. We think that the present powers of landlords to apply for rental adjustments in the event of increases in rates are adequate.

N. Proposal to Enable Local Authorities to Give Special Concessions to Encourage the Establishment of Industries

135. We think that this proposal is not suitable for general adoption and therefore have no recommendation to make.

O. Proposal to Transfer Part of Motor Registration Fees to Local Authorities

136. These fees are now payable to the National Roads Board and we can see no merit in the suggestion that portion of the present fees or any future increase in the fees should be paid direct to local authorities.

P. Contracting for Local Works

137. It was suggested, and we agree, that local bodies, with a view to exercising economy and efficiency, should consider the advisability of using the services of contractors where available for some of their work – particularly when by so doing they could avoid the purchase of expensive plant and equipment which will not subsequently be used to its maximum economic capacity.

Q. Proposal for Special Taxes on Tourists at Holiday Resorts

138. Certain municipalities whose districts are popular tourist resorts suggested that local taxes might be levied on visitors to assist in meeting the cost of amenities for their use. We consider that the levying of any such tax would be both irritating and difficult to administer efficiently. We have, therefore, no recommendation to make on this proposal.

R. Slum Clearance

139. It was suggested that the Government should increase its subsidies for slum clearance in cities. We think that this must be left for consideration in each particular case and we are unable, therefore, to make any general recommendation on the subject.

S. Suggestion that Totalisator Agency Board Profits Should be Distributed to Local Bodies

140. We consider that local bodies have no special claim to share in these profits.

T. Proposal for Increased Subsidies on Pensioners' Homes

141. Losses sustained by local authorities in the construction and maintenance of pensioners' homes vary in different districts and from the little evidence we received we do not feel justified in making any general recommendation on the question of increased subsidies. We consider that the matter is one for negotiation between interested local authorities and the Government, following a complete survey of relevant costs.

U. Bank Interest Charges on Local Authority Overdrafts

142. It was submitted to us that where a local authority had several accounts with one trading bank, the bank should be required to offset accounts in credit against accounts in debit in calculating the amount on which the local authority was required to pay overdraft interest. Apparently it is not now the general practice for banks to make any allowance for accounts in credit when calculating interest charges on overdraft accounts. In the absence of any submission from the trading banks concerned we feel that we are not in a position to comment on this banking practice and therefore we are unable to make any recommendation on the proposal.

V. Proposal for Further Powers in Financing Land Development and Town Planning Schemes

143. This proposal was made by the Lower Hutt City Council to enable these schemes to be financed by overdraft instead of by loans under the existing provisions of the Local Authorities Loans Act 1956. We consider that the borrowing procedures provided in this Act are adequate to meet the position and that no further overdraft powers are necessary or desirable.

W. Proposal for Taxation of Increases in Land Values

144. This was a suggestion made by the New Zealand League for the Taxation of Land Values (Inc.). Whatever its merits may be we do not think it is a suitable system of taxation for adoption by local authorities.

X. Proposals Regarding County Towns Constituted Under Part XXX of the Counties Act 1956

145. It was submitted that Part XXX of the Counties Act 1956 should be amended to prohibit the constitution of county towns within a specified distance of the boundaries of a municipality. A further submission

was made that, in the interests of economy and efficiency, certain small boroughs should be abolished and constituted county towns under the administration of the surrounding county. The consideration of both these proposals would not be directly related to our order of reference and we have, therefore, no recommendation to make on them.

Y. Objections to Present Restrictions on Sale of Scrap Copper

146. The effect of these restrictions on local authority finance is very small. We were not made fully aware of the reasons for the restrictions but they were no doubt introduced as a Government policy measure. We think that the electric supply authorities concerned should negotiate direct with the Government on the matter and we therefore have no recommendation to make.

Z. Wellington City Leases

147. Our attention was drawn to the position where municipally owned property is leased for private occupation on perpetually renewable leases. It was submitted that the terms of such leases granted by the Wellington City Corporation were grossly unsatisfactory from the point of view of the municipality in that the period of the leases between renewals (21 years) is too long and the provisions in the relative legislation for the assessment of rentals on renewal are heavily loaded in favour of the lessee. Whatever may be the merits of the argument the position is that contractual relations between the Corporation and the lessees have been clearly defined in the leases and we are not prepared to recommend that any existing rights of the lessees should be arbitrarily cancelled or varied.

PART V: SUMMARY OF MAIN CONCLUSIONS

A. Revenues of Local Authorities

148. We have confined ourselves in this section to rate-levying authorities and in the main to territorial authorities, and with regard to them we find:

(a) That rates should remain as the foundation of their revenue.
P. 14, par. 22–23.

(b) That rating systems as at present existing should remain with two minor modifications:

(i) That works of levelling and filling should not in certain circumstances be treated as improvements in ascertaining unimproved values.

(ii) That the law relating to changes from or to unimproved value should be modified.
Pp. 14–17, par. 23–31.

(c) That while official figures show that during the last 20 years or thereabouts rates have declined in relation to national income and production, those figures are not necessarily conclusive and must be considered in relation to other factors. In any case the future is likely to show a reversal of this trend.
Pp. 17–19, par. 33–40.

(d) That the proportion of total revenue derived from rates is as great as is reasonable and that a substantially greater part of revenue is unlikely to be obtained from user or service charges.
Pp. 17–19, par. 33–40.
Pp. 20–21, par. 45–46.
P. 28, par. 76.

(e) That present rate levies do in some local districts impose an unduly heavy burden on the owner or occupier of residential property and such burden is likely to be increased considerably so that in most districts it will soon become an undue burden.
Pp. 17–19, par. 33–40.
Pp. 26–27, par. 68–70.
Pp. 28–29, par. 77.

(f) That in lieu of making any special provisions for relief of owners of residential property, general relief should be given to all ratepayers.
Pp. 19–21, par. 41–46.
Pp. 26–27, par. 68–70.

(g) That additional sources of revenue should be made available to local bodies as follows:

(i) The proceeds of 3d. of the additional 1s. tax on petrol should be paid to the National Roads Board for distribution to local bodies by way of subsidy on their roading expenditure.
Pp. 20–21, par. 44–46.

(ii) Exemptions from rating now enjoyed by Crown and other property should be substantially reduced.
Pp. 27–28, par. 72–75.

(iii) A subsidy should be paid by the Crown to local bodies on their expenditure on library services.
P. 27, par. 71.

(h) That the burden of local body expenditure should not be borne wholly by ratepayers and a reasonable proportion should be borne by the general body of citizens in each local district. To implement this we recommend that a local body levy of 2d. in the pound on earnings and profits on the same basis as the existing social security charge should be levied and collected by the Government and distributed to territorial local bodies on the basis of one-third on population, one-third on rateable capital value, and one-third on the amount of rates collected, which we think will give these local bodies as near as is practicable an amount equivalent to that contributed by their own citizens. The proceeds of this levy are intended to be in relief of and not in addition to existing rate levies.
P. 19, par. 41–43.
Pp. 26–27, par. 68–70.

(i) That the present basis of distribution of National Roads Board subsidies is not satisfactory to boroughs, and that the best method of allocation of those funds would be to subsidise the actual expenditure on roading of each local authority, so that as far as is possible all local authorities are placed on the same basis in regard to these subsidies. We have therefore recommended a new basis of subsidy payment based on expenditure on roading under which all roading authorities are to be treated alike. To achieve this we recommend the abolition of main highways as a road classification, the transfer of the more important of these highways to State highway classification, and the reversion of the remainder to county roads or borough streets.

Pp. 21–24, par. 47–56.

(j) That we can make no recommendation with regard to any alteration of the present basis of charging milage tax or heavy traffic fees.

P. 24, par. 57–59.

(k) That local bodies should be authorised to require payment of rates by instalments.

P. 29, par. 80.

(l) That we can make no special recommendation for relief in respect of:

(i) Transport losses.
P. 17, par. 32.
Pp. 29–30, par. 81–85.

(ii) Street-lighting charges.
P. 29, par. 78.

(iii) Fire-prevention services.
P. 29, par. 79.

(iv) The cost of providing local amenities.
Pp. 26–27, par. 70–71.

B. Capital Works of Local Authorities

149. The provision of funds for permanent works and development is a problem that affects all local bodies, however constituted, and whether depending on rates or other sources of revenue, and in regard to them we find:

(a) That the only sources available for local body loans are the investment funds held in New Zealand by private investors, insurance and other companies, trustee savings banks, and Government Departments. In recent years those funds have not been adequate to satisfy the demands of local bodies for loan moneys, nor do we think they will be adequate in the near future.

Pp. 31–32, par. 87–90.

(b) That the only alternative to borrowing for capital works is by financing these out of revenue. In the case of the territorial authorities this is not practicable to the required extent unless additional sources of revenue are made available to them.

Pp. 33–34, par. 93.

(c) That local body loans are already absorbing a reasonable share of the investment funds available and any increase in the amount of those loans, or even a continuance at the present rate, may tend to have an adverse effect on other essential development.

Pp. 32–33, par. 91.

(d) That the demands of local bodies on loan funds should be regulated and controlled by the Local Government Loans Board so that the market may be properly organised and priority ensured – within the capacity of the market – for the most urgent and essential works. The Loans Board should work in cooperation with the Capital Issues Committee to ensure that the legitimate requirements of the local body sector and the private investment sector are met in the most efficient way for the benefit of the national economy.

Pp. 32–33, par. 91–92.

(e) That a Local Authority Finance Corporation should be set up to assist local authorities in their capital operations both in raising loans and in providing a remunerative outlet for funds which are not immediately required. It is suggested that the Corporation should be enabled to take over the investment funds now held by the National Provident Fund Investment Committee and those belonging to the local authorities section of the Provident Fund and the moneys to become payable to that section together with reserves and other trust moneys held by local authorities. It would have power to raise loans for local bodies by the issue of its own debentures and to act as agent, broker, or sole underwriter for local body loans. It would not have, initially, the sole right to raise loans for local bodies. We do not recommend that the Corporation should have power to augment its funds by a levy on local bodies.

Pp. 37–39, par. 109–111.

(f) That local bodies should not at present have power to establish a municipal bank.

P. 36, par. 104.

(g) That the present practice of allowing, at the discretion of the Loans Board, payment of underwriting and placement fees be allowed to continue.

Pp. 34–35, par. 94–96.

P. 39, par. 111.

(h) That while we do not recommend any change in relation to rates of interest we think the ultimate aim should be for a free market in regard to interest rates.

P. 35, par. 98–99.

(i) That local authorities should be authorised to issue death duty stock.

P. 36, par. 100.

(j) That local authorities should consider the advantages of table loans.

P. 35, par. 97.

(k) That further trustee savings banks should be established and there should be some extension of their powers.

P. 36, par. 103.

(l) That we cannot support the suggestion that finance for capital works of local authorities should be provided by the Reserve Bank either on a free or reduced interest basis.
P. 37, par. 105–108.

C. Miscellaneous Associated Matters

150. We recommend appropriate action in respect of:

(a) Reorganisation of local authorities.
Pp. 39–40, par. 114–115.

(b) The extension of the Urban Farm Land Rating Act to counties.
P. 41, par. 118–120.

(c) The consolidation of special rates in municipalities following upon adjustments in boundaries.
P. 42, par. 125–126.

On the many other miscellaneous matters submitted to us we do not recommend that any action be taken.

APPENDICES

APPENDIX 1: PERSONS AND ORGANISATIONS WHO PRESENTED EVIDENCE AT PUBLIC HEARINGS

Local Authority Associations—	*Evidence Presented by*
Electrical Supply Authorities' Association of New Zealand	Mr W. S. N. Rennie. Mr G. A. Ammundsen. Mr. N. McL. Speer.
Harbours Association of New Zealand . .	Mr R. E. Dawson.
Hospital Boards Association of New Zealand	Mr J. Grierson.
Municipal Association of New Zealand	Mr C. L. Bishop.
New Zealand Catchment Boards Association	Mr T. R. Beatty.
New Zealand Counties Association . .	Mr E. M. Fox.
New Zealand Land Drainage and River Boards Association	Mr S. F. Body. Mr G. R. Reid.
Local Authorities—	
Alexandra Borough Council . .	Mr W. J. Russell.
Auckland City Council	Mr K. N. Buttle.
Auckland Metropolitan Drainage Board	Mr A. C. Johns.
Buller, Inangahua, Grey, and Westland County Councils	Mr M. Wallace. Mr J. W. Hannan.
Christchurch City Council	Mr H. S. Feast.
Christchurch Drainage Board . .	Mr. G. A. G. Connal.
Christchurch Transport Board . .	Mr C. C. Holland. Mr J. F. Fardell.
Cook County Council	Mr W. V. Clarke. Mr R. G. Gardiner.
Dunedin City Council	Mr J. C. Lucas. Mr T. K. S. Sidey.
East Coast Bays Borough Council . .	Mr R. C. E. Kendall.
Gisborne City Council	Mr H. H. Barker.
Glen Eden Borough Council	Mr J. F. Porter.
Green Island Borough Council . .	Mr C. M. May.
Henderson Borough Council	Mr F. G. W. Wilsher.
Lower Hutt City Corporation . .	Mr P. Dowse.
Manukau County Council	Mr H. D. Lambie.
Manurewa Borough Council . .	Mr F. N. Hemphill.
Matamata County Council	Mr J. A. Beck.
Mosgiel Borough Council	Mr A. W. McLean.
Mount Albert Borough Council . .	Mr H. A. Anderson.
Mount Roskill Borough Council . .	Mr G. W. Stephenson. Mr K. W. Hay.
Nelson City Council	Mr W. H. McCullough. Mr C. I. Kidson.
Ohakune Borough Council	Mr B. R. Winchcombe.
Otago Harbour Board	Mr C. S. Richardson.
Patangata County Council . .	Mr D. F. Rogers.
Pohangina County Council	Mr N. H. Moar.

Local Authorities—continued

Port Chalmers Borough Council . .	Mr J. S. Thorn. Mr K. B. Kendall.
Pukekohe Borough Council	Mr B. W. Sharkey.
Queenstown Borough Council . .	Mr C. A. Grant.
Raglan County Council	Mr L. C. Logan.
Riverton Borough Council	Mr I. M. Campbell.
Rotorua Borough Council	Mr L. J. Wright.
Taranaki Harbour Board	Mr G. A. Eddowes.
Tauranga County Council	Mr H. B. Capamagian. Mr L. R. R. Carter.
Tawa Flat Borough Council . .	Mr E. M. H. Kemp.
Tuakau Borough Council	Mr D. V. Firth.
Upper Hutt Borough Council . .	Mr N. A. Forsyth.
Waitemata County Council	Mr L. L. Jones.
Wanganui City Council	Mr D. F. Glenny.
Wellington City Council	Mr F. J. Kitts.
Wellington City Council Transport Department	Mr W. S. Coppin.
West Harbour Borough Council . .	Mr B. I. Riach.

Government Departments and Statutory Boards—

Air Department	Mr J. J. Loftus.
Ministry of Works	Mr F. M. Hanson. Mr C. M. Wheeler. Mr W. Bell.
National Provident Fund Board . .	Mr W. L. Comrie.
National Roads Board	Mr W. F. Young. Mr J. W. Kassler.
Public Trust Office	Mr G. E. Turney.
State Advances Corporation of New Zealand	Mr K. J. Caverhill.
The Treasury	Mr E. L. Greensmith. Mr A. Ashley-Jones.
Valuation Department	Mr R. J. MacLachlan.

Banks—

Reserve Bank	Mr E. C. Fussell.
Auckland Savings Bank	Mr H. J. Barrett.
Dunedin Savings Bank	Mr W. G. Hilliker.

Other Organisations—

Associated General Contractors' Federation	Mr H. C. Campbell.
Auckland Area Joint Works Committee	Mr I. A. Webb.
Auckland Harbour Bridge Association and East Coast Bays Ratepayers' Protection Committee	Mr R. H. Greville.
Dominion Property Owners' Association	Mr H. E. Hyde.
Dominion Sawmillers' Federation . .	Mr W. F. Coady.
Dunedin Combined Ratepayers' Association	Mr R. J. Calvert.
Federated Farmers of New Zealand . .	Mr J. C. Adams.

Other Organisations—continued

Federation of Wellington Progressive Associations	Mr B. R. Perry.
Industrial Transport Association ..	Mr H. C. Campbell.
Life Offices Association	Mr H. McP. Collie.
New Zealand League for the Taxation of Land Values	Mr R. O'Regan.
New Zealand Library Association ..	Mr H. Brown. Mr A. G. W. Dunningham.
New Zealand Social Credit Association	Mr R. O. C. Marks.
New Zealand Vegetable and Produce Growers' Federation	Mr P. W. W. Brunton. Mr C. E. Bertelsen.
North and South Island Motor Unions	Mr W. A. Sutherland.
Public Passenger Transport Association	Mr C. Ashley-Cooper.
Stock Exchange Association of New Zealand	Mr J. H. Griffiths. Mr F. H. Renouf.

Private Individuals—

Mr F. Allen ..	Glen Eden.
Mr W. E. Barker	Gisborne.
Mr I. S. Betts	Dunedin.
Mr E. W. Boulton	Otahuhu.
Mr J. W. M. Carpenter	Auckland.
Mr F. J. A. Fox	Christchurch.
Mr E. H. Halstead	Auckland.
Mr A. G. Hercus	Wellington.
Mr W. J. Hyde	Wellington.
Mr H. T. A. McGahan	Matamata.
Mr D. McGregor	Wanganui.
Mr E. Middleton	Timaru.
Prof. H. R. Rodwell	Auckland.
Mr A. B. Sturm	Lower Hutt.
Mr L. V. Thomsen	Taupiri.
Mr H. Trewby	Wellington.
Mr E. C. Wadsworth	Takaka.
Mr C. H. Williams	Gisborne.

COUNSEL WHO APPEARED AT THE PUBLIC HEARINGS AND THE ORGANISATIONS THAT THEY REPRESENTED

	Organisation Represented
Mr H. J. Butler	Auckland City Council.
Mr M. M. Caudwell	Otago Harbour Board.
Mr H. O. Cooney	Tauranga County Council.
Mr E. D. Morgan	Tauranga County Council.
Mr N. A. Morrison	New Zealand Counties Association.
Mr J. C. Robertson	Dunedin City Council.
Mr J. F. B. Stevenson	Harbours Association.
Mr A. B. Thomson	Wellington City Council.

APPENDIX 2: PERSONS WHO MADE WRITTEN SUBMISSIONS BUT DID NOT APPEAR AT PUBLIC HEARINGS

Mrs D. Brandon	Wanganui.
Dannevirke Borough Council	Dannevirke.
Government Life Insurance Office	Wellington.
Mr H. Gladstone Hill	Wellington.
Mr J. Johnstone	Manurewa.
Kiwitea County Council	Kimbolton.
Mangonui County Council	Kaitaia.
Mr C. Phillips	Auckland.
Mr F. A. Smith	Papatoetoe.
State Fire and Accident Insurance Office	Wellington.
Wanganui Harbour Board	Wanganui.
Mrs M. Young	Inglewood.
Anonymous	Wellington.

APPENDIX 3: A STATEMENT BY THE TREASURY ON SUGGESTIONS FOR COORDINATING LOCAL AUTHORITY BORROWING

1. The Commission has asked Treasury for suggestions whereby local authority loan issues in the market might be coordinated and if necessary controlled in accordance with determined priorities.

2. An equitable system of controlling and timing local authority loan issues in the market would entail assessing in advance the total borrowing requirements of all local authorities and the moneys likely to be available for lending to them, as well as a detailed determination of priorities and allocation of moneys between authorities.

3. That goes a good deal further than the present procedure and functions of the Local Authorities Loans Board in sanctioning the raising of loans. It would mean much more work for the controlling body and its investigating agents and to some extent for the local authorities themselves. Such a system would involve control in the issue of borrowing permits and this could not be exercised fairly without clear determination of priorities after having regard to all relevant considerations. This might involve even closer examination of individual proposals. Proper coordination and timing of loan issues could only be based on estimates of the total local authority borrowing demand and of the moneys accruing for investment with local authorities. The system would entail a complete programming of local authority loan works, annually in advance of requirements, with further programming in outline for a three-year period ahead.

4. Probably the most suitable body to exercise such a coordination would be the Local Authorities Loans Board with some adaptation of its present procedure and of the relative legislation. The Board does not comprise sectional membership but includes members of wide knowledge and experience in the various local authority fields. The requisite Government administrative machinery is available to the Board.

5. The coordinating machinery might copy, in some degree, the Government's own capital programming procedure. A somewhat similar method was adopted by the Auckland Area Joint Works Committee which undertook programming of local authority capital works in the Auckland urban area recently The committee did not, however, undertake independent investigation of the individual local body proposals. It received submissions from the local authorities on their proposals and used these as a basis for its detailed examination of the programme. That would hardly suffice for a body exercising direct and complete control on local authority loan issues, and independent investigation of the priority claims of loan proposals would, it seems, be essential.

6. The following paragraphs are intended to give an indication of the procedure that might be involved.

7. To introduce the system at the beginning of next financial year (1 April 1959) it would be necessary to request all local authorities to supply details of their borrowing programmes by 1 October 1958. The necessary information would comprise: (a) the balance of loans approved, but not raised; (b) the loan moneys required for works commenced; (c) proposed works (not yet approved) likely to be commenced within (i) the next year, and (ii) the two following years.

Figures would have to be given for each work or group of works that would form one loan proposal. These items would give total loan requirements. They would have to be further subdivided into proposed expenditure for 1959–60, 1960–61, and 1961–62, and the 1959–60 figures broken down into (say) approximate quarterly expenditure requirements. In addition, technical and other supporting data would have to be submitted in support of all new proposals scheduled for early commencement and general descriptive data for all other new proposals.

8. The detailed proposals would have to be referred to appropriate Government Departments (e.g., Ministry of Works, State Hydro-electric Department, etc.) for local investigation and report for the information of the Board. These reports would need to comment particularly on priorities. It should be noted that the year of proposed borrowing does not necessarily coincide with the year of sanction of the loan and that one sanction frequently covers several loan issues spread over two or more years.

9. The Board would endeavour to assess the moneys likely to be available for lending to local authorities, whether on public issues or by direct negotiation. Certain statistics and other data are available but information on this aspect is incomplete and more inquiry would be needed. The result would never be greatly better than an informed guess as the sums likely to be available could be influenced by changing conditions.

10. Thereafter the Board would make tentative allocations of borrowing authority to local authorities and would draw up a time schedule for public issues. These would necessarily be tentative as the Board would need to retain some flexibility to meet variations in the supply of money that in fact became available.

11. Borrowing permits would need to be issued some time in advance of flotation to allow for statutory procedure, loan negotiations, etc., but subject to conditions prescribing the time at which and the period for which the authority could be exercised.

12. The preceding five paragraphs outline a possible system. There are, however, a number of opposing considerations which should be mentioned.

13. In the first place such a system would impose so much intensive control that it might not be entirely acceptable to all local authorities. Even the present system of control over borrowing with preliminary procedure, examination and sanction by the Loans Board, special order procedure (with possibility of a poll of ratepayers), and issue of Orders in Council tends to impose some delay. It is possible, however, that the additional function might present some opportunity for streamlining procedures.

14. Apart from such opportunities, however, there would be phases where the suggested system must necessarily be superimposed upon the present detailed examination of individual loan proposals based on technical and other data.

15. The determination of fixed priorities for local body borrowing would not be easy. Strong local sensitiveness as to the importance of particular projects might be a complicating factor.

16. An effective system would require rigid central control, in contrast with the present position of greater individual responsibility and initiative for local authorities.

17. An assessment of the availability of moneys can only be arbitrary. Elimination or reduction of the present competition and effort among local authorities to attract loans might result in a smaller grand total coming to local authorities.

18. Effective coordination would probably require the covering of the whole field of investment, which would be a much larger task. Local authority borrowing comprises only a part of that field. The capital issues control covers part only of private investment. It is doubtful whether coordination of a part can be adequately effective.

19. A probable practical difficulty in allocating to local authorities limited periods on the market is that many (particularly smaller or medium local authorities with relatively large requirements) might not be sufficiently attractive to investors to fill their loans within the allotted period. If they should be unable to proceed with their works and should have to be allowed further time it would tend to break down programming and coordination.

20. On balance it is open to doubt whether such gains as have been suggested would in fact accrue in full from efforts to coordinate to a greater extent than at present the borrowing activities of local authorities. So long as savings are inadequate to meet the demand, real gains made in ensuring that the most essential projects do receive priority of financing will tend to be offset by discontent over continued postponement of other projects, and over the inherent difficulties and uncertainties of programming part of an investment flow of uncertain depth and speed.

21. One result of comprehensive import controls, if rigorous, may be the availability of a good deal of money for investment on very short terms, say six years, and probably for appreciably shorter periods. It would be desirable that local authorities (except perhaps the largest) should not be permitted to accept any large proportion of such money, because of the difficulties of conversion in which they might soon become involved. A general pooling scheme might accept more of such "hot" money, but it also would require to exercise special care against "over-long" investment.

22. The Commission may conclude that in general there is likely to be in the near future insufficient voluntary savings for financing essential projects of local authorities. That may lead to the view that either the authorities directly concerned should finance much more extensively from current revenue or that a general levy (with an exemption formula for local authorities already very highly rated) be made and paid to a central pool, with or without ultimate repayment to the contributing authorities. Such a pool could be administered, by way of lending to local authorities, either by additions to the present National Provident Fund pool or by the Loans Board after appropriate reconstitution of its functions. Such a scheme would hardly be describable as one of coordinating and controlling loan issues but it might substantially reduce the need for loan issues and so solve or help solve the problem.

APPENDIX 4: EXTRACT FROM SUBMISSION MADE BY THE DUNEDIN CITY COUNCIL TO THE ROYAL COMMISSION ON LOCAL AUTHORITY FINANCE

LOAN CHARGES

1. When consideration is being given to a loan project it is frequently suggested that in order to reduce the cost the loan term should be made as long as possible. It is correct that a long loan term reduces the *annual* charge. The extent of the annual reduction is shown in the following table, which shows the charges on a loan of £100 with repayment over periods ranging from five to 35 years.

TABLE I

Repayment Term	Interest	Sinking Fund	Total Annual Loan Charge
	£ s. d.	£ s. d.	£ s. d.
5 years	4 15 0	18 9 3	23 4 3
10 years	5 0 0	8 6 7	13 6 7
15 years	5 0 0	4 19 11	9 19 11
20 years	5 0 0	3 7 2	8 7 2
25 years	5 0 0	2 8 0	7 8 0
30 years	5 0 0	1 15 8	6 15 8
35 years	5 0 0	1 7 2	6 7 2

2. From this table it will be noted that when the loan term is increased from 10 years to 20 years the reduction in the annual charge is £4 19s. 5d., whereas when the term is increased from 20 years to 30 years the reduction in annual charge is only £1 11s. 6d.

3. The Local Government Loans Board has issued a table setting out permissible loan terms up to 35 years but the Board tends to prefer a term not exceeding 20 years, possibly because the saving in annual charges for terms over 20 years is comparatively small, whereas the added interest for 10 years at 5 per cent is equal to half the original loan.

4. The annual cost set out in table I is usually considered when a loan project is under review, but only infrequently is consideration given to the total cost of the project as set out in the following table II, which shows the *total charges* over the full loan term for £100 borrowed for each of the terms shown in table I.

TABLE II

Repayment Term	Total Interest	Total Sinking Fund	Total Loan Charges
	£ s. d.	£ s. d.	£ s. d.
5 years	23 15 0	92 6 3	116 1 3
10 years	50 0 0	83 5 10	133 5 10
15 years	75 0 0	74 18 9	149 18 9
20 years	100 0 0	67 3 4	167 3 4
25 years	125 0 0	60 0 0	185 0 0
30 years	150 0 0	53 10 0	203 10 0
35 years	175 0 0	47 10 10	222 10 10

5. The *actual cost* of borrowing £100 at 5 per cent interest is shown in this table to be almost 33⅓ per cent of the sum borrowed for a 10-year term, almost 50 per cent for a 15-year term, just over 66⅔ per cent for a 20-year term, and over 100 per cent for a 30-year term. (Without the interest earned by the sinking fund, these percentages would be 50 per cent, 75 per cent, 100 per cent, and 150 per cent respectively.)

6. It is not suggested that the high cost of borrowed money should be used as an argument to defer all necessary work for it would be impossible, with the present revenues available to local bodies, for them to restrict development to those items which can be financed from revenue.

7. It is desirable, however, if the long-term interests of ratepayers are to be considered, to provide from revenue for a proportion of new work and this proportion can be lower in the case of a trading undertaking where the expenditure is for the purpose of reducing costs or increasing sales, but where such expenditure is non-revenue producing a much higher proportion of it should be a revenue charge.

8. It may be argued that special projects not likely to recur are a fair charge on loan capital, but even in these cases if revenue can be made available it should be used.

9. In the case of works which are proceeding continuously, e.g., street works or development of reserves, the continued recourse to loan capital results in annual loan charges exceeding the annual sum borrowed for expenditure. This is illustrated in table III hereunder, which shows the annual cost of £100 borrowed each year at 5 per cent interest for a 20-year loan term.

TABLE III

Year	Sum Owing	Interest	Sinking Fund	Total Annual Charges
	£	£	£ s. d.	£ s. d.
1st	100	5	3 7 2	8 7 2
2nd	200	10	6 14 4	16 14 4
3rd	300	15	10 1 6	25 1 6
4th	400	20	13 8 8	33 8 8
5th	500	25	16 15 10	41 15 10
6th	600	30	20 3 0	50 3 0
7th	700	35	23 10 2	58 10 2
8th	800	40	26 17 4	66 17 4
9th	900	45	30 4 6	75 4 6
10th	1,000	50	33 11 8	83 11 8
11th	1,100	55	36 18 10	91 18 10
12th	1,200	60	40 6 0	100 6 0
13th	1,300	65	43 13 2	108 13 2
14th	1,400	70	47 0 4	117 0 4
15th	1,500	75	50 7 6	125 7 6
16th	1,600	80	53 14 8	133 14 8
17th	1,700	85	57 1 10	142 1 10
18th	1,800	90	60 9 0	150 9 0
19th	1,900	95	63 16 2	158 16 2
20th	2,000	100	67 3 4	167 3 4

10. For the twenty-first year and for each year thereafter the amount owing remains at £2,000 as, for each fresh £100 borrowed, an earlier loan of the same amount is paid off. Interest therefore remains at

£100 per annum, sinking fund at £67 3s. 4d. and the total charges at £167 3s. 4d. per annum, provided that the rate of interest remains unchanged at 5 per cent.

11. The significant facts are:

(a) You borrow £100 each year for expenditure in that year.
(b) In the early years the annual loan charges are low.
(c) From the twelfth year on your revenue account has to find more for loan charges than you are borrowing each year to spend on the works programme.

12. In spite of this it would be extremely difficult to convince ratepayers that they should find each year from revenue all the money needed for development work. It would be undesirable to try to do so but the table does show that non-revenue producing work which requires to be financed regularly each year should not be a loan charge.

APPENDIX 5: STATEMENT BY RESERVE BANK OF NEW ZEALAND ON PROPOSALS FOR THE ESTABLISHMENT OF A LOCAL AUTHORITIES LOANS CORPORATION

1. Issues raised before the Commission concerning local body finance include:

(a) An overall shortage of capital for local body works in recent years.

(b) Current difficulty in raising money for long terms.

(c) The existence of a backlog of works and current large works proceeding simultaneously.

(d) A considerable programme of major works looming up.

(e) Inadequate means of sorting out works and loan priorities.

(f) Within these, special difficulties for small and medium sized authorities or those in newly established areas.

(g) As a general result rising interest rates and the emergence of underwriting costs.

2. There is general agreement in submissions and evidence that the funds made available through the National Provident Fund Investment Committee from the annual accruals of the Fund and short-term deposits of surplus and reserve funds of local bodies, coupled with increased finance from the State Advances Corporation, have eased the situation but not solved it.

3. Proposals made for meeting those problems include:

(a) Some change of function, and possibly in constitution of the Local Authorities Loans Board.

(b) Extension of the powers and functions of the National Provident Fund Investment Committee.

(c) Creation of a Local Authorities Loans Corporation.

(d) Establishment of some form of priority authority, either by a special panel or by giving powers to one of the above.

(e) Direct Government or Reserve Bank financing of local authority works; and

(f) Some combination of two or more of these.

4. This statement by the Reserve Bank is intended to outline the major proposals for the creation of a Local Authorities Loans Corporation, or similar bodies, and to make some comment thereon. It is not intended to comment in detail on other proposals mentioned in paragraph 3.

5. Proposals for a Corporation or other independent body for raising capital moneys fall conveniently in the first place into:

(a) The Upper Hutt Borough proposals whereby all local body loan moneys would eventually be raised by the Corporation, individual issues being superseded, and

(b) Other proposals whereby additional funds might be raised to supplement public issues by individual authorities. In this second group some distinction may be made between suggestions involving major activities other than borrowing and relending of funds and those which do not.

6. The Upper Hutt Borough Council's proposal is clearly set out in its submission. It may be summarised briefly as envisaging a "specialist institution" sponsored by the Government, lending institutions, and local bodies, with an original capital of say £5 million. Its main activity would be the provision of loan finance for local authorities, its original capital being augmented by short-term deposits of surplus local authority funds and, as necessary, by borrowing on the market against the security of its assets (comprising loans made by it to individual local bodies on table mortgage and in turn secured on their rates or other revenues). Such public issues would comprise the bulk of its funds, which, it is suggested, could in the long run provide for all the loan requirements of local authorities. Individual local body issues would be superseded, the Corporation's issues resulting in a standard security with greater appeal and marketability, and trustee status. Suggested ancillary functions include acting in an advisory capacity to local authorities, representing them in Wellington, acting as a clearing house for local authority securities. As its resources built up it could provide a market for its own securities. A feature would be the issue of small denomination short-term bonds, suitable for small investors, with provision for repurchase by the Corporation during their term according to a scale of values.

7. Many of the proposals for a body raising additional funds to supplement individual public issues by local authorities suggest extending the activities of the National Provident Fund Investment Committee. Paragraphs 47, 49 and 50 of the submission of the National Provident Fund might be taken as expressing this in its simplest form.

8. In these paragraphs the Fund suggests that, *if* a separate or independent body was deemed advisable, its functions and powers might include the following of which (a) and (e) are additional to those already possessed by the Committee. The larger authorities would continue to appeal directly to the public and deposit temporarily surplus moneys. The controlling body might coordinate times of going on the market and assist to plan loan campaigns. Local authorities might act as agents of the controlling body, which could hold a portfolio of stock and debentures of varied maturities to meet the needs of investors:

(a) Issuance and sale of debentures, preferably with trustee status.
(b) Purchase and sale of Government and local body securities.
(c) Temporary advances upon hypothecation of securities.
(d) Underwriting loans.
(e) Acting as paid agent or broker for local authorities in the raising of loans.
(f) Borrowing on overdraft.
(g) Acting as commissioner for depreciation funds and sinking funds, etc., and to provide investments for all other types of local authority reserve and trust moneys.

9. In this limited form the Corporation would have no major activities other than borrowing and relending to local authorities. Its initial funds would comprise the short-term deposits at present held by the Committee. It would not have automatic access to the accruals of the National Provident Fund and would probably require a capital structure. Mr Comrie referred in his evidence to an earlier suggestion of a capital of £2 million, including subscriptions of £½ million by the Bank of

New Zealand, £½ million by the National Provident Fund and £½ million by insurance interests. Very little would be called, the uncalled capital providing security for essential overdraft.

10. The National Provident Fund further suggested (paragraph 49 of submission) that ancillary functions might include conduct of a superannuation scheme for local authority employees and a cooperative insurance scheme. The Municipal Association of New Zealand (Inc.), the Hon. E. H. Halstead, and Mr Comrie, in submissions or evidence or both, have presented fairly detailed schemes, with much in common, for the establishment of a Corporation taking over all or the major part of the operations and resources of the National Provident Fund and extending them.

11. Other submissions and evidence reveal varying degrees of support and opposition to the establishment of a Corporation and it is not proposed to discuss these in detail in this statement. In the main support is given because the Corporation is seen as one means of providing more and cheaper loan finance for local bodies than is at present available thus reducing to manageable proportions, perhaps even eliminating, the vexed problem of priorities.

12. Many of those opposing, or not actively supporting the proposal, appear to do so because they feel that—

No new body is needed, existing institutions being able to meet the requirements with perhaps some reorganisation and extension of activities; or

The main problem is priorities (rather than more money) which could be handled by a broadened Local Authorities Loans Board, or a priority panel; or

A preference for Government, Reserve Bank, or State Advances Corporation financing of works; or

Some method of providing for more capital expenditure from revenue or from special levies (e.g., a petrol tax) would adequately meet requirements without major change in the existing institutions or their functions.

GENERAL COMMENT

13. The Bank has, in its original submission and in evidence by the Governor, agreed that a Local Government Finance Corporation would fulfil a useful function in assisting small and medium sized local authorities, particularly those in newly established areas. A body able to provide them both loan moneys and advice on finance generally would be a valuable institution.

14. In general, however, in view of the economic conditions outlined in submissions by the Bank and the Treasury, with local authorities raising about £20 million a year of loan moneys and in recent years carrying out capital works which have increased to about 13 per cent of total investment in New Zealand, there is no present justification for a substantial increase in capital expenditure by local bodies. Any decision to establish a Local Authorities Finance Corporation or to expand the activities of the National Provident Fund Investment Committee should therefore contemplate only a modest beginning with concentration in the meantime on servicing the essential needs of the smaller authorities, without encouraging them to unduly large capital programmes. The immediate objective, if a Corporation were to be

established now, should be to make more efficient and more economical the administration of local authority finance rather than to facilitate increased spending.

15. The Government Statistician's analysis of local body borrowing shows that following the establishment of the National Provident Fund Investment Committee, in the calendar years 1956 and 1957 local authorities raised £39·8 million in respect of authorisations given since 1 April 1954. One fifth of this sum (£8·3 million) came from the State Advances Corporation, the National Provident Fund, or direct investment by local authorities themselves, the first two providing £6·8 million between them:

	£(m.)	
State Advances Corporation ..	2·2	(5·5% of total)
National Provident Fund	4·6	(11·6% of total)
Local Authorities Funds	1·5	(3·7% of total)
	8·3	(20·8% of total)

This would indicate that the funds provided by the State Advances Corporation and the National Provident Fund, about £3½ million a year, were sufficient to make possible substantial provision for the smaller bodies. These years, however, may not be typical in that they cover the first influx of local body reserve funds to the Investment Committee and a much higher level of local body lending by the State Advances Corporation than formerly. Increased resources for the National Provident Fund or a Local Authorities Finance Corporation would be necessary for the present level of lending to smaller authorities to be sustained without undue reliance on the Government through the State Advances Corporation, which is likely to be heavily committed for housing.

16. The total of applications declined by the Investment Committee up to 28 February 1958 (£6·35 million) cannot be taken by itself as an indication of the additional amount required to meet the needs of applicants. Much of the sum declined would have been raised elsewhere.

17. The attached table, compiled by the Reserve Bank from material made available by the Government Statistician, shows how the funds raised in the September quarter of 1957 were distributed amongst local authorities of various sizes, the size being determined on the basis of annual revenue in 1955–56 (harbour boards, 1954–55), excluding capital receipts and excluding revenue from gas and electricity services operated by municipalities. Although the analysis is for one quarter only, it provides some evidence of the considerable extent to which smaller authorities are now assisted by the State Advances Corporation and the National Provident Fund, and the main sources for other authorities. In this quarter these two bodies lent a smaller proportion (14·6 per cent against 17·1 per cent) of the total advanced than they averaged during the two years.

18. The problems associated with local authority capital works and borrowing arise in the main from the general economic situation and affect all borrowers and works programmes. The Corporation itself as a borrower would still have to face competition from other borrowers,

including the Government. It is difficult to see how it could go on the market without close coordination with Government loans and prior approval by the Government of terms. Whilst a Local Authorities Investment Corporation could improve the competitive position of local bodies in the capital market any greater share for them of capital investment and of loan moneys could, in general, only be obtained at the expense of other sectors. A soundly based increase in total investment relative to national product can be achieved only by increased saving. Local authorities must therefore face the fact that restraint in capital programmes and increased effort to carry out capital works with the utmost economy, as well as to finance them from current revenue and current saving, are necessary. This view is reflected in the Governor's statement in evidence that the Bank cannot, in present circumstances, contemplate major financial assistance to a local authorities corporation and that additional funds found from other sources would be preferable to Reserve Bank credit. The Reserve Bank would, however, grant reasonable overdraft facilities to enable funds to be kept fully invested.

19. Whether a Corporation is established or not, many financial and administrative advantages for local authorities might well be found in rationalisation of function and amalgamation.

COMMENT ON MORE SPECIFIC ASPECTS

Objects Generally

20. The broad aims, in addition to assisting smaller authorities, may be summarised as to:

(a) Provide additional capital for local body needs.

(b) Increase the marketability of local body securities.

(c) Better coordination in the local body loans market.

21. A Corporation could achieve or contribute to all of these. The directorate, particularly if closely associated with the Local Authorities Loans Board (or including members of it), could become a focal point for cooperation among local authorities and for the assembly of information from Government, local authority, and market sources. The issue of its own securities, the reduction of the number of small issues, and the growing resources of the Corporation would all improve the status and marketability of local authority securities generally.

Combination of Functions

22. A Corporation of the type proposed by the Upper Hutt Borough or restricted to the powers and functions contained in paragraph 47 of the National Provident Fund submission (see paragraph 8 above) would have borrowing and lending functions only. This would in many ways be preferable to endeavouring to combine with trustee functions (i.e., looking after the interests of superannuitants and earning for them the maximum possible return with maximum security) the somewhat incompatible function of providing the maximum possible amount of cheap money for local authorities. This conflict of objectives must be guarded against if any new institution with duel functions is contemplated and some freedom of choice of investment permitted.

23. Nevertheless, if adequate safeguards were provided so that the trustee function remained paramount, local authorities (through a Corporation) could well be given, as in other countries, a say in, or full responsibility for, the management of local authority superannuation business and the investment of funds arising therefrom.

24. The proposed insurance scheme would face similar problems, but in smaller degree, as the insurers and the insured would be the local authorities themselves. Nevertheless, the requirements of the insurance function, particularly as to liquidity in a business with risks and investments concentrated in a limited field, should override the local body investment function.

25. The public and self-employed pension business of the National Provident Fund has no connection with local body matters. There seems no reason other than possible administrative economies arising from joint operation with local body superannuation business for this business to be handled by a Local Body Investment Corporation. The needs of this portion of the business, a competitive business, could be such as to require a substantial portion of its funds to be invested outside local authorities.

26. If a Corporation was set up, advantages of having a body separate from the National Provident Fund, but possibly managing local authority superannuation, would include:

(1) The institution would have functions relating to local body business only and would become experienced in these functions, thus providing one main body conversant with the market and local authority needs forming the focal point for coordination as mentioned above.

(2) The availability of an advisory body with skilled staff to assist local authorities generally on financial matters.

(3) Less likelihood of individual approaches to the Government for assistance.

(4) Retention for the benefit of local authorities of any profits or fees earned.

(5) Because of restriction of affairs to those closely relating to local bodies, greater flexibility in adjusting existing functions and administration to changing circumstances, or in undertaking additional functions incompatible with the general interests of the National Provident Fund.

Management

27. The directorate of such a body could well be formed on the basis suggested by Mr Halstead – five members, four appointed by the Government from a panel submitted by local authorities, together with the Secretary to the Treasury, *ex officio*. There would be no outside interests subscribing capital and accordingly entitled to representation.

28. In so far as the Corporation did not undertake all lending to local bodies, it could not achieve complete coordination of borrowing, although it could make a major contribution to it. It would, therefore, need to work in close cooperation with the Local Authorities Loans Board, which, having full details of all works proposals and access to expert opinion, would be a more suitable body to allocate priorities

Capital and Resources

29. A Corporation taking over substantial assets from the National Provident Fund and having borrowing powers would not require an initial capital structure. If these assets were not taken over, a substantial initial capital structure, probably at least of the order of £2 million as suggested by Mr Comrie, might be needed. The final decision on the initial capital required and the amount to be called would depend on the extent and nature of the activities to be undertaken.

30. The suggestion to raise capital by means of levies has merit in that it would mean financing works from savings and the impact of the levies would encourage restraint. Very great difficulties would be experienced, however, in determining an equitable form of levy of sufficient amount. This form of fund raising should not be permitted to become a means of avoiding restraint and economy in capital programmes.

31. The Corporation, if established, could well have power to borrow overseas, subject to Government approval.

32. In general, if a Corporation is considered desirable the approach could well be that assistance by way of funds from the Government or the Reserve Bank should be expected only in exceptional circumstances. Local authorities and the Corporation should be self-reliant.

Extent of Borrowing and Lending Function

33. The Bank's original submission drew attention to the importance of preserving and utilising regional loyalties and personal relationships of local communities. For this reason it feels that any proposed Corporation should not necessarily aim to take over the whole of the local body borrowing field. In addition, whilst the Corporation would develop new facilities, accumulate experience and knowledge of the market and local body affairs, it would form only part of the market, and as a borrower it would need to use the existing facilities itself. There seems no adequate reason to compel bodies such as hospital boards with a special appeal to certain classes of investors, and established relationships, to operate through the Corporation.

Repurchase and Discount Facilities

34. The proposals include suggestions that the Corporation might increase the marketability of its own or local authority securities by being prepared to buy them in or discount them. These, and the Upper Hutt Borough recommendations for an easily redeemable small bond, raise some problems.

35. Such facilities could constitute steps in the development of a money market, but the Corporation as a single body in a specialised field could become more vulnerable from a liquidity point of view with such activities than without them. In general greater liquid funds, rediscount, or overdraft facilities would be required than otherwise necessary; in times of monetary restraint a considerable demand for redemption might develop. Accordingly, the scale of redemption or discount activities would require careful watching lest the Corporation become involved in "borrowing short and lending long"; furthermore, diversion of its funds to repurchase could come at a time when local authorities were themselves relying extensively on the Corporation for capital funds.

ANALYSIS OF LOANS RAISED BY LOCAL AUTHORITIES DURING SEPTEMBER QUARTER 1957

(Under loan authorities issued from 1 April 1954 to 30 September 1957)

Original data supplied by Statistics Department

1. Local authorities with annual revenues *under £50,000*, excluding capital receipts, borrowed £547,000 during the quarter:

(£000)

Source of Funds	Borrowing Authorities							
	Counties	Boroughs	Power Boards	Harbour Boards	Hospital Boards	Fire Boards	Other	Total
State Advances Corporation	6	44	15	..	..	10	2	76
Local authorities	..	..	..	..	..	..	..	..
National Provident Fund	8	187	33	..	..	7	32	267
Insurance companies, etc.*	3	37	..	..	10	67	..	117
Other companies	..	..	..	..	..	..	..	..
Private investors†	1	85	..	1	..	..	..	87
Other sources	..	..	..	..	..	..	..	..
Total for quarter	18	352	48	1	10	84	34	547

* Includes savings banks, trust companies, building societies, and trading banks.
† Includes some public issues where sources were not shown.

2. Local authorities with annual revenues *between £50,000 and £100,000*, excluding capital receipts, borrowed £341,000 during the quarter:

(£000)

Source of Funds	Borrowing Authorities			
	Counties	Boroughs	Power Boards	Total
State Advances Corporation	8	49	..	56
Local authorities	3	..	..	3
National Provident Fund	30	42	55	127
Insurance companies, etc.*	43	70	..	113
Other companies	..	4	..	4
Private investors†	11	12	6	29
Other sources	..	9	..	9
Total for quarter	95	185	61	341

* Includes savings banks, trust companies, building societies, and trading banks.
† Includes some public issues where sources were not shown.

3. Local authorities with annual revenues *between £100,000 and £200,000*, excluding capital receipts, borrowed £807,000 during the quarter:

(£000)

Source of Funds	Borrowing Authorities					
	Counties	Boroughs	Power Boards	Harbour Boards	Hospital Boards	Total
State Advances Corporation	46	..	15	35	..	96
Local authorities	9	..	..	..	..	9
National Provident Fund	39	87	..	..	..	126
Insurance companies, etc.*	..	55	47	..	95	197
Other companies	..	..	..	2	..	2
Private investors†	48	52	53	193	14	360
Other sources	..	..	..	17	..	17
Total for quarter	142	194	115	247	109	807

* Includes savings banks, trust companies, building societies, and trading banks.
† Includes some public issues where sources were not shown.

4. Local authorities with annual revenues *between £200,000 and £500,000*, excluding capital receipts, borrowed £2,523,000 during the quarter. (For convenience three urban drainage districts and the Auckland Harbour Bridge Authority have been included here; their 1955–56 revenues ranged from £500 to £350,000):

(£000)

Source of Funds	Borrowing Authorities						
	Counties	Boroughs	Power Boards	Harbour Boards	Hospital Boards	Bridge Authority and Urban Drainage Boards	Total
State Advances Corporation	12	11	18	..	..	..	41
Local authorities	..	1	3	28	..	..	32
National Provident Fund	5	1	45	..	..	7	58
Insurance companies, etc.*	48	64	35	285	10	632	1,073
Other companies	..	18	..	51	16	47	132
Private investors†	8	152	311	133	100	333	1,036
Other sources	..	..	..	142	..	10	152
Total for quarter	73	246	412	639	126	1,028	2,523

* Includes savings banks, trust companies, building societies, and trading banks.
† Includes some public issues where sources were not shown.

5. Local authorities with annual revenues *exceeding £500,000*, excluding capital receipts, borrowed £2,613,000 during the quarter:

(£000)

Source of Funds	Borrowing Authorities						
	Counties	Boroughs	Power Boards	Harbour Boards	Hospital Boards	Urban Transport Boards	Total
State Advances Corporation	..	25	..	..	..	..	25
Local authorities	..	177	8	20	..	..	205
National Provident Fund	..	22	90	..	15	..	127
Insurance companies, etc.*	..	533	60	281	21	10	904
Other companies	..	66	1	..	4	..	71
Private investors†	..	478	253	51	376	41	1,197
Other sources	..	44	10	..	31	..	85
Total for quarter	..	1,345	422	352	442	51	2,613

* Includes savings banks, trust companies, building societies, and trading banks.
† Includes some public issues where sources were not shown.

6. *All* local authorities borrowed £6,831,000 during the quarter: (£000)

Source of Funds	Borrowing Authorities									
	Counties	Boroughs	Power Boards	Harbour Boards	Hospital Boards	Fire Boards	Bridge Authority and Urban Drainage Boards	Urban Transport Boards	Other	Total
State Advances Corporation ..	71	128	47	35	..	10	..	..	2	293
Local authorities	12	179	11	48	..	..	..	..	..	250
National Provident Fund ..	82	339	223	..	15	7	7	..	32	705
Insurance companies, etc.* ..	94	758	142	566	136	67	631	10	..	2,404
Other companies	..	87	1	53	18	..	47	..	..	208
Private investors†	69	781	622	377	489	..	332	41	..	2,711
Other sources	..	53	10	159	31	..	10	..	..	261
Total for quarter ..	328	2,325	1,056	1,238	689	84	1,027	51	34	6,831

* Includes savings banks, trust companies, building societies, and trading banks.
† Includes some public issues where sources were not shown.

7. *The total distribution according to size of local authority* of the funds raised from each source was: (£000)

Size of Local Authority by Revenue	State Advances Corporation	Local Authorities	National Provident	Subtotal	Insurance Companies, etc.*	Other Companies	Private Investors†	Other Sources	Total
1. £0 to £50,000	76	..	267	343	117	..	87	..	547
2. £50,000 to £100,000 ..	56	3	127	186	113	4	29	9	341
3. £100,000 to £200,000 ..	96	9	126	230	197	2	360	17	807
4. £200,000 to £500,000‡ ..	41	32	58	131	1,073	132	1,036	152	2,523
5. Over £500,000 ..	25	205	127	357	904	71	1,197	85	2,613
	293	250	705	1,248	2,404	208	2,711	261	6,831

* Includes savings banks, trust companies, building societies, and trading banks.
† Includes some public issues where sources were not shown.
‡ Harbour Bridge Authority and urban drainage authorities included here for convenience – revenues ranged from £500 to £350,000.

NOTE—Revenue figures, excluding capital receipts, for 1955–56 were used for the classification by size of authority, except for harbour boards where 1954–55 figures were taken. Revenue from gas and electricity services operated by municipalities were excluded.

APPENDIX 6: SUMMARY OF THE MAIN CONCLUSIONS AND RECOMMENDATIONS OF THE MUNICIPAL ASSOCIATION OF NEW ZEALAND IN ITS SUBMISSIONS TO THE ROYAL COMMISSION ON LOCAL AUTHORITY FINANCE

1. VALUING

(a) In fixing unimproved values it is considered that more importance should be placed upon services and facilities which are available to the property rather than the level of sales of other property in the locality.

(b) In zoned industrial areas the unimproved value of land occupied by dwellings should be based upon a reasonable figure for similar land in residential areas for a maximum period, whilst the buildings are occupied solely as dwellings.

(c) The question of the charge made by the Government Valuation Department in respect of the valuing of property in local authority areas has been considered. It is felt that such charge should not be passed on to the local authority concerned but should be absorbed by the Department as a service to the taxpayers generally since the valuations are used for various purposes.

2. RATES AND RATING SYSTEMS

(a) Having made a study of the methods and sources of Local Government Finance in New Zealand and elsewhere, we are led to the conclusion that rates on the land and other real estate must remain as the basis of Local Government Finance in New Zealand.

(b) After having examined the three systems of rating as set out elsewhere, we consider that in view of the varying conditions and circumstances surrounding the municipal areas in New Zealand, it does not appear desirable to enforce any uniform system of rating. The initiative to adopt any one of the present systems should, however, rest with the local authority, subject to the right of a reasonable percentage of ratepayers to demand a poll on the issue if they so desire. In any case, where a change is made from one system to another, no further change should be permitted for at least five years.

NOTE—At the present time the local authority cannot take the initiative in endeavouring to affect a change and a poll can be called for by ratepayers every three years.

(c) Whilst the practice of rating on land or land and improvements should be retained, some modifications of the existing systems should be effected as outlined.

(d) Where the annual or capital value system operates, it is considered that some penal rate is warranted on undeveloped property.

(e) Where the unimproved system operates, it is considered that certain serious anomalies could be overcome by providing a minimum value for rating purposes. It is considered that it should be fixed at (say) 15 per cent of the capital value or such other lower figure as the Commission may decide. This, it is considered, would take reasonable care of such properties as are used for factories and other large commercial undertakings, as well as hotels and blocks of flats which can escape providing a reasonable share of rates when the rating is on the value of the land alone.

From figures obtained from various municipalities, it appears that if the minimum were fixed at 15 per cent of capital value, it would meet the position fairly, but closer examination would be necessary before the actual figures could be fixed.

Although more than two-thirds of the municipalities already rate on the unimproved system, it is considered that the proposed amendment could offer considerable improvement and bring the system more into line with annual value and combine the more attractive features of both systems.

The association is anxious to have brought into effect a system which will eliminate many of the anomalies and provide equity as between ratepayers. It asks that the Royal Commission recommend to the Government that a minimum rateable value system be provided, the actual details of which should be provided by the Valuer-General after full consultation with the Municipal and the Counties Associations.

If this were done it is felt that the unimproved system would then be much more attractive to local authorities generally.

(f) That a combined system of rating on the basis laid down in the Rating Act 1908, and repealed in 1911, be again authorised for those local authorities which may desire to take advantage of it.

The system provided that in cases where levies for *ad hoc* bodies were based on the capital value of a constituent local authority, and such authority was rating on the unimproved value system, it could, if it so desired, collect the rate for the *ad hoc* levy on the capital value.

NOTE—If the recommendation that all *ad hoc* levies be based upon unimproved value as outlined elsewhere is accepted, then proposal (f) could be unnecessary.

(g) We also desire to make the observation that, generally speaking, rating on the annual value appears to be preferable for municipalities. We also consider that capital value rating for municipalities should be discouraged.

3. INCIDENCE OF RATING

In examining the question as to whether or not rates were considered to fall too heavily upon ratepayers, the association is strongly of the opinion that it is a question of equity. It is obvious that the ratepayers were being called upon to meet an unequal and unfair burden of costs of services for the benefit of citizens generally.

It is felt that the cost of the provision and maintenance of certain services – such as recreational and cultural – should be borne by the citizens as a whole. The unfair distribution of costs has existed over the years, but with the heavy increase in costs, it has become much more apparent that there should be a greater spread over the taxpayer.

Information received from the municipalities throughout New Zealand shows that there has been overall increase in municipal rates levies of approximately 60 per cent, excluding *ad hoc* levies, over a period of five years. The rates for *ad hoc* purposes show an increase of 77 per cent, and the total rate increase including *ad hoc* is 63·7 per cent or approximately 12½ per cent per annum. Such an increase might not be considered out of keeping with the increase in national income, but any comparison in that direction is considered to be misleading without the inclusion of other factors.

In final submissions the association elaborated as follows:

We are still of the opinion that the incidence of rating falls too heavily upon the ratepayers, and in that regard we point out that apart from the question as to the ability to pay, there is the question as to what is fair and equitable as between the ratepayer and the taxpayer.

One party who appeared before the Commission pointed out that rates had not increased over the years in proportion to the increase in national income. We are strongly opposed to any suggestion that rates should increase proportionately to any such increase. In times of prosperity the demands for improved services and facilities come from the people generally, many of whom are not ratepayers. Since rates are what are known as a regressive tax, as they are not based upon the ability to pay, the incidence is not spread in keeping with the benefits. Apart from that aspect there are other reasons why rates should not increase in keeping with national income and some of these are as follows:

(a) The spread of national income is not regular as between the various people.

(b) The spread of increased national income is not even as between different types of localities.

(c) The increase shown as a national figure based on per head of population in any case does not disclose the true position since the increase in population in any area is not necessarily in proportion to increase in number of ratepayers.

(d) Increased rates affect the various groups of income earners within a locality in varying degrees.

(e) Rates are not a commodity which can be regulated by the purchaser or payee in keeping with income.

(f) Increases in keeping with national income would result in great hardship in time of recession because rate reductions are then not possible particularly when much of the expenditure relates to loan charges.

4. NEW SOURCES OF REVENUE

A study group of the Royal Institute of Public Administration, England, recommended the following taxes as a means of relieving the burden of ratepayers:

(1) Local income tax.

(2) Local entertainment tax.

(3) Motor vehicles: driving licence fees, and possibly a tax on motor fuel.

After having carried out a review of the whole field of potential local taxes, the group considered that whatever the experience elsewhere, there was no possibility of adopting other forms of local taxation in England other than the three which were recommended, because of the insufficiency of yield and the disturbance which would be created.

The association agrees in general terms with the findings of the Royal Institute and it has noted that the Central Government in New Zealand has already exploited every practicable method of raising taxation. In its opinion, the Central Government must be asked to make some source of revenue available to local authorities as of right, additional to that secured by rating on the land.

In the interest of economy, the Central Government would need to be asked to act as a collecting agent for local authorities, but this should not be taken to mean that the new local revenue is a Government grant, nor should it entitle the State to exercise any greater measure of control over local expenditure than what exists today.

From the examination carried out by the Municipal Association of New Zealand, the following conclusions have been arrived at:

(a) It is not thought practicable for the adoption in New Zealand of local taxes in the nature of local income tax, sales tax, amusement tax, or any other tax which is at present levied by the Central Government.

(b) The question of grants in aid, similar to those recommended for adoption in England, is worthy of examination, although it must be borne in mind that it could involve greater dependence upon Central Government.

(c) The question as to whether or not all roading expenditure should be provided by the road user warrants special consideration. Apart from the matter of the roading costs, the uneconomic use of the roads has a distinct bearing upon the national economy.

(d) Poll tax or head tax would be a very difficult tax to impose and would require involved procedure.

(e) If there is a real desire to tax everyone for local body services and to base it on the ability to pay, then a surcharge on the social security tax might be the most appropriate and simple means of achieving it.

One penny in the pound on salaries and wages produces some £4,000,000, and a suggested surcharge of 2d. would produce £8,000,000. If this was distributed to local authorities on a population basis it would provide some £3 10s. per head.

It might be considered that ratepayers should be exempt from the payment of the surcharge, but that would not be desirable as many complications in respect of rating values would arise. In any case the more received by way of the surcharge, the greater relief would be provided to ratepayers.

(f) Finally, the association confirms its views that petrol taxation should be increased and it suggests an increase of not less than 3d. per gallon to return just under £3 million additional.

5. SUPPLEMENTARY MEANS OF RELIEVING RATE BURDEN

Supplementary means of relieving the rate burden and helping local authorities with problems of finance which are considered worthy of serious consideration are as follows:

(a) Income tax relief to ratepayers – we recommend that rates be allowed as a deductible item from income for income tax purposes.

(b) We ask that provision be made for relief of rates as follows:

(1) *Streets*—Greater subsidies from National Roads Fund as dealt with in detail in the submissions.

(2) *Libraries*—Subsidy from education grant to relieve rates by £250,000.

(3) *Parks and Reserves*—Central Government grant on basis of expenditure to provide relief of £500,000.

(4) *Street Lighting*—Cost to be a charge against power supply authority - relief estimated at £200,000.

(5) *Sales Tax*—Commodities for public utility services to be free of tax - amount involved is £250,000, in respect of public utility services alone. This matter has been of much concern for a long time and we are of the opinion that some definite action is long overdue.

6. CROWN'S LIABILITY FOR RATES

Whilst the Crown has gone some distance in recognising its obligations to local authorities, it is strongly urged that the whole position should be reviewed with a view of:

(a) Providing full payment on all Crown property exclusive of Crown reserves and the like.

(b) In so far as dwellings are concerned, it is contended that, pending the review of the whole position, rates on all dwellings should be on the basis of a private owner or occupier.

(c) Pending review of the position, special rates should be paid on all properties irrespective as to when the special loans were raised.

(d) Education property should in all respects be treated upon the same basis as other Crown properties and the special exemption under the Rating Act should be repealed.

7. RATING EXEMPTIONS GENERALLY

We recommend that the whole position relating to rating exemptions generally should be reviewed with particular reference to:

(a) Properties used for educational purposes.

(b) Properties used for hospital purposes.

(c) Properties of fire authorities with special reference to dwellings.

(d) Whether or not property used for purposes of aerodromes should not be regarded in the same light as railways and harbours, unless full rates are to be paid in respect of all properties of the Crown and others.

8. URBAN FARM-LANDS RATING

We recommend that the following aspects of urban farm-lands rating be examined:

(a) Whether the legislation should be retained in view of the means of securing relief under other legislation.

(b) Whether or not relief given should be by way of specific grant from Central Government; or

Whether or not any section of the community should be required to subsidise any particular industry.

(c) The advisability of clarifying the meaning of "substantial" in relation to the use of the land since it is the subject of many different interpretations.

(d) Whether or not the deduction from income for taxation purposes together with fact that land already valued on a farming basis is not sufficient relief in itself.

9. RATING BY *AD HOC* BODIES

We recommend the following:

(a) That *ad hoc* authorities be compelled to supply detailed estimates to principal authorities who should have the right of appeal against the amount of the levy.

(b) That *ad hoc* levies in respect of catchment boards be based upon the unimproved value.

10. LOAN FINANCE

(a) *Loan Requirements*—Over a period of three years loan requirements for all local authorities have averaged £20 million per annum, and these requirements are not being met. Of that total, approximately £8 million per annum relates to municipalities.

Many urgent works are being delayed and we strongly urge active steps be taken to alleviate the position.

(b) *Local Government Loans Board*:

(1) Consider approval of underwriting a most unsatisfactory and undesirable feature which should be discontinued.

(2) Consider the position relating to short-term loans should be re-examined.

(3) Consider policy relating to changing interest rates should be examined with possibility of providing for review of rates every five years.

(4) Consider some system of classifying loan priorities may be necessary.

(c) *National Provident Fund Investment Committee*—Operations of committee have been very satisfactory within its limits but should now be merged into Finance Corporation (see (d)).

(d) *Local Authorities Finance Corporation*—Strongly recommend that immediate steps be taken to set up Local Authorities Finance Corporation with suggested framework as follows:

(i) The Corporation in general to take over the existing functions of the National Provident Fund Investment Committee.

(ii) Investments of £20 million to be taken over by the Corporation.

(iii) The Corporation to be authorised to issue its own stock or debentures and, if necessary, to carry Government backing.

(iv) The Corporation to be authorised within its ramifications to implement a municipal insurance scheme.

(v) The Corporation to take over and operate the local authority section of the superannuation scheme for local body employees, since it forms the major part of the Provident Fund Superannuation Scheme.

(vi) The overdraft facilities of the Corporation to be extended with the Reserve Bank to enable disposal of Government stock of up to £3 million.

(vii) Portion of the moneys provided from tax on earnings to be "funded" with the Corporation.

(viii) If local authorities are relieved of substantial items of expenses as suggested under "Supplementary means of relieving rate burden", and rate exemptions are abolished, it might be possible for a capital levy to be imposed and "funded" with the Corporation.

(ix) Such other financial assistance through the Reserve Bank as may be deemed necessary for the implementation and extension of the Corporation's operations.

Coordination with Local Authorities Loans Board—In order that loans moneys may be utilised to the best advantage the greatest possible coordination as between the Local Authorities Loans Board and the Local Authorities Finance Corporation should be provided. We do not agree that the various interests have been fully represented on the Loans Board in the past.

We also consider that a policy should be laid down whereby loans will be authorised upon a reasonably uniform basis for periods which will allow for full repayment instead of those where refinance is required after a relatively short period.

(e) *Municipal Bank:*

(1) Municipal bank to be provided as supplementary to Finance Corporation.

(2) Ordinary banking facilities to be carried out in conjunction with Finance Corporation.

(f) *Municipal Insurance Fund:*

(1) Municipal insurance fund to be established as supplementary to the Finance Corporation.

(2) Insurance fund moneys to be invested with Finance Corporation.

(g) *Capital Expenditure from Revenue:*

(1) Do not recommend any substantial expansion from present revenues.

(2) Recommend funding of proportion of new revenue to be used for capital purposes if new sources of revenue are provided.

11. NATIONAL ROADS FUND

(a) We request that the whole basis of allocation of subsidies to local authorities be reviewed for the purpose of providing a more equitable distribution of the National Roads Fund. It is respectfully suggested to the Commission that this is a matter of some urgency in order that the present iniquitous position can be rectified. We respectfully suggest to the Commission that it is abundantly clear that an independent review is called for immediately.

(b) We recommend that the National Roads Fund be responsible for a greater proportion of roading costs, and that it be equal to at least one-half of costs.

(c) We recommend that the petrol and other road taxes be increased in order to provide the additional revenue for the National Roads Fund.

(d) We ask that the Government bear the full cost of the Roads Board administration.

(e) We ask that the whole position in respect of rebate of petrol tax be reviewed.

12. TRADING UNDERTAKINGS

The trading undertakings which have given municipalities concern during the more recent years have been gas supply and transport services:

(a) It is expected that the electricity and gas coordination legislation of last year will be the means of alleviating the position in respect of gas supply undertakings.

(b) In so far as public passenger transport services are concerned, we see no immediate relief for such services unless it is by a similar means of coordination with other trading undertakings, or by means of a grant in aid through the Central Government.

(c) We strongly support the Public Passenger Transport Association in any claims which it may make to remove the burden of cost from the ratepayers of running public passenger transport services.

APPENDIX 7—A SUMMARY OF THE OBSERVATIONS AND RECOMMENDATIONS MADE BY THE NEW ZEALAND COUNTIES' ASSOCIATION IN ITS SUBMISSIONS TO THE ROYAL COMMISSION ON LOCAL AUTHORITY FINANCE

A. REVENUE

1. *Rates*

Rates on the land should remain the basic source of county revenue.

The present proportion of rates to total revenue appears reasonable.

Valuation of land should help and not hinder a fair incidence of rating.

Periodical revision of rating powers necessary in order to keep abreast of modern needs of local government.

There should be greater flexibility in the use of existing systems of rating, and other systems should be available so that ratepayers have a greater choice of selection to suit local conditions.

The principle of a "fixed charge" component in property rating should be investigated.

2. *Subsidies*

The general subsidy on rates under the National Roads Act should be continued in conjunction with other existing forms of subsidy.

The association, however, would not in general object to an alternative subsidy system based on actual roading expenditure instead of on rates.

3. *Revenue Generally*

The present financial resources available to counties should be retained subject to some modifications.

If additional funds are needed to further improve the national roading system, they should come from user charges.

Because of the considerable milage of low-classification roading and the number of bridges in non-permanent materials still remaining after some years operation of the National Roads Board, it is essential that if any additional revenue accrues to the Board counties must receive their proportional share in line with the present distribution of the Board's funds.

The possibility of a "citizen rate" to assist in financing the cost of local services should be investigated.

Recommended that section 98 of the Counties Act 1956, and section 17 Forests Act 1949, be widened to include exotic timber for levy and royalty purposes.

B. CAPITAL WORKS

4. *Borrowing*

The counties are not large-scale borrowers of money, most preferring to provide for roading improvements from revenue, over a longer period than if loans were raised.

Local Authorities Loans Finance Corporation not viewed with disfavour by the association.

Internal advances under section 31 of the Local Authorities Loans Act recommended where financial strength of local authority permits, as an alternative to raising loans on the market.

C. OTHER MATTERS

5. *Reform*

Principle of amalgamation, and development of stronger units of local government endorsed by association.

The new regulations governing the preparation of accounts of counties provide basis for uniform treatment of financial transactions.

6. *County Towns*

This legislation provides measures for the better ordering of county finances as between rural works and urban needs.

7. *Average Value*

A system of rating that can alleviate the worst effects of capital and unimproved value systems when they are applied singly.

8. *Rates on Crown Undertakings*

Represented that all Crown trading undertakings should pay rates.

9. *Rating Methods*

Investigation recommended into question of statutory provision being made for spreading rates payments.

Suggested also that the administrative arrangements for collecting rates, as laid down in the Rating Act, be reviewed to ensure such are adequate for present-day needs.

10. *Boundary Alterations*

The association considers some revision is required to be made to the law relating to financial adjustments on transfer of territory.

11. *Maori Land Rating*

Submitted that a greater recognition of the difficulties of ownership, tenure, and alienation when rateable valuations are made would be of assistance.

APPENDIX 8: A SUMMARY OF THE RECOMMENDATIONS MADE BY THE ELECTRICAL SUPPLY AUTHORITIES' ASSOCIATION OF NEW ZEALAND IN ITS SUBMISSION TO THE ROYAL COMMISSION ON LOCAL AUTHORITY FINANCE

In its submissions the association has endeavoured to present this as briefly as possible leaving any amplification desired by the Commission to be obtained from oral evidence.

We, therefore, sum up our submissions as follows:

(1) The electrical industry, because of the magnitude of its capital outlay with its resultant commitments and its importance in the economy of the country, must be assured of the necessary finance to enable it to meet the ever increasing demand of its consumers – industrial, commercial, and domestic.

(2) Its annual capital requirements are at present in excess of £3 million and this figure must increase in the future.

(3) Providing the operations and funds of the National Provident Fund Investment Committee can be expanded it sees no justification for the setting up of a separate Local Bodies Finance Corporation.

(4) (a) The provision of optional redemption in local body loan issues.

(b) Alternatively, provision for review of interest at stated periods.

(5) That the Commission examine the case for removal of sales tax off material used for local body capital purposes.

(6) Local authorities to be authorised to issue death-duty stock.

(7) Extension of trustee savings banks.

(8) Consideration of the advisability of overseas borrowing.

(9) A limitation in the amount of revenue provided for capital works, particularly where used towards the creation of fixed assets the benefit of which will be projected well into the future.

(10) The cost of the acquisition and rehabilitation of the gas industry will require finance over and above the normal requirements of supply authorities.

APPENDIX 9: SUMMARY OF THE SUBMISSIONS OF THE HARBOURS ASSOCIATION OF NEW ZEALAND TO THE ROYAL COMMISSION ON LOCAL AUTHORITY FINANCE

1. REVENUE

Harbour board revenue is derived from:

(a) Dues and charges on shipping and goods (principal source).
(b) Rates on land (does not apply to some harbour boards).
(c) Rents from land and miscellaneous receipts.

Comments

1. Revenue from shipping and goods is subject to greater fluctuations according to variations in national trade and prosperity than revenues of other local authorities, but this position is generally accepted.

2. Many Government Departments and Government ships are exempt from dues and charges. The association has taken up with the Government the question of increased payments.

2. CAPITAL FINANCE

Procurement of adequate finance is a major problem which harbour boards share with all other classes of local authorities. The association recommends:

(i) The issue of death-duty stock as a means of attracting investment in local body loans.
(ii) Provision for long-term loans with periodical review and variation of interest rates.

Comments

1. Harbour boards finance capital works as far as possible out of revenue but decline in trade of ports will reduce capacity to do so.

2. Notwithstanding possible decline in trade, it is essential that necessary capital works to promote trade and industry be proceeded with and priority for harbour board finance is requested.

APPENDIX 10: SUMMARY OF SUBMISSIONS MADE BY THE HOSPITAL BOARDS' ASSOCIATION OF NEW ZEALAND (INC.)

1. Hospital board finance is governed by sections 87 to 99 inclusive of the Hospitals Act 1957, relevant sections of which are:

Section 87 gives boards power to borrow subject to other provisions in the Act and subject to Parts I and VI of the Local Authorities Loans Act 1956.

Section 89 (1) states:

> In respect of every financial year there shall be paid to the Board by way of grant, out of money appropriated by Parliament for that purpose, such sum as the Minister may determine as being necessary to enable the Board to carry out its functions, having regard to the estimate for that year approved under section eighty-eight of this Act.

In effect, therefore, apart from payments from the Social Security Fund and some relatively minor revenue from other sources, the maintenance and capital needs of hospital boards (other than loan) are met by direct Government grant pursuant to section 89, Hospitals Act 1957.

Consequently, hospital finance has little in common with that of other local authorities generally, except in respect of loan finance.

2. Submissions of the Hospital Boards' Association of New Zealand regarding loan finance are:

(1) Hospital boards should continue to raise loans for major capital purposes pursuant to section 87, Hospitals Act 1957.

(2) Where hospital boards by reason of location or absence of capital availability in their districts are unable to raise loans, provision should continue to be made, as at present, to meet their requirements by ordinary capital grant pursuant to section 89, Hospitals Act 1957, or alternatively by allocation from loans promoted by a Local Government Finance Corporation.

(3) *Local Government Finance Corporation*—The association does not favour the raising of loans for hospital purposes by a Local Government Finance Corporation. In its opinion, doing so would:

(a) Lose the advantages of public sentiment towards, and support of, hospital enterprises.

(b) Tend towards a decline in local energies and enthusiasms in the raising of necessary finance.

(c) Result in some loss of stimulus at present gained from inter-authority competition for available finance.

On the other hand, a Local Government Finance Corporation could serve a useful purpose in the following ways:

(a) Promoting and allocating to various local authorities and boards (especially smaller isolated authorities and boards) loans from financial institutions and Government Departments.

(b) Accepting on deposit, loan moneys not immediately required by local authorities and boards, and granting short-term loans of that money to other local authorities in anticipation of the raising of loans, but subject to adequate undertakings and guarantees that funds will be available to depositors when required without any question whatsoever.

APPENDIX 11: SUMMARY OF SUBMISSIONS MADE BY THE NEW ZEALAND LAND DRAINAGE AND RIVER BOARDS' ASSOCIATION

1. (a) Land drainage boards are confronted generally with the difficulty of raising sufficient finance to discharge their functions properly.

(b) The problem may in reason be related to the Crown's attitude regarding financial assistance towards the capital outlay where development works are concerned, and the limitation experienced by boards of raising funds (revenue) for equitable maintenance obligations under existing statute law.

(c) The position may be met by a review of the Government's outlook in sympathy and support for development activities encouraged by drainage boards, which will prosper the country in the near or distant future; by a revision of the present doctrine of "benefit" as a principle of law (statutory), and by the granting of some statutory right whereby boards may levy rates upon an acreage basis if desired.

2. It is respectfully submitted that the fostering of the administration of drainage boards in the unique place they hold in the national scheme and assistance in carrying out their obligations and functions will bring disproportionate advantages to the common good of the national economy, and are the just rewards for their interest and activities within their districts.

APPENDIX 12: A STATEMENT BY THE TREASURY*

CONTENTS

* NOTE—Further statements on specific matters on which information was requested by the Commission were also made by The Treasury, but apart from a statement on suggestions for the coordination of local authority borrowing, which appears in Appendix 3, and a statement on economic developments affecting local authority finance, which appears in Appendix 13, these are not reproduced in this report.

A STATEMENT SUBMITTED BY THE TREASURY

Your Honour Sir Joseph and Gentlemen:

1. In response to your request I have the honour to submit a statement on matters falling within the scope of the Commission's order of reference.

I. INTRODUCTORY

2. This statement is intended primarily to provide factual and statistical background information to assist the Commission. Statistics relevant to the matters raised in the Order of Reference are given in the tables appended to the statement. Further submissions from the Treasury will be made in a subsequent statement.

3. As a background to the growth and development of New Zealand as a whole some figures of population are given in the initial tables.

4. *Table A* gives overall population for successive censuses in more recent years with selected earlier figures from 1858.

5. *Table B* gives an analysis of the annual population increase over the past five years.

6. Figures illustrating the growth and development of national income and production and of capital investment are given in relation to relevant local authority figures in subsequent tables (*vide* tables D and J).

7. Both the revenue and capital requirements of local authorities will be determined to a large extent by the division of functions as between the local and Central Governments. In this connection it must be kept in mind that the functions of New Zealand local authorities are limited in certain respects as compared with many overseas countries. For instance, in many countries police, education, housing, social welfare are to a large extent the responsibility of local government whereas in New Zealand the responsibility in these fields rests principally with the Central Government. The need for finance for local government will be greater or less as the functions and sphere of activity of local authorities are extended or contracted. This is a first principle in the study of the adequacy of the finance available to local authorities. The position is complicated in that there is no clear definition of the spheres of responsibility of local and Central Government except in certain particular respects. The scope of local government activity has tended to widen in many directions with the growth of our population and the development of our economy.

II. LOCAL AUTHORITY REVENUES

8. Some statistics relating to local authority revenues are given in the appended tables C to I. The statistical information given throughout the tables is overall in nature – under main headings of receipts or expenditure and for local authorities as a whole or total figures for different classes of local authorities. The intention is to give the broad picture relating to local authority finance. More detailed figures and elaboration of particular facets of the picture can be expected in the submissions of the associations of the different classes of local authorities.

9. Rates are the primary source of revenue of all territorial local authorities for services other than trading activities. Some municipalities operate trading undertakings (public utilities) and substantial revenue is derived from these. This point is elaborated upon hereunder in reference to table F.

10. Most local authorities have a rating power in some form or other. Rates provided for in the legislation comprise:

(a) General rates – the main source of general revenue for administration, maintenance, and works;

(b) Separate rates – for specific works or particular types of services such as water supply, sanitation, etc.; and

(c) Special rates – to service loans. In the case of general rates and to some extent separate rates, maxima are fixed by legislation. Special rates are not limited by statute but are controlled through the jurisdiction of the Local Authorities Loans Board over borrowing.

The statutory maxima have been increased from time to time to meet the needs of local authorities under changed circumstances.

11. Sections 105 to 133 of the Counties Act 1956 prescribe the rating powers of *counties*. Sections 422 to 424 relate to rating in county towns.

Counties are empowered to levy a general rate of up to 3d. in the pound of rateable capital value or its equivalent on the rateable unimproved value or annual value. The maximum general rate on any dependent town district in a county is limited to half the general rate of the county or riding, as the case may be, within a maximum of 1½d. in the pound of rateable capital value or the equivalent on unimproved or annual value.

12. Separate rates for works or purchases of land or buildings can only be levied by petition of ratepayers or by special order of the council which gives ratepayers a right to demand a poll on the proposal. These are subject to a maximum of ¾d. in the pound of rateable capital value or equivalent. Particular separate rates may be levied for certain services, such as water supply, sanitation, etc.

13. In county towns the council may by special order levy a separate improvement and development rate on all property within the county town. This may not exceed 3d. in the pound of rateable capital value or its equivalent on unimproved or annual value. It is in addition to the general rate provisions and maximum, but a differing general rate may be levied in the county town.

14. The rating powers of *municipalities* are given in sections 90 to 112 of the Municipal Corporations Act 1954. The general rate may not exceed 2½d. in the pound on rateable capital value or three shillings in the pound on annual value or its equivalent on unimproved value.

15. Separate works rates may be levied by petition or special order as with counties; the maximum in this case is ¾d. in the pound of rateable capital value or 1s. of annual value or equivalent on unimproved value. Particular separate rates can be levied for water supply, sanitation, drainage, libraries, or harbours administered by the municipality. Special-rate provisions apply as in counties.

16. *Catchment boards* can levy a uniform rate not exceeding ⅛d. in the pound of rateable capital value for administration purposes. They have no general power to levy a uniform rate for works. They levy separate works rates (or special rates to service loans) on lands classified in relation to benefit from the works.

17. *River and drainage boards,* while a number are constituted under their own special Acts and have special rating provisions, generally follow a similar rating pattern. They have power to levy general rates (or alternatively separate rates on subdivisions) on a graduated scale on lands classified according to benefit. The maximum rate under those provisions is the equivalent of a uniform rate of 1½d. in the pound of rateable capital value or its equivalent on unimproved or annual value. There is also provision for the levy of special works rates with a maximum of ½d. in the pound of rateable capital value and for the levying of special rates to meet loan charges.

18. *Electric power boards,* although they derive their revenue from power charges, have power to levy general and special rates. This power is not used nowadays except that the boards almost invariably give a special rate as security for borrowing, but do not, of course, collect the rate.

19. *Urban drainage boards* are only five in number and are each separately constituted. The Auckland Metropolitan Drainage Board, the North Shore Drainage Board, and the Hutt Valley Drainage Board are on a similar pattern. Each covers a district comprised of a number

of territorial local authorities. They do not rate directly but levy for their revenue requirements on their constituent local authorities which in turn find the levy out of rate revenue. The levies are based on an annual estimate of the board's proposed expenditure and each contributory local authority is assessed in proportion to the mean percentage of the rateable capital value and population of the respective districts or portions thereof receiving benefit. The Christchurch Drainage Board and the Dunedin Drainage and Sewerage Board differ in that they rate directly for their expenditure. There is some differentiation in the case of the Christchurch Board, both in the areas into which its district is divided for general rating purposes and in that several of its loans are secured on special rating areas within the board's district. The Dunedin Board's rating is on a uniform basis.

20. *Urban transport boards* are only two in number – Auckland and Christchurch. The Christchurch Transport Board rates directly, on a uniform basis, on the property within its district for any revenue deficiency. It has levied a substantial annual rate for some years past. In both 1955–56 and 1956–57 the total rate collected was approximately £144,000, compared with revenue from charges of approximately £540,000. The Auckland Transport Board, on the other hand, does not rate itself but levies for any revenue deficiency on the local authorities forming its district; they in turn would, of course, normally find the levy from rate revenue. Its levy was £145,000 in 1955–56 and £326,000 in 1956–57, compared with revenue from charges of just over £1,500,000 in each of those years.

21. *Rabbit boards* have power to levy a general rate on all rateable property within their districts. It can be levied on the basis of the number of stock carried on a property (maximum of 2d. per sheep and 10d. per head of cattle carried), on rateable value (maximum 2d. in the pound of capital value but shall not exceed 1s. per acre of ratepayer's holding), or on an acreage basis (maximum 1s. per acre). Such rates may be levied on a graduated basis according to classification of lands for benefit. Special rates may also be levied for loan charges.

22. *Harbour boards* have no general rating power (the "harbour improvement rate" levied by many boards is not a land rate but a charge on goods), nor does the Harbours Act give any general power to levy special rates for loan charges. However, in the majority of cases in the special legislation empowering particular harbour boards to borrow (which is necessary in their case), and, where the borrowing is subject to the provisions of the Local Authorities Loans Act 1956, an express power is given in the legislation for a special rate as security for the borrowing and to meet loan charges to the extent that it may be necessary by reason of deficiency of the board's ordinary revenue.

23. *Fire boards* do not rate, but derive their revenue through the medium of the Central Fire Service Council; it is found roughly in the proportion of 40 per cent by the territorial local authorities, 50 per cent by the fire insurance underwriters, and 10 per cent by the Central Government.

24. *Hospital boards* derive their revenue (apart from minor items such as endowment rents, etc.) from the Central Government sources, partly in direct subsidy from the Consolidated Fund and partly from the Social Security Fund as representing patients' fees, etc. Until the present year a proportion of hospital board revenue has been found by the territorial

local authorities from rates on property. This rate levy has for many years been a stabilised ½d. in the pound of capital value of all rateable property. Legislation provided for gradual reduction and abolition of the rate levy between 1952–53 and 1956–57. No rate levy is payable for the current or future years.

25. *Table C* is an overall Local Authorities' Revenue and Expenditure Account. It is derived from the Statistics Department's *Official Estimates of National Income and Sector Accounts.* It is intended to give the overall picture. Its compilation has been from the point of view of the economy of the country as a whole and some of the figures differ in certain respects from those given in other tables which have been compiled purely as local authority returns. For example, the figure for rates is less than in tables D, E, and F, by reason of the exclusion of water charges which have been included in the figure in the other tables; certain other figures are net figures and a certain amount of duplication has been eliminated. If individual figures are to be used by the Commission, it would be preferable to adopt those in the tables other than table C.

26. The expenditure in this table includes only revenue expenditure. The figure shown as balance of revenue over expenditure would include debt repayment and capital expenditure from revenue, which for the purposes of this table are treated as appropriations of revenue surplus.

27. *Table D* is a vital and interesting table. It shows the relationship that total rate receipts bear to national income, gross national product, and rateable capital values. The figures are derived from Statistics Department records and are considered to give the best indices of the several factors to which the attention of the Commission is directed in its order of reference.

28. By way of explanation, the following definitions are taken from the Statistics Department *Report on National Income Statistics:*

Private Income is the aggregate of earned incomes and unearned transfer incomes received by or accruing to persons. It includes, as income accruing but not actually received, undistributed incomes of companies.

National Income (or net national income at factor cost) equals private income, plus Government trading income, less transfer incomes. This is the most frequently used aggregate and can be defined as the income (before tax) earned by and accruing to the factors of production, in or temporarily absent from New Zealand, in producing the current output of goods and services of all kinds.

Gross National Product equals national income, plus indirect taxation, less subsidies, plus depreciation allowances. It represents the value of current output before deduction of allowances for depreciation and obsolescence, and is equal on the expenditure side to gross national expenditure.

29. It will be noted that the percentage which rates bear to national income, although varying a little up and down over the past six years, is now lower than in the years 1940 to 1950. Unfortunately, earlier figures than those shown are not obtainable for national income or gross national product, but the figures given are sufficient to indicate the trend. Rates, it will be noticed, have steadily declined as a percentage of gross national product and also in more recent years as a percentage

of rateable capital values. The 1956 figure as a percentage of rateable capital values is lower than any figure shown after 1935. These figures are highly significant. The obvious conclusion is that rates, as a whole, have not increased in recent years to the same extent as have income and production.

30. *Table E* gives total receipts and total payments for all local authorities for selected years between 1939 and 1956, itemised under main headings. The item for hospital board levies under payments will now cease.

31. *Table F* is a breakdown for the year 1955–56 of the information from table E into the respective receipts and payments for the different classes of local authorities (excluding hospital boards). The table is derived from one appearing in the *Local Authorities Handbook* (Statistics Department). The amount shown under "Revenue from Government" is elaborated in the next table (table G) from which it will be seen that substantial payments from Government are included in the item "Receipts Not Revenue" in table F (e.g., special works grants to catchment boards).

32. It was mentioned earlier that rates form the primary source of revenue for the territorial local authorities for services other than trading. This is apparent for counties. For municipalities the greater part of their aggregate revenue is shown as being derived from public utilities, licences, rents, and other sources. It is, however, in by far the greater part accounted for by the income of trading undertakings as is shown in the table immediately under, which gives an analysis of that item.

Receipts by Municipalities from Public Utilities, Licences, Rents, and Other Sources

	1954–55	1955–56
	£	£
Licences	586,955	481,435
Libraries..	104,844	125,881
Abattoirs	428,109	471,100
Rents	652,665	711,809
Sale of materials, stocks, etc. ..	303,456	227,023
Gasworks	947,309	1,017,872
Electricity supply	5,229,344	5,655,263
Transport services	1,575,388	1,499,970
Milk supply	1,586,018	1,718,211
Other sources	1,712,145	1,978,425
Totals	£13,126,233	£13,886,989

33. *Table G* is again derived from the *Local Authorities Handbook*. In certain respects it does not present a complete picture for the Commission and further information relating to receipts by local authorities from Government sources will be given in a later paper. In particular, rates on Crown lands represent only a very limited amount of the grants made by Government in lieu of rates on Crown property. In addition, and not included in this table but included under the revenues received by local authorities from rates, are rates paid on a great deal of Crown property including all residential property on dedicated roads, property of Government trading undertakings, all State houses, etc., which amounts in the aggregate to a considerable sum.

34. The item "Loans from Government" includes only certain direct advances from Treasury, Ministry of Works, and Government agencies and loans from the State Advances Corporation for housing. Besides those

(and not included in the table G) are loans to local authorities by the State Advances Corporation from their reserve funds, loans from the National Provident Fund, from the Government Life Insurance Department, and from other such Government agencies. Some information on these is given in table O.

35. *Tables H and I* impinge also on the capital aspect of the inquiry. They give some analysis for boroughs, counties, electric-power boards, and harbour boards of the amount spent on capital works from revenue and from loan, and give the relationship of those figures to total expenditure in the case of boroughs and counties. These figures do not present a very complete picture but are the best available. While boroughs (includes cities) have tended in recent years to lean heavily on borrowing to finance constructional work, the figures show clearly that counties do so only to a relatively minor extent. Electric-power boards also finance a large part of their capital work from revenue. Harbour boards do so to a much lesser extent. Although figures are not available, many of the other classes of *ad hoc* bodies lean very heavily on borrowing for their capital needs. For example, the urban drainage boards and transport boards depend almost exclusively on loans for capital finance.

36. A particular aspect which may concern the Commission is the impact of the cost of modern sewerage services in urban areas, especially those of rapid and recent growth. Wellington city and Dunedin city appear to be relatively fortunate in this respect, but in some of their adjoining areas and in metropolitan Auckland, the Hutt Valley, Christchurch, and other places the impact is beginning to make itself felt.

37. By way of illustration, the following are figures obtained from the Auckland Metropolitan Drainage Board:

Auckland Metropolitan Drainage Board—Levies and Estimated Levies on Contributory Local Authorities

	£		£
1955–56	205,000	1958–59.. ..	466,800*
1956–57	226,000	1959–60.. ..	641,800*
1957–58	337,000	1960–61.. ..	829,000*

* Estimated

These levies are at present made on a district with a population of 277,000 and a rateable capital value of £268,750,000. During the period to 31 March 1961 there will possibly be some increase in the area over which levies are made by the bringing in of further portions into the board's Inner Area. There will also be some development and population growth within that area. This is not, however, likely to be sufficient to affect at all significantly the incidence of the increase shown above.

III. CAPITAL

(a) *Capital Investment*

38. *Table J* gives figures for gross capital investment in New Zealand in total and for each of the sectors of the economy, private, Government, and local authority. It shows each of these for selected years from 1939 to 1957 and expresses them as a percentage of the total investment and as a percentage of the gross national product. The figure of total investment as a percentage of gross national product is relatively high by

comparison with other countries, as would be expected in a young and developing country with a rapidly growing population. Our present average annual population increase of 2·31 per cent (see table A) is a very high one by world standards.

39. Local authority capital investment for the year ended 31 March 1957 was a greater percentage of the gross national product than at any other time for which figures are available. Local authority capital investment claimed a greater percentage of the total investment in 1939 and 1944 but the figure for 1957 was greater than at any other time since then. It has shown a generally increasing trend and it could be questioned whether it would assist the balance of the country's economy as a whole to endeavour to claim a greater percentage of capital investment for the local authority sector.

(b) *The Local Authorities Loans Board*

40. Local authority borrowing is controlled directly by the Local Authorities Loans Board and indirectly by the market. All local authority borrowing, with relatively minor exceptions and other than day-to-day overdraft accommodation, requires the sanction of the Board.

41. The Board consists of the Secretary to the Treasury (who is chairman), the Commissioner of Works (both *ex officio*), and five other persons appointed by the Governor-General. It has been the invariable practice to appoint the Secretary for Internal Affairs as one of those five. The four other members do not represent particular interests but are men of wide experience in the different local body fields. The Board's secretariat is provided by the Treasury.

42. The legislation provides that (with a few specific exceptions) loans may be raised, with the sanction of the Loans Board, by the passing by the local authority of a special order, provided that where a rate is given as security a poll of ratepayers shall be held on the proposal if:

(i) The Local Authorities Loans Board so requires.

(ii) Five per cent of the ratepayers so demand.

(iii) The local authority so resolves.

43. Section 9 of the Local Authorities Loans Act 1956 defines the powers of the Board to sanction or decline applications for borrowing authority and to fix the terms and conditions of borrowing; the latter is subject to the proviso that the Board shall not in any case determine a rate of interest in excess of the maximum rate determined for the time being by the Minister of Finance. The Act does not in any way limit the considerations the Board may take into account in reviewing loan proposals nor does it define those considerations except in two respects. It provides that the Board may, in the exercise of its powers, have regard to the interests of the national economy. It also gives certain considerations to which the Board shall have regard in determining the period of repayment of a loan.

44. The Act establishing the Board in 1926 arose from the chaotic state into which local authority finances had drifted (speaking generally) after the First World War. Many local authorities had borrowed heavily without due regard to their ability to undertake the liabilities and had not in many instances made proper provision for the repayment of the loans. Some form of control and authorisation was considered necessary.

45. The Board was originally intended to ensure that local body projects are sound, are within the financial capacity of the local authority or its district, and that the terms are reasonable and provide adequately for repayment within the life of the assets. Necessarily the Board always had some regard to the degree of essentiality or otherwise of loan works coming under its review. Until more recent years, however, it did not consider that it was called upon to decide the relative priority of local body projects in relation to the overall demands upon resources. The inclusion in the legislation in 1955 of the express power to have regard to the interests of the national economy clarified the Boards's powers in that regard. The Board has since followed the lead given by the Government in endeavouring to restrict local body works in common with other projects to those of the more essential purposes.

46. *Table K* appended shows the pattern of local authority loan proposals over the past 30 years. Between 1928 and 1947 the total of loans sanctioned for new works stood at about an average of £3 million a year. It fell away in the depression years of 1931 to 1933 and again in the war years from 1941 to 1945. At no stage in that period did the figure of loans for new works reach £4 million. In 1947 the total increased to £7 million but remained relatively stable until 1951. From that point the amount of loan proposals rose spectacularly to the peak figure of 1955 (£26 million sanctioned). The two years 1955–56 and 1956–57 show more stability and are considered to better match the market resources. The total amount referred back, deferred, or declined by the Loans Board was £7 million in 1955–56 and almost £5 million in 1956–57. The local authorities themselves cooperated in achieving the greater degree of stability shown in those two years in that they reduced the amount of their new loan applications. This was, of course, partly because of the relatively large unexercised balance of loan authorities held by the local authorities from the sanctions of 1953–54 and 1954–55 which were somewhat beyond the market resources to supply. At the same time it should be mentioned that the total amount sanctioned is not all immediately exercisable as many loans relate to large works likely to take a year or two (some several years) in construction. Loan sanctions can, therefore, only be related to market resources over a period of years. The total loan applications swung sharply upwards again in 1957–58 and the amount sanctioned for that year was greater than for any previous year. The amount sanctioned for the metropolitan drainage schemes in Auckland, North Shore, and Christchurch (£7·5 million) contributed substantially to the relatively large total.

47. *Table L* gives an analysis of the loans sanctioned into categories of works. One pre-war year (1937–38) is given and successive years from 1947–48.

48. *Table M* gives an analysis of the loans sanctioned into the types of local authorities to which the sanctions were granted. This has been limited to the past five years.

49. *Table N* is an interesting analysis of the movement of local authority debt and of loan moneys raised. It will be referred to later. The rising trend of the debt must be expected to continue but the reduced amount of loans sanctioned in the last two years as against the sanctions for the previous two years ended 31 March 1955 should have the effect of steadying the rate of increase of the debt.

50. The overseas domiciled debt of local authorities has been steadily reduced from £26 million in 1931 to under £4 million at the present

time. For some 20 years the Board has adopted a policy of not authorising local authority borrowing outside New Zealand. It was stated in the Board's last annual report (31 March 1957) that a recent submission brought that policy under review. After consideration of all aspects of the matter including recent information as to the prospects of borrowing in London and of probable costs, the Board came to the conclusion that the most advisable and practicable course was to adhere to its existing policy.

(c) *Borrowing and the Market*

51. Until towards the end of 1951 local authorities had for many years been able to get their loan finance in the main from institutions – the State lending institutions and the private insurance companies, trustee savings banks, etc. – all of which were prepared to invest substantially in local body debentures. Some local authorities elected to borrow by selling debentures of small denominations to the general public and they did so without great selling expense. Over that period (and going back well into the pre-war years) local authorities were able to borrow the moneys needed to finance their capital works programmes without any difficulty, except for a short period about the beginning of the last war. The moneys were available for the most part at rates varying from 4 per cent to $3\frac{1}{4}$ per cent and for relatively long terms of up to 35 years. The rate became stabilised at a figure of $3\frac{1}{4}$ per cent from late 1946. However, 1951 saw a gradual tightening of the loan market arising from increasing demand and local authorities experienced corresponding difficulty in obtaining their requirements. The competition led to a demand for higher interest rates and in the early part of 1952 a virtual stalemate was reached by local authorities who could not raise any money at all. It was necessary to raise the rate payable by local authorities and from August 1952 it was raised to 4 per cent. Lenders, nevertheless, continued to show some reluctance to invest in long-term debentures.

52. The position developed whereby a growing number of local authorities had to look to the investing public, rather than to institutions for their finance, and had to offer shorter-term debentures (10-year issues). That made it necessary to provide for refinance of loans at the end of the 10-year term so that the annual charges falling on the local authority rating could be on the basis appropriate to the longer loan term that would hitherto have been approved by the Loans Board.

53. Towards the end of 1953 and in the early part of 1954 there was some easing of the market in favour of local authorities with the institutions taking up more of their issues. That appears to have coincided with a temporary falling away in the demand for capital from private borrowers. It proved to be only a temporary easing, however, and towards the end of 1954 and in 1955 the market tightened against local authorities.

54. During the year ended 31 March 1956 two upward movements in the interest rate were necessary to meet the market conditions. The maximum rate was lifted from 4 per cent to $4\frac{1}{4}$ per cent in October 1955 and then to $4\frac{3}{4}$ per cent in March 1956. The Loans Board found that conditions inhibited any stable policy regarding the fixing of loan terms and retained a degree of flexibility in reviewing terms from time to time.

55. During 1956 further adjustments were made and the Loans Board introduced a pattern enabling the offer of debentures or stock so as to mature in a choice of terms of five, eight and 12 years with graduated interest rates of $4\frac{5}{8}$ per cent, $4\frac{3}{4}$ per cent, and $4\frac{7}{8}$ per cent respectively.

An increase in the maximum rate to $4\frac{7}{8}$ per cent was incidental to that arrangement. The arrangement was in addition to the other established methods of raising local body loans, namely, by table mortgage (where raised from lending institutions) and by a table of annual redemptions (where offered for public sale) whereby debentures maturing annually obviate the need to establish a sinking fund. The graduated rates were applied to the annual redemption loans also. The arrangement met the needs of the moment by enabling local bodies to take advantage of shorter term moneys offering and at the same time giving an incentive to the longer term investor.

56. However, it had certain disadvantages also in that it tended to increase short-term borrowing but on longer term repayment bases. The greater part of local authority borrowing would need to be refinanced in a relatively short period and this might well present difficulty. The Loans Board, therefore, took the advantage when market conditions necessitated increasing the maximum rate to 5 per cent in June 1957 to try to get back to a 10-year minimum borrowing period (the longest considered practicable) for loans involving refinance. That was not altogether practicable but a compromise was achieved. Current terms approved by the Loans Board require a minimum term of 10 years for at least two-thirds of the loan or loan issue, it being permitted to offer one-third of the issue for a term of five years or longer if desired. The method of issue by table of annual redemptions is also permitted. Maturities of up to five years bear interest at $4\frac{3}{4}$ per cent. For any term over five years interest is authorised at 5 per cent.

57. *Table N* was earlier mentioned. It gives an analysis of the movement of the gross local authority debt over the last six years. This highlights the very steep increase in the debt figure over those years. The table shows also the loan moneys uplifted (which for present purposes can be regarded as loan moneys raised) in those years and the corresponding amounts of principal repaid.

58. Until the year 1951–52 the aggregate amount of local body loan repayments (which are found from current revenue) provided at least the equivalent of their fresh borrowings. Borrowings in the last five years have been very substantially greater than redemptions.

59. The amounts raised by local authorities in the last five years and in particular the figure of £20 million for 1956–57 must be regarded as relatively high both in relation to the other statistics of local authority finance and in relation to the capital resources available.

60. *Table O* is the best analysis available of the source of the loan moneys raised by local authorities. The table has certain limitations. It does not include all moneys raised by local authorities in each of the three years given because details are not available of moneys raised in that period under any authorisations issued prior to 1 April 1954. Very little of those authorisations were still unexercised by 1 April 1956, however, and the figures for 1956–57 are not far short of the total of approximately £20 million. A more serious limitation is, however, that it is thought that quite a proportion of the amount shown under private investors represents amounts taken up by insurance companies and other lending institutions in public issues.

61. For the information of the Commission, figures have been taken out of the amount of *unexercised loan authorities* in the hands of local authorities at 31 March 1957.

Loans sanctions unraised at 31 April 1957 were:

	£
Municipalities	14,466,000
Counties	2,416,000
Electric power boards	3,479,000
Harbour boards	5,166,000
Hospital boards	3,328,000
Urban drainage boards	3,304,000
Urban transport boards	1,984,000
Fire boards	324,000
Auckland Harbour Bridge Authority	3,790,000
Others	211,000
Total	£38,468,000

62. To be viewed in true perspective it must be remembered that many loans cover projects taking several years in construction. A good proportion of the amount shown above as unraised would, therefore, in the ordinary course be raised progressively over several years and does not represent immediate demand. Again, however, it is not possible to give an exact picture. For a single year it is considered that the picture would be too distorted. Figures have, therefore, been taken out of the amounts unraised at 31 March 1957 of authorisations issued between 1 April 1954 and 31 March 1957. These are:

	Authorisations, 1 April 1954 to 31 March 1957	Unraised at 31 March 1957
	£	£
Municipalities	21,413,000	6,582,000
Counties	3,816,000	1,292,000
Electric power boards	8,592,000	2,137,000
Harbour boards	6,209,000	1,722,000
Hospital boards	7,203,000	1,028,000
Urban drainage boards	4,728,000	1,864,000
Urban transport boards	1,744,000	1,049,000
Fire boards	843,000	292,000
Auckland Harbour Bridge Authority*	5,799,000	3,790,000
Others	451,000	82,000
	£60,798,000	£19,838,000

* For a technical reason Orders in Council were issued for the full amount of the loans sanctioned in this case.

63. The total amount raised by local authorities for 1956–57 was £20 million. The amount of current authorisations still unraised at 31 March 1957 therefore represented approximately a full year's supply of loan money for all local authorities. Further authorisations are, of course, being issued continuously and a large amount of authority in the aggregate will in the ordinary course be held by local authorities at any time. Even so, the unexercised authorities indicated above are a large sum and represent considerable pressure of demand on the capital market.

64. It is of interest to note that a similar position of excessive demand and capital shortage has obtained in the United Kingdom. At the end of October 1955 the Chancellor of the Exchequer and the Minister of Housing and Local Government issued a joint message appealing to all local authorities to review their capital programmes for 1956–57 and restrict their expenditure to the level of 1954–55. At the same time a

squeeze was applied to local authorities by restricting the capital finance that would be available to them through the Public Works Loans Board and making the Board virtually only a lender of last resort. The Public Works Loans Board's interest rates were also increased.

65. In this country, however, the position does not appear to have been unduly restrictive as regards local authorities over the past two years at least. It has been shown that the amount raised by local authorities for the year ended 31 March 1957 was relatively large. There is evidence also that during 1957 as much and possibly more money was being made available to local authorities by the insurance companies and other lending institutions and that some of this has been lent for longer terms than hitherto. For several years from about 1952 lending by other than a few Government agencies and except in a few special cases has tended to be restricted to maximum terms of 10 or 12 years. This remains the position with issues to the public; the man in the street, the man on the farm, or the ordinary trading company are always reluctant to tie their money up for a long term. But over the past 12 or 18 months, and particularly since the interest rate went to 5 per cent, there has been substantial lending by insurance companies, etc., for terms of 20, 25, 30, and 35 years.

66. Reference again to table J completes this picture with the reminder that local authority capital investment for the three years to 31 March 1958 was a greater percentage of gross national product than at any previous time for which figures are available. Their share of total investment was greater in 1939 than at present. In the post-war years it has shown minor fluctuations but has increased from 9 per cent in 1947 to 14 per cent in 1958. There is, however, no yard-stick to determine the share of total investment that should go to any one or other sector of the economy.

67. Any increase in the share of investment moneys going to one sector can only be at the expense of one of the other sectors unless we can increase savings either by more efficient production or by reducing consumption. Total investment as a percentage of gross national product fell during the year ended 31 March 1957. There was also a fractional fall between 1954–55 and 1955–56.

(d) *Interest Rates*

68. A brief review is included of the movement of interest rates on local body loans with reference to rates in the United Kingdom and to rates applicable to private capital issues in New Zealand.

69. The following table illustrates the *movement of interest rates on local authority loans* since 1927:

Maximum Interest Rate for Local Body Loans

Year	Rate Per Cent	Year	Rate Per Cent	Year	Rate Per Cent
1927 ..	.. 6	1938 ..	.. $3\frac{1}{2}$	1948 ..	.. $3\frac{1}{4}$
1928 ..	.. $5\frac{3}{4}$	1939 ..	.. $4\frac{1}{4}$	1949 ..	.. $3\frac{1}{4}$
1929 ..	.. $5\frac{1}{2}$	1940 ..	.. 4	1950 ..	.. $3\frac{1}{4}$
1930 ..	.. $5\frac{3}{4}$	1941 ..	.. 4	1951 ..	.. $3\frac{1}{4}$
1931 ..	.. $5\frac{1}{2}$	1942 ..	.. $3\frac{3}{4}$	1952 ..	.. 4
1932 ..	.. $5\frac{1}{4}$	1943 ..	.. $3\frac{1}{2}$	1953 ..	.. 4
1933 ..	.. $4\frac{1}{4}$	1944 ..	.. $3\frac{1}{2}$	1954 ..	.. 4
1934 ..	.. $4\frac{1}{4}$	1945 ..	.. $3\frac{1}{2}$	1955 ..	.. $4\frac{1}{4}$
1935 ..	.. $3\frac{1}{2}$	1946 ..	.. $3\frac{1}{2}$	1956 ..	.. $4\frac{3}{4}$ & $4\frac{7}{8}$
1936 ..	.. $3\frac{1}{2}$	1947 ..	.. $3\frac{1}{4}$	1957 ..	.. 5
1937 ..	.. $3\frac{1}{2}$				

70. Until June 1956 local body loans in New Zealand always paid the one rate of interest, the standard maximum rate at the particular time, regardless of the term of the loan. There was a minor exception to that general rule when for a short period about 1948–49 a few of the major local authorities floated loans at $3\frac{1}{8}$ per cent and one or two even at 3 per cent, while the general maximum was $3\frac{1}{4}$ per cent.

71. Differential rates were introduced from June 1956 to July 1957 of $4\frac{5}{8}$ per cent for loans of five years or under, $4\frac{3}{4}$ per cent for eight years, and $4\frac{7}{8}$ per cent for 12 years, with slightly modified application to annual redemption loans. From July 1957 the position reverted to a basic rate of 5 per cent, but with a reduced rate of $4\frac{3}{4}$ per cent for short-term debentures of up to five years.

72. In the corresponding periods the rates offered by the Government have been:

1956:	Rates Per Cent	1957:	Rates Per Cent
3 years	$4\frac{3}{8}$	3 years	$4\frac{1}{2}$
5 years	$4\frac{1}{2}$	6 years or 12 years	$4\frac{3}{4}$
11 years	$4\frac{5}{8}$		

The local authority rate is at present $\frac{1}{4}$ per cent in advance of the Government rate.

73. It may be of interest to note the rates of interest on local authority loans in the United Kingdom in recent years. These are the maximum rates charged to local authorities by the *United Kingdom Public Works Loans Board*:

Rate of Interest

Term of Loan	Prior to 15 July 1955	From 15 July 1955	From Aug 1955	From 6 Sep 1955	From 16 Jan 1956	During 1956–57	From 30 Sep 1957
	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent
Not exceeding 5 years ..	$3\frac{1}{8}$	$3\frac{3}{4}$	$4\frac{1}{8}$	$4\frac{1}{2}$	$5\frac{1}{2}$	$5\frac{3}{4}$	$7\frac{1}{4}$
6–15 years ..	$3\frac{3}{4}$	$4\frac{1}{4}$	$4\frac{1}{2}$	5	$5\frac{3}{8}$	6	$6\frac{3}{4}$
Over 15 years ..	4	$4\frac{1}{4}$	$4\frac{1}{2}$	5	$5\frac{1}{4}$	$5\frac{3}{4}$	$6\frac{3}{4}$

74. *Private capital issues in New Zealand* are controlled (for issues of over £10,000) by the Capital Issues Committee, which authorises maximum interest rates of the following order:

(a) Industrial mortgages .. .. $5\frac{1}{2}$ per cent.

Higher rates may be authorised for second or third mortgages according to circumstances. Also the committee will authorise a higher rate of (say) an additional $\frac{1}{4}$ per cent for certain types of mortgages (e.g., private schools).

(b) Company debentures .. .. $5\frac{3}{4}$ per cent.

(c) Preference shares .. .. $5\frac{3}{4}$ per cent.

(with participating rights of an extra 1 per cent to 2 per cent.)

These rates have been applicable since July 1957.

(e) *The National Provident Fund Pool*

75. One of the functions of the National Provident Fund Board is to provide a superannuation scheme subsidised from the Consolidated Fund for local authorities. The greater part of the Fund's receipts are invested in local authority loans. Of total investments of £24,635,830 at 31 December 1957, £17,266,685 was in local authority securities.

76. The functions of the Fund in relation to local authorities were extended in 1955 by legislation empowering the Board to institute and operate a pooling system whereby local authority moneys surplus to immediate requirements might be used for relending to other local authorities. The Board is empowered to accept appointment as a depreciation fund commissioner, a sinking fund commissioner, to accept deposits of local authority reserve funds and to accept deposits of loan or other moneys for short-term investment pending their utilisation on the purpose for which the loans were raised.

77. Under the legislation an investment committee of the Board was set up to which the Board has delegated certain of its powers of investment. The committee as at present constituted includes two appointments outside of the Board who are drawn from the local authority field.

78. For the year ended 31 December 1957 the investment committee granted loans to local authorities totalling £3,288,646.

79. Moneys received in the Local Authorities Investment Pool up to 31 December 1957 (including interest credited) totalled £8,635,788, of which £2,871,380 was withdrawn, leaving a balance at 31 December 1957 of £5,764,408.

(f) *Underwriting*

80. In the last three or four years the practice of underwriting local body loans has been revived at the request of local authorities after a lapse of something like 20 years. In its determination of the loan terms the Loans Board retains control over the aggregate amount payable as to brokerage or underwriting fees in respect of any loan sanctioned. Brokerage is normally allowed at the rate of 10s. per cent of the amount raised. The Board has been prepared to agree to additional fees for underwriting of from 10s. to 15s. per cent, varying with the size and financial status of the particular local authority.

81. Underwriting is the general practice in the United Kingdom and Australia for local authority loans issued for public subscription.

TABLE A: Population – Successive Censuses (Including Maoris)

Date of Enumeration	Population	Inter-censal Increase	Average Annual Percentage Increase
1858	115,462	..	..
1901	815,853	72,646 (since 1896)	1·89
1911	1,058,308	122,004 (since 1906)	2·52
1921	1,271,664	122,439 (since 1916)	2·27
1926	1,408,139	136,475	2·06
1936	1,573,810	165,671	1·13
1945*	1,747,679	173,869	1·11
1951*	1,941,366	193,687	1·91
1956*	2,176,224	234,858	2·31
Estimated 30 September 1957	2,243,867	..	..

* Inclusive of members of Armed Forces overseas.

TABLE B: Population

Year Ended 31 March	Population	Annual Increase		Natural Increase		Migration Increase	
		No.	Per Cent	No.	Per Cent	No.	Per Cent
1953 ..	2,037,553	52,823	2·66	33,158	1·67	20,334	1·02
1954 ..	2,087,740	50,187	2·46	34,136	1·68	15,047	0·74
1955 ..	2,130,927	43,187	2·07	35,380	1·69	7,376	0·35
1956 ..	2,175,373	44,446	2·09	36,657	1·72	8,669	0·41
1957 ..	2,221,169	45,796	2·11	37,666	1·73	10,855	0·50

TABLE C: Local Authorities Revenue Account

Revenue (£ million)

—	1938–39	1943–44	1946–47	1950–51	1952–53	1953–54	1954–55	1955–56	1956–57
Taxation—									
Direct – rates	6·2	6·9	8·4	11·1	13·8	14·8	16·2	16·7	17·8
Indirect – licence fees	0·6	0·6	0·8	1·2	1·5	1·5	0·8	0·7	0·7
Totals	6·8	7·5	9·2	12·3	15·3	16·3	17·0	17·4	18·5
Trading income	3·3	4·6	3·9	3·6	3·2	4·0	4·1	5·2	5·5
Grants from General Government—									
Hospital boards	0·9	1·1	2·0	6·3	9·6	10·3	10·7	10·7	12·9
Other*	4·4	1·6	1·7	1·7	2·5	2·9	5·6	6·2	7·0
Total grants..	5·3	2·7	3·7	8·0	12·1	13·2	16·3	16·9	19·9
Total revenue	15·4	14·8	16·8	23·9	30·6	33·5	37·4	39·5	43·9

TABLE C: Local Authorities Revenue Account—*continued*

Expenditure **(£ million)**

—	1938–39	1943–44	1946–47	1950–51	1952–53	1953–54	1954–55	1955–56	1956–57
Cost of provision of goods and services ..	8·4	6·6	9·2	16·7	19·8	22·5	21·7	24·5	26·6
Interest on local authority debt paid in New Zealand	2·3	2·3	2·2	2·2	2·3	2·7	3·0	3·2	3·4
Total expenditure	10·7	8·9	11·4	18·9	22·1	25·2	24·7	27·7	30·0
Balance of revenue over expenditure ..	4·7	5·9	5·4	5·0	8·5	8·3	12·7	11·8	13·9
Total expenditure plus revenue balances	15·4	14·8	16·8	23·9	30·6	33·5	37·4	39·5	43·9

* 1956–57 figures include grants by: Soil conservation and rivers control, £708,000; backblock and district roading (apart from National Roads Board), £512,000; National Roads Board subsidies, £4,627,000; foreshore protection, £51,000; slum clearance, £64,000; pensioners' housing, £84,000; Levies on timber sales, £70,000; rabbit, noxious weed, etc., control, £802,000. The National Roads Board subsidies to local authorities for the last three years were; 1954–55, £3·4 (m); 1955–56, £4·0(m.); 1956–57, £4·6 (m.).

TABLE D: Total Local Authority Rate Receipts in Relation to National Income, Gross National Product, and Capital Rateable Values

Year Ended 31 March	Rates Receipts of all Local Districts Excluding Rabbit Districts	National Income	Gross National Product	Capital Rateable Values (as at 31 March, or 1 April Previous Year)	Rate Receipts as Percentage of		
					National Income	Gross National Product	Capital Rateable Values
	£	£(m.)	£(m.)	£(m.)	Per Cent	Per Cent	Per Cent
1925	4,668,884	..	..	533·2	..	..	0·876
1930	5,989,220	..	..	610·2	..	..	0·982
1935	5,493,066	..	135·6	602·7	..	4·051	0·911
1940	7,259,450	210·2	248·7	599·6	3·454	2·919	1·211
1945	7,839,519	328·8	379·2	629·0	2·384	2·067	1·246
1950	11,453,013	481·7	551·9	802·6	2·378	2·075	1·427
1951	12,285,902	612·0	697·2	889·8	2·008	1·762	1·381
1952	14,141,744	624·3	722·2	1,006·6	2·265	1·958	1·405
1953	14,980,906	656·1	756·1	1,190·1	2·283	1·981	1·259
1954	16,034,887	734·1	841·1	1,386·8	2·184	1·906	1·156
1955	17,845,330	798·9	928·2	1,541·7	2·234	1·923	1·157
1956	18,430,423	841·0	981·0	1,871·5	2·191	1·879	0·985
1957*	20,659,000	883·5	1,024·4	2,090·5	2·338	2·017	0·988

* Provisional.

TABLE E: Local Districts – Total Receipts and Payments

Receipts (from Rates and Other Sources) of Local Districts for Financial Years Between 1938–39 and 1955–56

Year Ended 31 March	Revenue from: Rates	Revenue from: Public Utilities, Licences, Rents, and Other Sources	Government	Total Revenue	Receipts not Revenue	Total Receipts
	£	£	£	£	£	£
1939	6,971,550	11,275,084	475,542	18,722,176	6,254,792	24,976,968
1944	7,823,730	14,751,120	393,624	22,968,474	2,053,629	25,022,103
1949	10,797,084	19,076,812	679,984	30,553,880	5,458,232	36,012,112
1954	16,421,127	32,322,135	1,200,114	49,943,376	19,306,555	69,249,931
1955	18,259,128	35,313,731	3,765,567	57,338,426	17,279,856	74,618,282
1956	18,883,183	38,395,821	3,998,832	61,277,836	21,424,122*	82,701,958

* Includes loan moneys uplifted £13,104,113 and grants from Government £6,360,066.

Payments of Local Districts for Financial Years Between 1938–39 and 1955–56

Year Ended 31 March	Maintenance and Construction	Hospital Board Levies	Administration	Interest on Loans and Overdraft	Amortisation of Debt	Other Payments	Total Payments
	£	£	£	£	£	£	£
1939	17,170,464	943,529	1,354,249	3,029,990	1,579,316	1,001,387	25,078,935
1944	14,222,470	1,251,183	1,404,105	2,725,283	2,209,381	1,988,775	23,801,197
1949	25,622,741	1,415,135	2,314,546	2,332,033	2,877,544	1,250,474	35,812,473
1954	53,663,631	1,660,051	4,056,259	2,594,943	4,008,783	2,305,423	68,289,090
1955	58,094,012	1,455,131	4,583,357	2,873,759	4,268,379	2,705,906	73,980,544
1956	65,831,854	1,080,420	4,856,946	3,156,958	4,708,589	3,924,269	83,559,036

TABLE F: Local Districts – Receipts and Payments, 1955–56

Total Receipts and Payments for Classes of Local Districts (Excluding Hospital Districts)

—	Counties	Munici-palities	Catchment Districts	River and Drainage Districts	Electric Power Districts	Urban Drainage Districts	Urban Transport Districts	Rabbit Districts	Fire Districts	Harbour Districts	Other	Totals
Receipts	£	£	£	£	£	£	£	£	£	£	£	£
Receipts from—												
Rates	5,674,585	11,599,678	413,579	181,378	..	..	..	452,760	..	515,340*	45,863	18,883,183
Public utilities, licences, rents, and other sources ..	1,876,984	13,886,989	337,651	54,049	12,748,008	756,115	2,424,823	70,661	827,499	5,171,947	241,095	38,395,821
Government†	1,946,830	1,491,235	..	..	..	..	..	421,146	85,408	35,864	18,349	3,998,832
Total revenue ..	9,498,399	26,977,902	751,230	235,427	12,748,008	756,115	2,424,823	944,567	912,907	5,723,151	305,307	61,277,836
Receipts not revenue ..	5,951,224	7,338,116	685,557	94,195	2,862,077	1,117,169	523,824	296,201	421,291	1,382,771	751,697‡	21,424,122
Total receipts ..	15,449,623	34,316,018	1,436,787	329,622	15,610,085	1,873,284	2,948,647	1,240,768	1,334,198	7,105,922	1,057,004	82,701,958
Payments												
Maintenance and construction	13,287,048	27,678,468	1,154,000	290,962	11,754,001	1,528,571	2,610,927	1,159,971	485,254	5,118,679	763,973‡	65,831,854
Hospital board levies ..	453,105	625,780	..	..	..	..	..	..	..	..	1,535	1,080,420
Administration	1,144,423	1,607,283	214,275	28,397	1,136,486	117,090	97,658	89,926	27,245	348,319	45,844	4,856,946
Interest on loans and overdrafts	210,349	1,444,234	25,536	12,835	683,468	158,773	134,552	6,126	40,557	415,581	24,947	3,156,958
Amortisation of debt ..	410,274	2,141,465	79,478	23,246	1,168,827	154,149	198,468	5,181	54,772	460,901	11,828	4,708,589
Other payments	279,870	1,492,748	30,934	3,043	518,687	52,773	28,064	5,889	659,599	837,144	15,518	3,924,269
Total payments ..	15,785,069	34,989,978	1,504,223	358,483	15,261,469	2,011,356	3,069,669	1,267,093	1,267,427	7,180,624	863,645	83,559,036

* Harbour Improvement Rate £272,291 and rates on land in harbour districts £243,049.
† See next table.
‡ Includes Auckland Harbour Bridge Authority £609,011 and £407,396.

TABLE G: Local Districts – Receipts from Government – Amounts Received from the Government by the Various Classes of Local Districts During 1955–56

—	Counties	Munici-palities	Catchment Districts	River and Drainage Districts	Urban Drainage Districts	Rabbit Districts	Fire Districts	Harbour Districts	Other	Totals
	£	£	£	£	£	£	£	£	£	£
Rates on Crown lands*	21,929	3,566	..	..	..	..	..	..	..	25,495
Fire Service Council	..	..	..	..	..	..	85,408	..	..	85,408
Timber and flax royalties	61,689	7	..	..	..	..	..	..	..	61,696
Goldfields revenue	7,977	1,088	..	..	..	..	..	..	..	9,065
Fees and fines	2,728	40,658	..	..	..	..	..	..	..	43,386
Subsidies on rates	1,848,642†	6,420†	..	..	..	421,146	..	..	5,769†	2,281,977
National Roads Board population subsidy	..	1,432,260	..	..	..	..	..	..	..	1,432,260
Other receipts	3,865	7,236	..	..	..	..	..	35,864	12,580	59,545
Total Revenue Account ..	1,946,830	1,491,235	..	..	..	421,146	85,408	35,864	18,349	3,998,832
Loans from Government sources ..	142,615	87,971	19,535	..	..	..	15,630	..	..	265,751
Grants for special works—										
Labour Department	18,352	11,015	..	..	..	..	..	..	..	29,367
National Roads Board	3,559,697	222,975	369	..	..	..	..	..	5,652	3,788,693
Soil Conservation and Rivers Control Council	10,599	1,435	595,910	82,420	1,153	..	..	..	..	691,517
Ministry of Works	811,927	137,538	..	..	..	..	..	..	25,510	974,975
Other	292,684	257,112	..	180	100	240,586	..	50,165	34,687	875,514
Total Receipts from Government‡	6,782,704	2,209,281	615,814	82,600	1,253	661,732	101,038	86,029	84,198	10,624,649

* Does not include all rates or grants in lieu of rates paid by Government—further data is given separately on this matter.
† National Roads Board subsidy.
‡ Does not include direct grants to hospital boards which amounted to £10·7 million.

TABLE H: Analysis of Payments on Works – Boroughs and Counties

Year Ended 31 March	All Boroughs					All Counties			
	Construction of Works and Utilities		General Maintenance	All Other Payments	Total Payments	Construction and Maintenance		All Other Payments	Total Payments
	From Loan	From Revenue and Grants				From Revenue and Grants	From Loan		
	£	£	£	£	£	£	£	£	£
1939	802,118	1,384,340	5,808,494	3,524,778	11,519,730	3,630,158	185,611	1,375,609	5,191,378
1944	227,017	351,461	5,843,652	4,332,852	10,754,982	2,143,728	28,038	1,687,593	3,859,357
1949	1,106,049	778,843	9,842,055	4,614,481	16,341,428	3,842,657	164,364	1,818,526	5,825,547
1954	4,755,001	1,780,313	15,712,016	6,421,198	28,668,528	7,647,320	350,710	2,328,908	10,326,938
1955	5,235,758	2,165,371	17,136,708	6,826,631	31,364,468	9,627,207	488,239	2,456,800	12,572,246
1956	5,872,072	2,716,042	18,905,475	7,265,777	34,759,366	12,440,809	846,239	2,498,021	15,785,069

TABLE I: Loan Receipts and Capital Expenditure – Electric Power Boards and Harbour Boards

Electric Power Boards

Year Ended 31 March	Receipts from Loans	Capital Expenditure
	£	£
1939	742,015	776,296
1944	86,800	337,588
1949	1,318,864	1,682,750
1954	2,435,657	4,793,206
1955	2,221,488	3,939,605
1956	2,862,077	3,912,211

Harbour Boards

Year Ended 30 September	Receipts from Loans	Capital Expenditure		
		Ex Revenue	Ex Loan	Total
	£	£	£	£
1939 .. .. 1944 .. .. 1949	N.A.	N.A.	N.A.	N.A.
1953	1,904,684	416,499	1,571,055	1,987,554
1954	1,191,825	362,259	1,102,811	1,465,070
1955	1,222,725	500,781	1,277,348	1,778,129

TABLE J: Gross Capital Investment (Excluding Changes in Stocks)

(£ million)

Year Ended 31 March	Gross National Product £(m.)	Private Capital Investment		Government Capital Investment		Local Authority Capital Investment			Total Investment	
		£(m.)	As Per Cent of Total Investment	£(m.)	As Per Cent of Total Investment	£(m.)	As Per Cent of Total Investment	As Per Cent of G.N.P.	£(m.)	As Per Cent of G.N.P.
1939	231	17	44	16	41	6	15	2·60	39	17
1944	374	14	50	10	36	4	14	1·07	28	8
1947	425	37	58	21	33	6	9	1·41	64	15
1951	697	74	60	41	33	10	8	1·43	124	18
1952	722	91	63	41	28	12	8	1·66	144	20
1953	756	98	57	55	32	18	11	2·38	171	23
1954	841	104	57	57	31	21	11	2·50	183	22
1955	928	130	61	59	28	23	11	2·48	212	23
1956	981	128	58	67	30	26	12	2·65	221	23
1957	1,024	120	54	72	32	31	14	3·03	223	22
1958*	1,081	137	56	72	30	35	14	3·24	244	23

* Provisional.

TABLE K: Applications Dealt With by the Loans Board Since First Constituted on 1 April 1926

——	Total New Applications	Sanctioned	
		Works	Redemptions
	£	£	£
1927–28	4,636,649	3,212,185	1,048,796
1928–29	6,007,045	3,866,551	809,221
1929–30	4,218,730	3,563,842	967,875
1930–31	3,840,505	1,766,256	838,901
1931–32	3,412,365	781,195	2,483,810
1932–33	2,951,645	406,521	2,348,231
1933–34	3,884,132	917,560	2,744,245
1934–35	3,859,363	1,585,440	2,379,955
1935–36	4,061,076	1,550,690	2,051,790
1936–37	2,804,308	2,411,358	430,313
1937–38	3,362,173	3,098,445	122,758
1938–39	5,138,917	3,013,872	1,188,525
1939–40	2,674,450	1,701,460	355,800
1940–41	5,336,640	2,709,505	1,602,670
1941–42	2,576,050	1,898,096	1,391,728
1942–43	2,780,270	1,497,120	1,121,000
1943–44	3,797,790	1,349,335	2,359,755
1944–45	3,242,327	1,737,807	698,120
1945–46	3,497,820	2,643,935	243,235
1946–47	9,843,543	7,289,436	1,006,430
1947–48	8,724,579	6,022,034	1,459,880
1948–49	8,934,705	6,977,289	1,542,177
1949–50	8,062,758	6,602,220	761,957
1950–51	10,825,192	9,242,938	485,550
1951–52	15,092,761	13,891,297	1,029,246
1952–53	29,129,996	17,853,560	196,330
1953–54	24,908,485	23,982,810	300,204
1954–55	28,586,666	25,818,955	448,971
1955–56	22,503,906	15,462,255	437,400
1956–57	20,951,326	17,232,790	30,000
1957–58	31,933,906	25,799,656	850,000

TABLE L: Local Authority Loans Sanctioned by Loans Board

Class of Work	1937–38	1947–48	1948–49	1949–50	1950–51	1951–52	1952–53	1953–54	1954–55	1955–56	1956–57	1957–58
	£	£	£	£	£	£	£	£	£	£	£	£
Waterworks	151,850	923,730	413,000	381,610	842,713	820,650	1,633,820	1,352,830	4,050,820	1,678,250	1,196,800	1,780,042
Drainage and sewerage ..	132,275	525,080	126,000	539,275	541,150	109,300	1,298,875	4,471,935	6,409,405	1,383,250	1,479,000	9,368,050
Roads, streets, and bridges ..	385,900	1,061,700	711,200	907,485	1,292,350	1,146,980	2,638,885	1,378,000	2,577,340	3,067,365	1,710,500	1,350,383
Public buildings	47,100	70,218	22,750	433,950	4,700	93,550	642,425	624,000	572,750	418,900	651,900	481,000
Public transport	34,400	54,840	1,353,336	160,000	979,500	2,476,000	7,000	850,200	2,723,200	10,000	63,800	906,000
Recreational facilities ..	7,800	39,100	15,650	262,875	14,050	270,050	276,890	58,800	408,950	80,500	187,000	156,850
Housing	267,130	139,610	256,100	163,695	294,110	601,757	496,920	561,200	1,526,800	1,186,200	780,680	721,896
Electricity supply	791,710	1,344,200	2,269,600	1,362,710	1,984,560	2,502,050	2,498,600	2,471,500	2,962,150	3,360,740	4,042,000	3,135,100
Hospital works	783,480	1,499,500	1,263,100	1,277,050	910,600	1,991,500	2,192,550	4,047,200	2,204,500	1,879,500	2,560,400	3,070,000
Harbour works	407,000	110,000	208,000	511,000	239,400	2,876,100	5,061,500	1,448,000	1,074,340	1,080,000	2,884,000	2,705,500
Fire services	36,800	3,700	18,900	109,540	334,950	52,915	273,740	221,905	216,830	292,550	296,550	174,420
Gasworks	17,700	83,000	57,500	134,500	27,000	157,400	94,970	196,500	279,650	79,000	15,000	..
Machinery	..	49,650	64,425	16,125	86,130	82,495	37,410	89,650	124,920	96,900	108,100	75,315
River control	..	16,850	..	43,275	53,725	27,250	219,900	405,590	68,600	32,400	211,160	80,000
Aerodromes	..	..	..	..	..	..	118,000	..	60,000	172,400	200,000	906,700
Auckland Harbour Bridge ..	..	..	..	..	..	..	..	5,402,000	..	360,000	240,000	500,000
Miscellaneous	35,300	100,856	197,728	299,130	1,638,000	683,300	362,075	403,500	558,700	284,300	605,900	388,400
Total works loans ..	3,098,445	6,022,034	6,977,289	6,602,220	9,242,938	13,891,297	17,853,560	23,982,810	25,818,955	15,462,255	17,232,790	25,799,656
Redemption loans ..	122,758	1,459,880	1,542,177	761,957	485,550	1,029,246	196,330	300,204	448,971	437,400	30,000	850,000
Total loans	3,221,203	7,481,914	8,519,466	7,364,177	9,728,488	14,920,543	18,049,890	24,283,014	26,267,926	15,899,655	17,262,790	26,649,656

TABLE M: Loans Sanctioned for Different Classes of Local Authorities

Class of Local Authority	1953–54	1954–55	1955–56	1956–57	1957–58
	£	£	£	£	£
Municipalities	5,843,140	11,387,155	5,962,038	7,269,480	6,777,380
Counties	647,790	1,914,660	1,605,877	1,155,900	1,366,356
Electric power boards	2,264,900	2,844,150	3,336,240	2,445,000	2,734,500
Harbour boards	1,438,000	1,098,340	1,210,000	2,884,000	2,722,500
Hospital boards	4,047,200	2,204,500	1,879,500	2,560,400	3,070,000
Urban drainage boards	3,527,500	4,298,400	671,000	152,000	8,027,000
Urban transport boards	40,000	1,700,000	..	63,800	256,000
Fire boards	168,980	166,550	285,550	237,650	142,120
Auckland Harbour Bridge Authority ..	5,402,000	..	360,000	240,000	500,000
Catchment boards	484,350	31,500	41,400	192,660	57,500
Other local authorities	118,950	173,700	110,650	31,900	146,300
Total loans (new works) ..	23,982,810	25,818,955	15,462,255	17,232,790	25,799,656

TABLE N: Analysis of Movement of Gross Local Authority Debt Over Last Five Years

—	Gross Indebtedness at Beginning of Year	Loan Moneys Uplifted	Principal Repaid	Gross Indebtedness at End of Year
	£	£	£	£
1952–53	64,181,981	11,641,044	4,043,024	71,780,001
1953–54	71,780,001	16,621,932	4,778,777	83,623,156
1954–55	83,623,156	12,804,269	5,493,266	90,934,159
1955–56	90,934,159	15,086,123	5,137,906	100,882,376
1956–57*	100,882,376	20,388,535	6,602,816	114,668,095
1957–58†	114,668,095	24,000,000	6,700,000	131,968,095

* Provisional. † Estimated.

TABLE O: Analysis of Source of Loan Moneys

The following table summarises by source the total amounts raised on loans authorised by Orders in Council from 1 April 1954 to 30 September 1957:

—	State Advances Corporation	Local Authority Fund	National Provident Fund	Insurance Companies, etc.*	Other Companies	Private Investors†	Other Sources	Total
	£	£	£	£	£	£	£	£
Totals—								
1954–55	320,340	132,400	835,100	1,295,585	133,800	5,619,330	104,950	8,441,505
1955–56	1,688,550	491,900	1,509,905	2,472,475	317,650	6,585,685	410,825	13,476,990
1956–57	813,035	913,850	1,873,910	6,146,630	732,090	8,122,555	542,329	19,144,399
Quarter ended—								
30 June 1955	326,350	48,100	331,600	974,575	40,850	2,134,501	28,550	3,884,526
30 September 1955	316,750	256,300	446,605	464,600	135,400	1,969,244	56,650	3,645,549
31 December 1955	547,350	75,500	224,350	631,900	106,000	1,584,505	79,950	3,249,555
31 March 1956	498,100	112,000	507,350	401,400	35,400	897,435	245,675	2,697,360
30 June 1956	223,775	178,000	316,540	484,890	292,150	3,229,905	73,000	4,798,260
30 September 1956	187,310	336,500	465,300	1,594,980	70,400	2,203,895	229,921	5,088,306
31 December 1956	275,995	206,720	576,550	2,187,205	259,600	1,599,025	146,429	5,251,524
31 March 1957	125,955	192,630	515,520	1,879,555	109,940	1,089,730	92,979	4,006,309
30 June 1957	195,100	69,350	1,039,650	2,177,190	148,530	1,444,985	121,346	5,196,151
30 September 1957	293,175	246,290	704,800	2,400,060	207,960	2,707,815	261,418	6,821,518

* Includes savings banks, trustee companies, building societies and trading bank investments.

† Includes some public issues which did not show the various sources of the moneys.

APPENDIX 13: A STATEMENT BY THE TREASURY ON ECONOMIC DEVELOPMENTS AFFECTING LOCAL AUTHORITY FINANCE

CONTENTS

I. INTRODUCTION

1. This statement is the second submission by Treasury; it deals with economic developments affecting local authority finance during the post-war years.

2. General economic trends in New Zealand up to 1955 were fully discussed in the Treasury statement to the Royal Commission on Monetary, Banking and Credit Systems, 1955 (which was published, together with the statements by the Reserve Bank and associated banks in *Monetary and Fiscal Policy in New Zealand*), and in the report of the Monetary Commission in 1956.

3. A further review of the economic situation up to almost the end of 1957 was provided in the report of the Secretary to the Treasury to the Minister of Finance entitled *The Economic Situation in New Zealand,* dated 12 December 1957. This report was laid on the table of the House of Representatives on 23 January 1958.

4. This statement discusses developments since December 1957 and the prospects for the next few months. It then considers those economic developments which are directly relevant to local body finance and attempts to put into perspective the competition for finance and other resources by the Government, local authority and private sectors with particular reference to capital investment and borrowing.

II. RECENT ECONOMIC DEVELOPMENTS

5. In early 1957 the economy was in better balance than for some time previously. Wool prices had been high and there was a surplus in the balance of payments during the year ended March 1957. Internal economic conditions were relatively stable.

6. From about the middle of 1957, however, the economic situation deteriorated rapidly and the developments were outlined in the published report to the Minister of Finance of 12 December 1957. Since then the situation has deteriorated further. The balance of payments deficit for the whole year 1957 was £32·2 million, compared with a surplus of £8·9 million during 1956. During the first two months of 1958 up to the end of February the surplus was £2·3 million, compared with £7·8 million for the comparable months of 1957. The smaller surplus for that early part of this year was due largely to the fall in receipts from butter and cheese, resulting from both low prices and a lower volume of exports since the end of January.

7. At the beginning of February New Zealand butter in London fell from an ex-store price of 250s. per cwt to 240s., at which point it remained until 11 March when there was a fall to 230s. This is the lowest point for 10 years and compares with a price of 250s. at the same date in 1957 and of 370s. in 1956. The present price represents a loss of about 113s. per cwt to the Dairy Industry Account.

8. The cheese market in the United Kingdom has strengthened recently and the price for New Zealand cheese rose from 131s. per cwt at the beginning of February to 153s. at 3 March. United Kingdom cheese production has been at its seasonal low point and this, added to the fact that stocks are low, has meant that demand for New Zealand cheese has been greater than for some time. Nevertheless, the price is still 35 per cent lower than at the same time last year.

9. Lamb prices on the United Kingdom market have also fallen in recent weeks and meat export earnings for 1958 are expected to decline by about £10 million compared with 1957.

10. The fall in wool prices this year appears likely to reduce export income by about £20 million for the calendar year 1958 as compared with 1957.

11. The substantial deficit in the balance of payments in 1957 resulted in a substantial fall in the level of overseas banking assets. By the end of December 1957 these had fallen to £45·5 million, compared with £76·5 million a year earlier. Those assets fell even further to £42·6 million at the end of January 1958, since when there has been a recovery to £47·1 million at the end of February 1958, compared with £84·7 million a year earlier.

12. Because of the decline in the level of overseas reserves the Government introduced overall import and exchange control on 1 January 1958. It will be some months before the full effects of this control will be evident in the balance of payments figures and, with a continuation of current low prices for export produce, it is estimated that there will be a further deficit in the balance of payments for 1958. This estimate excludes allowance for any public external borrowing.

13. Within New Zealand there has been a continuation of reasonable stability in recent months. The Consumers' Price Index for the quarter ended December 1957 was only 0·5 per cent higher than the previous quarter and 1·8 per cent higher than a year earlier. The monthly food index showed the usual seasonal fall in December and January, but at the latter date was 3 per cent higher than in January 1957.

14. The main deterioration in the economic situation has, therefore, been in the highly important aspect of balance of payments. The low level of prices for exports and the seeming likelihood of their continuation for some time will impose further strain on the overseas funds.

III. GROWTH OF TOTAL INVESTMENT

15. The increasing needs and desires of the community have been manifest in both the sustained high level of demand for consumer goods and services and the high proportion of gross national product devoted to investment. The rapid growth in the demand for investment in the post-war period has put greater pressure on the physical resources available than could be met at level prices. The result has been evident in continued inflationary pressures over the period, sometimes reflected in rising internal prices and at other times in substantial balance

of payments deficits. From 1946 to 1957 retail prices in New Zealand rose 70 per cent. The rate of increase slowed down slightly, however, in the last three years.

16. There has been continuous competition for the use of resources for consumption and for investment. According to the national income statistics, personal expenditure on consumer goods and services was only 47 per cent of gross national expenditure in 1943–44, a time of war; it rose to 60 per cent in 1946–47, to 66 per cent in 1951–52, and was still at 66 per cent in 1956–57.

17. To the extent that the proportion of income devoted to consumption goods and services rises, so the proportion devoted to savings must decline. When savings decline in the community, investment cannot be maintained without resort to external borrowing or to reserves. The rise in the proportion of gross national product devoted to consumption in the post-war years has resulted in increasing reliance on external borrowing and on reserves to maintain the rate of investment.

18. In the case of private investment some aid has been obtained from overseas capital. In the case of Government investment, some finance has come from external borrowing in recent years and from the drawing down of balances brought forward from previous years. In recent years there has been a net inflow of capital into New Zealand for investment purposes.

19. A large part of local authority investment provides services such as housing, sewerage, water supply, and the like. It has a relatively low potential for, and probably only an indirect effect on, increased production. To this extent it differs from the business and farm investment of the private sector. Such public authority investment is related more directly, therefore, to population growth than to productivity in business, which tends to be the stimulus for private investment.

IV. ECONOMIC DEVELOPMENTS AFFECTING LOCAL AUTHORITY FINANCE

20. The first Treasury statement to the Commission showed that there have been many economic changes during the post-war years that have exerted influence on local authority finance. Some of the more important ones may be summarised as follows:

(a) Population has increased from 0·8 million at the turn of the century to $1\frac{3}{4}$ million in 1945 to $2\frac{1}{4}$ million in 1957. Increasing urbanisation of population resulted in the population of urban areas increasing from 51·2 per cent of total population in 1926 to 55 per cent in 1956.

(b) Gross national product has more than quadrupled in value from an estimated £231 million in the year ended March 1939 to £1,024 million in the year ended March 1957.

(c) Gross capital investment (exclusive of changes in stocks) has risen from an estimated £39 million or 17 per cent of gross national product in 1938–39 to £223 million or 22 per cent of gross national product in 1956–57. Although total investment increased steadily in the immediate post-war years and then steadied at about 22–23 per cent of gross national product, the proportions of total investment undertaken by the different sectors have fluctuated. This is indicated hereunder:

Proportion of Total Investment (Excluding Changes in Stocks)

	Year Ended March		
	1939 Per Cent	1952 Per Cent	1957 Per Cent
Private sector	44	63	55
Government sector	41	28	32
Local authority sector	15	8	13

(d) Applications to the Local Authorities Loans Board for sanction to borrow increased from £5·1 million in 1938–39 to £21 million in 1956–57. The loans sanctioned by the Board increased from £4·3 million in 1938–39 to £8·3 million in 1946–47 to a peak of £26·3 million in 1954–55. Loans sanctioned declined to £15·9 million in 1955–56 and £17·3 million in 1956–57, but indications are that the 1957–58 total may be between £24 million and £25 million.

(e) Local body loan moneys uplifted were £11·6 million in 1952–53; £16·6 million in 1953–54; £12·8 million in 1954–55; £15·1 million in 1955–56 and £20 million in 1956–57. Statistics of loan moneys raised prior to 1952–53 are not available but the level of loans sanctioned and the movement of debt indicate that the amount borrowed in any year prior to 1952–53 was substantially less than the £11·6 million in 1952–53.

(f) Gross local authority debt rose from £30·5 million in 1920 to £74·1 million in 1931. A steady reduction then took place to £61·8 million in 1950, since when there has been a sharp rise to £115·4 million in 1957. A considerable change has taken place in the domicile of local authority debt:

	In New Zealand £million	Overseas £million
1930–31	48·0	26·1
1939–40	57·0	14·5
1955–56	97·1	3·8

(g) The maximum interest rate permitted to be paid on local authority borrowing was 3½ per cent in 1945. After dropping to 3¼ per cent for the years 1947–51 it rose to 5 per cent in 1957. Details of the changes in such interest rates, which were deemed necessary to attract the required loans, are set out in the first Treasury statement.

(h) Expenditure on maintenance and construction for all local authorities rose from £25·6 million in 1948–49 to £65·8 million in 1955–56. Expenditure on the construction only of works and utilities for boroughs rose from £1·88 million in 1948–49 to £8·59 million in 1955–56 and for counties the rise was from £4·01 million to £13·29 million over the same period. The most significant point arising herefrom is the source of finance for the construction of works and utilities for boroughs. In 1938–39, £1·4 million or 64 per cent of the expenditure came from revenue and grants and £0·8 million or 36 per cent from loans. In 1948–49 41 per cent came from revenue and grants and 59 per cent came from loans. By 1955–56 only 32 per cent came from revenue and grants and 69 per cent from loans. This question is more fully discussed in a later section.

(i) Although total rate receipts have risen steadily, there have been some fluctuations, with aggregate decline, in the ratios of rate income of local authorities to gross national product and to rateable capital value. Rate receipts, as a proportion of gross national product, fell from 2·92 per cent in 1939–40 to 1·88 per cent in 1955–56 and as a proportion of rateable capital value they fell from 1·21 per cent to 0·99 per cent over the same period.

21. The growing total of borrowing and constructional work undertaken by local authorities is evident in the foregoing summary. This has probably arisen from many factors, some of which are:

(a) It is generally accepted that the needs of our rapidly expanding population ought to be met. The rate of population growth in New Zealand is one of the highest in the world. The average annual percentage increase between 1951 and 1956 was 2·26 per cent, compared with 2·32 per cent for Australia, 2·65 per cent for Canada, 1·62 per cent for the United States, and only 0·36 per cent for the United Kingdom. Moreover, the greater urbanisation of population in New Zealand has placed a proportionately heavier burden on city and borough councils for the provision of adequate services.

(b) High demand for goods and services has been maintained and largely met throughout the post-war period. Desires for higher living standards have received impetus from high export earnings and the consequent rising level of incomes.

(c) The effort to provide in a newer and relatively sparsely populated country like New Zealand services similar to those available in older and more densely populated countries makes a relatively much heavier demand on resources for the requisite investment.

V. FINANCING OF LOCAL AUTHORITY CAPITAL WORKS

22. Local authorities finance their investment from current revenues and from internal borrowing. The prospects and desirability of external borrowing by local authorities are discussed in a later section of this statement. The preceding section and tables H and I of the first Treasury statement show figures of the amount of capital work financed from revenue and from loans by various classes of local authorities.

23. As stated in the preceding section, in earlier years boroughs as a whole financed a relatively large proportion of their construction of works and utilities from revenue. This was over 60 per cent in 1938–39 and 1943–44 and 41 per cent in 1948–49. In the three years to March 1956, however, there has been a significantly greater dependence by boroughs upon loan finance for their capital work, only 29 per cent of the capital construction having been financed from revenue in 1954–55 and 32 per cent in 1955–56. The revenue includes National Roads Board subsidies amounting to £1·43 million in 1955–56, representing 17 per cent of the total spent by boroughs in that year on constructional works.

24. Counties, on the other hand, are relatively small borrowers; the greater part of their work is on roads and is financed largely from revenue, which includes, however, a substantial contribution from the National Roads Board.

25. Electric power boards did very little of their capital construction from revenue in 1938–39 and only 22 per cent in 1948–49. The revenue contribution to total capital expenditure was increased to almost 50 per cent by 1953–54, but the percentage dropped back substantially in the next two years, being only 27 per cent in 1955–56.

26. Harbour boards in the year ended September 1955 financed 28 per cent of their capital work from revenue. That percentage had not varied greatly for the three years to September 1955.

27. It appears that if the present level of constructional activity by local authorities is to be maintained, early consideration may have to be given to financing a greater proportion from current revenue.

28. It was pointed out in the first Treasury statement that, in relation to national income and to other criteria, the burden of rates has, over local authorities as a whole, declined. It is important, however, to point out also that the one average result contains a wide deviation of cases. Criteria as to national income cannot be applied to local districts, but some indication of the divergence in the movement of rates as between different urban local districts is given in the following table showing total rates levied per head of population for some selected boroughs.

Rates per Head of Population

	Year Ended March						
	1940	1950	Increase over 1940	1953	Increase over 1940	1956	Increase over 1940
Auckland ..	7·43	9·29	1·86	11·83	4·40	15·32	7·89
Manurewa ..	4·82	6·60	1·78	5·03	0·21	7·83	3·01
New Plymouth ..	5·03	6·01	0·98	7·27	2·24	7·22	2·19
Upper Hutt ..	3·09	4·95	1·86	7·68	4·59	8·68	5·59
Timaru	3·88	5·45	1·57	7·46	3·58	7·48	3·60
All districts* ..	4·70	6·82	2·12	7·88	3·18	8·47	3·77

* Total rates to total population.

29. Auckland city contains a concentration of business and commercial property of high value with the greater part of the metropolitan population residing in outlying boroughs. Rates per head of city residents tend, therefore, to appear high. Substantial capital development in the city area in recent years accounts for the upward trend of rates per head.

30. Manurewa is a small borough in the metropolitan area that has grown rapidly in the last few years. With recent development there, its rates are also beginning to move upward.

31. New Plymouth is a well established area that has not had heavy recent capital development. The movement in rates has been less than average.

32. Upper Hutt has grown steadily since the war and rapidly in the last few years, with considerable development still taking place. Upper Hutt shows a marked upward trend in rates for a borough of this size.

33. Timaru is a city where the rate burden appears to conform to the average. There appears to be no means of satisfactorily comparing the movement in urban and rural areas or of comparing the movement as between different rural areas. The basis of population would probably not be realistic in counties. It will be appreciated that several criteria can be applied, each of which would produce different results, but that the foregoing figures illustrate the point that in some areas,

particularly those where much development is taking place, the movement of rates per head has varied widely from the average figures. Use of a criterion such as national income is nevertheless probably the best method of weighing the burden of local body rates as a whole.

VI. EXTERNAL BORROWING BY LOCAL AUTHORITIES

34. Ever since the establishment of the Local Government Loans Board in 1926 it has been the practice to require local authorities to borrow only within New Zealand. To the extent that such authorities need foreign exchange they obtain it through the banking system in exchange for local currency. The payment of interest and repayment of principal is facilitated when made locally and interest on internal loans is subject to New Zealand taxation. Moreover, it has for many years been unlikely that local authorities could borrow more cheaply externally than in New Zealand.

35. The United Kingdom is the only Commonwealth country which is a net long-term investor abroad, and has been New Zealand's traditional source of Government and private external borrowing. During the early post-war years Government external debt was reduced by £55 million to a low point of £78 million. By 1954, however, it was considered that a resumption of external borrowing was necessary to maintain essential development in New Zealand and in October that year the Government borrowed £10 million on the London market. This and later borrowings have increased the Government external debt to £100 million repayable in the United Kingdom and 4·7 million repayable in the United States of America.

36. Borrowing on the London market is controlled, having regard to the needs of the many United Kingdom authorities and businesses and to the extensive capital development programmes of practically all Commonwealth countries. The consent of the United Kingdom Treasury must be obtained to any loan issues by Commonwealth Governments or local authorities on the London market. Among the criteria applied by the United Kingdom authorities in authorising new issues, particular importance is attached to whether the purposes of the borrowing are likely to strengthen the sterling area. Even if consent to issue a loan is obtained the United Kingdom investors have still to make their own judgment as to the borrower's ability to service and repay the loan.

37. Proposals to borrow by New Zealand local authorities in the United Kingdom would encounter a number of difficulties:

(a) It is unlikely that the consent of the United Kingdom authorities would be given to borrowing in that country by local authorities other than those in the United Kingdom itself.

(b) Even if permission for one local authority of a Commonwealth country to borrow in the United Kingdom could be obtained that would arouse requests for similar treatment of other local authorities of the same country, with consequent questions of determining priorities.

(c) Borrowing in the United Kingdom would be very expensive at the present time.

(d) External borrowing should be resorted to only for highly productive purposes or to meet an emergency, because the subsequent payments of interest and principal otherwise tend to take a growing part of export income.

(e) Local authorities of any country have no powers of control over exchange transactions and therefore cannot so effectively guarantee payment of interest and principal.

38. It is at present important that any loans that can be obtained in the United Kingdom be devoted to general national rather than specific local needs.

39. External borrowing by New Zealand local authorities in countries other than the United Kingdom does not appear practicable at the present time. If a commencement with such borrowing were to be made it might have to be by the New Zealand Government itself, and then in relatively small sums and for rather short periods.

VII. CONCLUSION

40. If local authorities are to continue development at near the present rate it appears that the requisite financing must depend upon promoting or mobilising sufficient savings, with regard to the relative needs of other users of savings.

41. In recent years there have been insufficient savings to meet desired investment. The full utilisation of labour and other resources has resulted in keen competition between the Government, local authority and private sectors for the finance required to obtain the use of those resources. The cost of obtaining that finance has increased correspondingly. Unless the cost of borrowing is to be forced undesirably high, local authorities in general will require, it seems, to increase their revenue receipts in order to finance a substantial part of investment. It may be that some local authorities ought to do more than others in this respect, depending upon their history of rate increases when viewed in the light of appropriate criteria.

42. There is no fixed proportion of financing of investment from current revenue which is correct at all times. From the general economic viewpoint financing from revenue should be high when labour and other resources are being strongly sought, and it should be low when the reverse is the case.

43. If the current diminution of farm incomes, by reason of lower export prices, continues for long, savings are likely to decrease and the ability to pay higher local rates is likely to lessen. These are matters to which local authorities may need to give still more consideration when deciding in future to make application for sanction of borrowing.

44. The Minister of Finance has already invited the Local Authorities Loans Board, in view of the economic situation, to deal even more selectively with future applications from local authorities for sanction to borrow.

APPENDIX 14: SUBMISSIONS BY THE VALUER-GENERAL

CONTENTS

APPENDIX 14: I. INTRODUCTION

1. One of the functions of the Valuation Department is the supply of valuation rolls to local authorities for rating purposes and in the year ended 31 March 1956, in the case of counties, cities and boroughs, town and road districts, over 47 per cent of the total revenue was from rates. The figures taken from page 130 of the *Local Authorities Handbook* for the year 1955–56 are:

	Rates	Total Revenue
	£	£
Counties	5,674,585	9,498,399
Boroughs	11,503,054	26,800,753
Town districts	96,624	177,149
Road districts	22,547	31,475
Total	£17,296,810	£36,507,776

2. In addition another million pounds was collected by way of rates by catchment, harbour, river, and land drainage boards. These boards use valuation rolls supplied by this Department.

3. As will be explained later, the Department does not supply valuation rolls to all rating authorities but statistics at page 8 of the 1955–56 *Local Authorities Handbook* show that 92·8 per cent of local authorities whose territories have 88·8 per cent of the Dominion's population do use the Department's valuation rolls.

4. The Department is therefore in a position to provide background information on matters concerned with rating. It is desired as far as possible to limit the submissions to factual data, although there are some matters where the Department is directly involved and where expressions of opinion are necessarily given.

II. SYSTEMS OF RATING

5. Prior to 1896, two systems of rating existed in New Zealand. They were capital value and annual value and in each instance the valuations for rating were made by valuers appointed by the rating authority, although in the case of capital value rating it was possible for the Property Tax Department valuations to be used by the local authority.

6. Rating on unimproved value became a third method of rating with the passing of the Rating on Unimproved Value Act in 1896, this Act providing for a poll to be taken upon a proposal to adopt unimproved value rating upon the demand of a minimum percentage of ratepayers (15 per cent where the number of ratepayers in the district exceeded 300.)

7. The Valuation Department was created by the Government Valuation of Land Act 1896 which was passed two months after the Rating on Unimproved Value Act and valuation rolls compiled by the Valuer-General became the basis for rating on capital value and unimproved value. (The unimproved values also became the basis for assessment of land tax.)

8. There has been no significant change in this situation in the past 60 years. There has been a slow but steady swing to unimproved value rating, and a table at page 8 of the *Local Authorities Handbook* for 1955–56 shows the present position to be:

System of Rating in Force, 1 April 1956

	Unimproved Value	Capital Value	Annual Value	Total
Counties	64	58	..	125*
Cities and boroughs	114	16	15	145
Independent town districts ..	10	7	3	20
Dependent town districts ..	6	8	1	15
	194	89	19	305*

* Includes Sounds and Fiord counties which do not rate and Chatham Islands county for which export and import dues are charged in lieu of rates.

9. Since 1 April 1956 there has been a further drift from annual value rating. Districts rating on annual value today totalling 16 are:

The cities of Auckland and Lower Hutt.
The boroughs of Mt. Eden, One Tree Hill, Ellerslie, Newmarket, Lyttelton, Port Chalmers, Milton, Green Island, Naseby, Roxburgh, Lawrence, and Tapanui.
The town districts of Hunterville and Edendale.

From this it will be seen that the Auckland Metropolitan area and Otago contain most of the districts favouring annual value rating.

10. Although counties appear to be fairly evenly divided between the capital and unimproved values systems, there is a marked difference between the North and South Islands. In the North Island 71 per cent rate on unimproved value compared with 26 per cent in the South Island.

System of Rating in Counties, 1 April 1956

	Unimproved Value	Capital Value	Total
North Island	51	21	72
South Island	13	37	50
	64	58	122

11. In Canterbury Province only two counties out of 26 rate on unimproved value, whilst in North Auckland and Hawke's Bay no county rates on capital value.

III. DEFINITIONS OF CAPITAL VALUE, UNIMPROVED VALUE, AND ANNUAL VALUE

12. Capital value is defined in the Valuation of Land Act 1951 as the sum that a vendor might expect to receive for his property at the time of valuation if it were offered for sale on reasonable terms and conditions and free of mortgage.

13. Unimproved value is also defined in the Valuation of Land Act 1951 as the sum that a vendor might expect to receive for his property at the time of valuation if it were offered for sale on reasonable terms and conditions and free of mortgage, "and if no improvements had been made on the said land". The definition of the term "Improvements" is also in this act.

14. Annual value is defined in the Rating Act 1925 as the rent at which a property would let from year to year, deducting therefrom 20 per cent in case of houses and buildings and 10 per cent in case

of land but shall in no case be less than 5 per cent of the value of the fee simple.

15. There are few terms used in connection with valuation of land which are more imperfectly understood than the term "unimproved value". In estimating the unimproved value of any particular piece of land, the valuer has to regard that piece of land as if it alone had not been improved at the date of valuation and ask himself what would be its probable present condition if no capital or labour had been expended upon it. Having answered this question, he has to determine what price the land in such condition would sell for in the open market at the date of valuation, assuming that everything else in the country which affects selling values was actually in its present condition – roads, railways and bridges constructed, schools, shopping facilities, electricity, transport, and other facilities available, the proximity of these and other services, improvements on all other lands duly affected and in their present condition, the prosperity or otherwise of the Dominion as reflected by market prices of stock and produce. His determination after duly considering these matters is the unimproved value of the property.

16. It may be argued that this concept of unimproved value is mainly hypothetical. However, the valuer has a number of guides which together give an adequate basis on which to make an estimate of value. Land, whether it be in city, town, or county, in its improved state or in its unimproved state is continually being sold or leased on the free market and particulars of these transactions are supplied to the Department.

17. It cannot be denied that, especially in the case of rural land, sales of unimproved land are becoming fewer. This is also the case with centre city commercial land yet the Department's valuers are not yet finding any great difficulty in assessing unimproved values. However, suggestions have been made from time to time that the present concept of unimproved value should be amended possibly to the extent of incorporating in the unimproved value the value of certain non-visible improvements carried out many years ago and which are now indistinguishable from the land. Such improvements would include the original clearing and stumping of the land, filling and other formation work, and possibly draining.

18. For rating purposes an unimproved value which included this type of invisible improvement might help to remove some of the anomalies which at present exist and which will be mentioned later.

19. A common misconception is that the Valuation Department bases its valuations on a few isolated high sales – in other words that it strives after the highest possible values. Nothing could be further from the truth. In the real estate market for a number of reasons there are, have been, and always will be, abnormally high and abnormally low sales and to accept these without question would be quite foolish. The reasons for these sales include:

(a) *High Sales*

- (i) Sales to adjoining owners where the property has a special value to the purchaser.
- (ii) Scarcity sales such as the sale of a vacant section in a well established, built-up area.

(iii) Sales of highly desirable properties where a number of would-be purchasers are prepared to bid far more than the intrinsic worth of the property.

(iv) A would-be purchaser with ample cash resources who wants to buy a particular property which attracts him from an owner who is not contemplating selling but is attracted by a substantial cash offer.

(v) Sales to ill-informed purchasers.

(b) *Low Sales*

(i) Family transactions.

(ii) Mortgagee sales.

(iii) Forced sales where a vendor may not have time to test the market.

(iv) Sales by uninformed vendors.

(v) Sales of tenanted properties.

20. The Department records all sales of real estate and the information is closely scrutinised by the district valuers. High and low sales are discounted as being unreliable as a guide to value and regard is had to the very much greater volume of sales showing a willing vendor-prudent purchaser relationship.

21. There are in round figures 50,000 property sales per annum, of which 9,000 are of 1 acre or over in area. The abnormally high and abnormally low sales constitute a very small percentage of these so that there are ample "normal" sales to gauge the market level. The Department's valuations tend to be conservative even when compared with the market level as determined by normal sales.

22. "Selling value" is a term easily understood by the man in the street. He usually takes an interest in what is happening in the property market in his immediate locality and is quite well informed as to what prices are being asked for nearby properties. Quite often, however, he does not know what the properties did actually sell for.

23. The Department has this information, however, and is able to base its valuation on the interaction of supply and demand as disclosed by sales. The basis of valuation is not determined by the Department but by the general public in its day-to-day dealings in the property market and the Department's job is to interpret what the public has done and is doing in this respect. Sales provide, therefore, a sound independent base for the Department's valuations.

24. By the Valuation of Land Act 1951, the Valuer-General is required to revalue each local body district every five years and the valuations are used for capital value and unimproved value rating. Values are never static and the question could be asked as to whether valuations should be made more frequently. Over a five-year period there are often considerable changes in value, not only in the values themselves but in the relationship of one riding to another in counties and one suburb to another in cities. In fact frequently there can be changes in relationship between parts of a riding or parts of a suburb. Progress never stops. New transport routes are opened; new bridges and access routes constructed; additional amenities are provided; land changes its use slowly but steadily; demand in a particular area builds

up (and in some instances falls away), so that over a five-year period there can be substantial alteration in the relationship of values within local body districts. I do not know of any revaluation which tended to alter the values of all properties in a local body district in exactly the same way or even anything approaching the same way.

25. The revaluation through altering the relationship, determines afresh the rating liability of every property owner in districts rating on unimproved or capital value. It provides too the opportunity for the property owner to review the valuation placed on his property, to compare it with other valuations made at the same time, and to exercise his right of objection if he is dissatisfied.

26. Whilst it would be difficult with existing staff to revalue the capital value more frequently than once every five years, it would be possible to assess the unimproved value more frequently, if this and this alone were to be reassessed.

27. The Department has since 1954 (section 2, Rating Amendment Act 1954) been empowered to undertake the assessment of annual values for any local authority rating on this system and so far has been required to do so only once. The assessment of annual value is normally made by valuers employed by the local authorities themselves.

28. Whilst annual value is defined broadly as rental value there is the proviso that it must not be less than 5 per cent of the value of the fee simple, but "value of the fee simple" is not defined. Whilst it would appear to be equivalent to capital value as defined in the Valuation of Land Act 1951, it is interesting to note that in the two principal districts rating on annual value, the total annual value falls a long way short of 5 per cent of the Department's rateable capital values:

	£
(a) *Auckland City*	
Rateable capital value at 31 March 1957	174,018,610
5 per cent	8,700,931
Annual value as at 31 March 1958	7,473,655
(b) *Lower Hutt City*	
Rateable capital value at 31 March 1957	50,405,115
5 per cent	2,520,256
Annual value at 31 March 1957	1,698,000

29. Auckland city was revalued by the Department in sections between 31 March 1952 and 31 October 1955 whilst Lower Hutt city was revalued on 31 January 1956. In Auckland the rateable capital value has had to be equalised under the provisions of the Valuation Equalisation Act 1957 and the equalised figure as if the city had been revalued at 31 January 1958 is £195,650,000. Five per cent of this is £9,782,500.

30. Local authorities rating on annual value are required to have the annual values assessed either annually or triennially.

IV. COMPARISON OF THE THREE RATING SYSTEMS

31. It is inevitable that one method of rating will favour one class of property as against another. In fact a change in rating system can frequently completely transpose the rating burden of two adjoining

properties. There are over 775,000 separate properties in New Zealand of which it is estimated that at least 700,000 are rateable so that rating is a matter which directly affects one person in every three (man, woman, and child) in the country. Yet there is probably no subject on which the man in the street is so ill informed as that of rating systems. It is only when there is a poll of ratepayers similar to that in Dunedin late in 1953 that sufficient interest is aroused for ratepayers to endeavour to find out what are the facts.

32. Capital value and annual value rating are interchangeable at the discretion of the local authority itself and in their effect both systems are generally considered to be similar. Annual value has, however, a slightly wider net than the capital value system (the value of hotel licences can be assessed, for example) and also can deal more effectively with certain classes of properties (hoardings, car parks, and similar types of property). However, apart from these small differences, the effect of annual value and capital value rating is very similar for the great majority of properties. It is, therefore, convenient to treat these systems as similar and to concentrate on comparing both together with the unimproved value system.

33. To show the difference in incidence between unimproved value rating and capital value rating, Wellington city is taken as an example.

34. The rateable values at 31 March 1957 were:

Capital Value	Unimproved Value	Value of Improvements
£138,160,590 (3·536)	£39,072,400 (1·000)	£99,088,190 (2·536)

35. The ratio of capital value to unimproved value is 3·536 to 1 so that:

(a) Any property where the capital value is less than 3·536 times the unimproved value would pay *less* on capital value rating than on unimproved value rating.

(b) Any property where the capital value is more than 3·536 times the unimproved value would pay *more* on capital value rating than on unimproved value rating.

(c) Any property where the capital value was exactly 3·536 times the unimproved value would pay the *same* under either system.

36. Because 48 per cent of the capital value and 63 per cent of the unimproved value of the city is in the area within the town belt, a change of rating from unimproved value to capital value would reduce the rates paid by this area from 63 per cent of the total to 48 per cent of the total, the 15 per cent difference amounting to over £200,000 being added to the rates paid by the suburbs (increasing the percentage of rates paid from 37 per cent to 52 per cent).

37. As within the town belt there are areas such as Aro Street vicinity, and all land south of the Basin Reserve including Newtown and Berhampore which would pay slightly more on capital value than on unimproved value, the actual £200,000 transfer of rates would be entirely from the centre city and its environs.

38. The rating system favouring various types of urban property is:

(a) Vacant land	Capital or annual value.
(b) Large-type residence	Unimproved value.
(c) Average-type residence	Probably unimproved value.
(d) Old or small residence	Probably capital or annual value.
(e) Flats	Unimproved value.
(f) Industrial land requiring little in way of buildings	Capital or annual value.
(g) Industrial land with large and costly building	Unimproved value.
(h) Factories on high-priced centre-city land	Probably capital or annual value.
(i) Commercial land with one or two storey building	Capital or annual value.
(j) Commercial land with three or four storey building	Probably capital or annual value.
(k) Commercial land with five or more storey building	Unimproved value.

39. A brief summary of the advantages and disadvantages of unimproved value rating is:

Advantages

(a) It discourages holding land out of use and encourages a change to a higher and better use.
(b) It does not tax improvements to a property, thus encouraging capital development of farms and additional improvements on residential property without attracting extra rate liability.
(c) It encourages land to be subdivided when there is a demand as it is costly to hold.
(d) It taxes the community-created unearned increment in the land to a greater extent than does capital or annual value rating.

Disadvantages

(a) It tends to encourage land to be subdivided into minimum-size residential sections to avoid heavy rates. The minimum size permitted tends to become the maximum.
(b) A block of flats pays insufficient for the services it receives as the rates are no more than for a similar piece of land next door which might have a one-unit house on it.
(c) It penalises land where the best use is gradually changing but where it is not yet economic to change the use (for example farm land where urbanisation nearing it or a residence in an area slowly changing to industrial character).
(d) It has less regard to ability to pay than do the annual value and capital value systems.

40. Generally the advantages of the unimproved value system of rating become the disadvantages of the capital or annual value and the disadvantages of the first become the advantages of the other two, so there is no need to set them out in reverse.

V. EXISTING PROVISIONS FOR GIVING RATING RELIEF

41. Rates on either the capital value system or unimproved value system are normally based on valuations appearing in valuation rolls supplied by this Department. There are, however, certain provisions which permit these valuations to be varied for rating purposes. They are:

(a) Urban Farm Land Rating Act 1932, which makes provision in respect of the rating of farm land in boroughs, town districts, and county townships with a view to affording relief to the occupiers thereof.

Where land is not less than 3 acres in area, is used exclusively or principally for agricultural, horticultural, or pastoral purposes or for the keeping of bees, poultry, or other livestock by a person who derives a substantial part of his income from any such purpose and where the land is not in the opinion of the council fit for subdivision for building purposes or is not likely to be required for building purposes within a period of five years, it qualifies for inclusion in a farm-land list. The council, after consideration as to whether the rates payable are excessive or unduly burdensome, the municipal services available to the property, and other relevant factors, may reduce the rateable value to afford relief in rating burden.

Land of less than 3 acres in area can also qualify for relief. In both cases there is the right of objection to an Assessment Court.

(b) Section 43, Valuation of Land Act 1951, and section 75, Rating Act 1925 (as amended by section 4, Rating Amendment Act 1954).

Section 43 of the Valuation of Land Act requires where land is owned or occupied:

(i) By or in trust for a local authority; or

(ii) By or in trust for a society incorporated under the Agricultural and Pastoral Societies Act 1908 and used by that society as a showground or place of meeting; or

(iii) By or in trust for any society or association of persons, whether incorporated or not, and used as a public garden reserve; or

(iv) By or in trust for any society or association of persons, whether incorporated or not, and used for games and sports other than horse racing or trotting,

and the land is not used for the private pecuniary profit of any individual or individuals, the Valuer-General shall make such reduction in the assessment of the capital and unimproved value of the land to the extent by which, in his opinion, the value is reduced by reason of the limited and restricted purposes to which the land is applied.

This section, which seems quite out of place in the Valuation of Land Act, gives rating relief to certain types of occupier by reducing the rateable value. This provision was first introduced in 1921.

Section 75 of the Rating Act 1925 was amended in 1954 and gives authority to local authorities to remit wholly or in part or postpone for such time as the local authority thinks fit the payment of rates in respect of eight classes of property including the four listed in section 43 of the Valuation of Land Act. The four additional classes are: (1) public reserves; (2) public halls, libraries, museums; (3) creches; and (4) orphanages and old people's homes.

Two similar provisions thus run side by side, one giving relief by reduction in value (the action of the Valuer-General) and the other giving relief by remitting or postponing rates (the action of the local authority). At times there can be conflict between the two separate actions and as the Rating Act provision is wider in its application and can be administered on the spot, the Valuation of Land Act provision is quite unnecessary.

(c) Special empowering Acts, notably the Tauranga County Council Empowering Act 1952 and the Waitemata County Council Empowering Act 1956.

In each instance the Act followed a revaluation of the county concerned and gives the county council authority to reduce the rateable values of certain farm lands for the purpose of making and levying rates. In Tauranga county about 200 properties are given relief in this way. There is a degree of similarity to the Urban Farm Land Rating Act 1932.

42. Provision is also made in sections 74 and 75 (A) of the Rating Act 1925 for remission and postponement of rates.

43. Section 74 gives power for remission of rates either wholly or in part on the petition of any person praying for a remission of rates on the ground of *extreme poverty*.

44. Section 75 (A) (inserted by section 5 of the Rating Amendment Act 1954) authorises local authorities to postpone the payment of rates where payment would cause serious hardship. The postponement may be until the death of the applicant or until he ceases to be the occupier of the property or until a date specified by the local authority. The District Land Registrar registers the certificate of postponement of rates on the certificate of title for the property.

VI. RATING PROBLEMS ENCOUNTERED BY THE VALUATION DEPARTMENT

45. It is inevitable that there be some impact between valuation and rating and from time to time during the course of the Department's operations rating problems come to the fore. The number of local authorities which have indicated to the Department that they have rating problems is, however, quite small, probably not more than a dozen out of the nearly 300 using the Department's valuation roll services.

46. Generally speaking there are four types of problem encountered. The degree to which they exist varies considerably from one local body district to another:

(a) *Hill Country* v. *Flat Country:* This problem arises where a county has tremendous variation in the type of land and where rating is on unimproved value. The rates payable on the hill country which may be valued at from £1 to £5 per acre are very small compared with the rates payable on fertile flats where the unimproved value may be from £50 to £200 an acre. The unimproved value may be only 5 per cent of the capital value in the hill country farm and up to 50 per cent or even more in the case of fertile farms.

This is a situation met in a few counties and the local body reaction is that the hill country properties are being carried by the flats. In counties where riding accounts are operating, the problem appears to be less noticeable than in those counties where riding accounts have been abolished.

However, there can still be a problem even where a county has riding accounts. This is due to the division into ridings not having regard to classes of property. For example, a county could have four ridings each containing all classes of land from fertile flats to poor hill country, whereas the ridings could be better determined by endeavouring to have hill-country ridings and flat-country ridings.

The problem seems to be one of the rating system itself and the only solution possible under existing legislation would be to change to capital value rating. Whilst this would probably solve the "hill *v.* flat" problem it would almost certainly bring in its train a whole lot of new problems of which the next problem to be explained would be one. In these cases neither unimproved value nor capital value rating (nor annual value) as at present defined can be really satisfactory.

Possible solutions, which would, however, require legislative action, appear to be:

(i) To redefine unimproved value as suggested earlier to include such hidden improvements as clearing and stumping. This could, however, solve one problem and create new ones.

(ii) To consider a new method of rating lying in between capital and unimproved value in its effects (e.g., average value).

(iii) To give power to rate on a percentage of the capital value (say 10 per cent or 12½ per cent) in lieu of the unimproved value in the cases of all properties where the unimproved value was less than 10 per cent or 12½ per cent of the capital value.

(iv) To permit counties to reinstate riding accounts coupled with redefinition of riding boundaries.

(b) *Farm Land* v. *Urban Land:* This problem can arise in counties rating on capital value where substantial residential areas probably lacking amenities such as water and sewerage and paying substantially more in rates and getting less in return than are ratepayers in a near-by city or borough. The urban section of the county is carrying more than its fair share of the rating burden to the benefit of the farming areas.

A change to unimproved value rating, whilst it might solve this problem, would possibly create the problem already explained under (a).

Possible solutions appear to be:

(i) Transfer of the urban land to neighbouring borough or city where the land adjoins.

(ii) Formation of county townships.

(iii) A new method of rating lying in between capital and unimproved value in its effects (e.g., average value).

(c) *The Changing Use (Rural to Urban):* This problem exists in counties rating on unimproved value where urbanisation is moving towards productive farm lands and where unimproved values as a result tend to rise above unimproved values based on farming use only. The two counties where this is particularly noticeable are Tauranga and Waitemata and each has endeavoured to solve the problem by means of empowering Acts which give the local authorities concerned the power to grant relief.

An example would be a small farm which with an unimproved value of £3,000 (as a farm) might have an unimproved value of £10,000 when urban potential is considered. The owner wants to continue farming but the rates are a burden. When all authorities have a fully operative zoning scheme under the Town and Country Planning Act 1953, this should cease to be a problem as, if the land is zoned for rural use, it will be given a rural-use value.

Possible solutions (apart from zoning) appear to be:

(i) Permit each county so affected to solve its own problems by means of an empowering Act to grant relief (an expedient only and not a real solution).

(ii) Amend the Valuation of Land Act 1951 to require actual use to be taken into account in assessing capital and unimproved values.

(iii) Introduce a fourth system of rating (e.g., average value).

(iv) Permit county councils to adopt a special rating value based on actual use in cases where they consider the rates would be burdensome. (The Urban Farm Land Rating Act applied to counties).

(d) *The Changing Use (Residential to Industrial/Commercial):* This problem exists in cities rating on unimproved value where commercial and industrial expansion into adjoining residential areas is a feature. The residential areas have usually been zoned for commercial and industrial use and the land has, as a result, acquired an unimproved value in excess of its value for one-unit residences. Generally the residences are old, have been occupied by the owners for many years, and in a number of cases the owners are social security age beneficiaries or persons on fixed incomes. They do not want to leave the house they have lived in so long (often all their married life) and cannot understand why the rates are now so high. This is a social problem as much as a rating one.

On the one hand, it may be said that progress cannot be held up and, as there has been rapid appreciation of land values, the owner would have no difficulty in "cashing in" and buying a suitable residence in a lower rated area. This overlooks the sentimental attachment that the owner has for his property and in fact a forced shift to another locality with the resulting readjustment to new surroundings may be anything but beneficial to the health and happiness of the persons concerned.

On the other hand, a remission of rates or finding a method of valuation which will reduce rates to no more than those paid on residential property, ultimately benefits considerably the owner's heirs.

Where the land is leasehold, the lessee often cannot capitalise on the rapid appreciation of land values. In fact the value of his equity can actually be reduced. Whilst this class of case is limited, there are a few cases known to the Department.

There are so many types and degrees of severity of this problem that no simple solution is obvious. If the extreme cases are taken as the criterion a remedy might be found which would considerably benefit the not-so-deserving cases. Also, whilst the really serious cases usually possess authentic and most pathetic circumstances, I doubt if they are as great in number as is sometimes thought. I am strengthened in this belief by the fact that there has been no great call on the Special Assistance Fund of the Social Security Department to help in such cases. It does seem that the necessitous cases should be met either through the Special Assistance Fund or by extending the present power of a local authority to postpone rates by giving authority to remit a part of the rate bill subject to adequate safeguards.

Giving relief by an adjustment to the rating system is of course possible by requiring an actual-use valuation rather than a best-use one or by permitting local authorities to adopt a special rateable value, but care would have to be taken to see that as a result relief was not given to owners who did not require or deserve it.

VII. COULD RATING METHODS BE IMPROVED?

47. The three existing rating systems have been operating side by side for over 60 years. In that time, apart from minor alterations to the definition of "improvements" in the Valuation of Land Act and the consequent alteration to the meaning of "unimproved value", there has been no amendment to the basis of valuation for rating purposes. Anomalies which none of the three systems as at present operating can correct have been increasing over the years and solutions which have been suggested are:

(a) Amending the definition of unimproved value to incorporate certain hidden improvements. This was recommended by the Local Government Commission in 1956 when reporting to the Minister of

Internal Affairs, but in addition the Commission recommended giving power to local authorities to adjust the new unimproved value (called site value) up or down by 50 per cent for rating purposes.

This latter part of the recommendation apparently did not find favour and as a result the first part passed unnoticed. Some anomalies of unimproved value rating might be corrected by a change of definition.

(b) Where rating is on unimproved value, 15 per cent of the capital value should be the rating value if it exceeds the actual unimproved value. Whilst this may be a solution in cities, large boroughs, and certain counties, it is doubtful if it would be satisfactory for other local authorities. There are over 70 boroughs and town districts where the total rateable unimproved value is less than 15 per cent of the capital value. In these districts probably three-quarters of the properties would be affected by the 15 per cent provision and the remaining one-quarter, including business premises, would benefit accordingly.

In Ohakune borough the rateable values are:

Capital Value	Unimproved Value	Value of Improvements
£438,740	£28,090	£410,650

There are approximately 400 rateable properties, so that an average property would be valued at £1,090 (capital value), £70 (unimproved value). The rate is approximately 3s. 6d. in the pound on unimproved value and instead of rates being based on £70 they would be based on £164. However, the average property is not typical. There are numerous properties with capital values of from £600 to £1,500 with unimproved values of from £25 to £85 and 28 improved properties selected by random sample have an average value of £1,280 (capital value) and £55 (unimproved).

Whilst it is undoubted that this proposal would result in a fairer contribution from blocks of flats in the major centres, a very great number of houses would be affected too, and this would nullify one of the advantages of unimproved value rating that an owner who improves his property is not penalised. For Wellington city the rates for 1957–58 were £4 9s. 4d. per £100 of unimproved value. The following examples show how the proposal would operate:

	Capital Value	Unimproved Value	15 Per Cent of Capital Value	Rates 1957–58	Rates on 15 Per Cent of Capital Value
	£	£	£	£ s. d.	£ s. d.
1 (a)	5,000	600	750	26 16 0	33 10 0
(b)	4,000	600	600	26 16 0	26 16 0
2 (a)	4,000	400	600	17 17 4	26 16 0
(b)	2,700	400	405	17 17 4	18 1 10

If properties 1 (a) and 1 (b) were adjoining properties paying an equal contribution to the city's revenue, the 15 per cent rule does not affect one and increases the other by 25 per cent. Similarly 2 (a) and 2 (b) could be adjoining properties and the 15 per cent rule increases one by 50 per cent and the other by 1¼ per cent.

Commercial property would be in the main unaffected by this proposal although industrial property comprising large buildings on cheap land would be.

(c) Charge a flat per assessment rate first, plus a rate in the normal way to make up the amount required. An example of this is:

Borough rates on unimproved value.
Unimproved value of borough is £1,000,000.
Amount required by local authority £50,000.
There are 2,000 separate rateable properties.

(i) A rate of 1s. in the pound would return £50,000.

(ii) Instead of the rate as in (i) the 2,000 assessments would be charged a flat assessment rate of (say) £10, which would return £20,000. The remaining £30,000 would require a rate of 7·2d. in the pound on the unimproved value of £1,000,000.

This proposal recognises that there are some borough services which are on a "per household" basis and to which all ratepayers should contribute equally. Such services are refuse collection, sewerage, and water (where not metered). A refinement would be to charge a "per dwelling unit" rate so that blocks of flats vary according to the number of units.

There would appear to be merit in this proposal and it does produce the same amount of rates from properties with the same unimproved value. However, sight should not be lost of the fact that it would undoubtedly relieve the rating burden in the commercial area and transfer it to the residential area.

(d) A new system of rating was suggested some years ago by the then County Clerk of Hawke's Bay county and given the title of "average value rating". It can be defined as rating on a value which is the sum of the unimproved value and half the value of improvements. Expressed as a formula this is:

$$\text{Average Value} = \frac{\text{Unimproved Value} + \text{Value of Improvements}}{2}$$

An alternative to this which has somewhat similar effect is to base half the rates on capital value and half on unimproved value.

It has been said that "average value rating is half as good as unimproved value rating and half as bad as capital value rating", but as in some districts neither unimproved value rating nor capital value/annual value rating seem to give the right result, this suggested new method should not be discarded without close scrutiny.

A simple example will perhaps explain the results that would be obtained under existing systems and the suggested systems.

Rateable values in local body district are assumed to be:

Capital value	£3 million.
Unimproved value	£1 million.
Value of improvements	£2 million.

To produce £25,000 requires a rate:

(1) Capital value, 2d. in the pound.
(2) Unimproved value, 6d. in the pound.
(3) Average value, 3d. in the pound (rateable value £2 million).
(4) Alternative system of raising half on capital value and half on unimproved value, 1d. in the pound on capital value and 3d. in the pound on unimproved value.

TABLE 1

Example of above methods applied to properties having a common capital value:

Rateable Values			1	2	3	4
C.V.	U.V.	Improvements	C.V. Rating	U.V. Rating	Average Value Rating	Combination of U.V. and C.V.
£	£	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.
5,000	5,000	. .	41 13 4	125 0 0	62 10 0	83 6 8
5,000	4,500	500	41 13 4	112 10 0	59 7 6	77 1 8
5,000	4,000	1,000	41 13 4	100 0 0	56 5 0	70 16 8
5,000	3,500	1,500	41 13 4	87 10 0	53 2 6	64 11 8
5,000	3,000	2,000	41 13 4	75 0 0	50 0 0	58 6 8
5,000	2,500	2,500	41 13 4	62 10 0	46 17 6	52 1 8
5,000	2,000	3,000	41 13 4	50 0 0	43 15 0	45 16 8
5,000	1,500	3,500	41 13 4	37 10 0	40 12 6	39 11 8
5,000	1,000	4,000	41 13 4	25 0 0	37 10 0	33 6 8
5,000	500	4,500	41 13 4	12 10 0	34 7 6	27 1 8
5,000	100	4,900	41 13 4	2 10 0	31 17 6	22 1 8

Whereas under unimproved value system of rating the range is from £2 10s. to £125, under either of systems 3 or 4 the range is narrower.

TABLE 2

Example of above methods applied to properties having a common unimproved value.

Rateable Values			1	2	3	4
C.V.	U.V.	Improvements	C.V. Rating	U.V. Rating	Average Value Rating	Combination of U.V. and C.V.
£	£	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.
500	500	. .	4 3 4	12 10 0*	6 5 0	8 6 8
1,000	500	500	8 6 8	12 10 0	9 7 6	10 8 4
1,500	500	1,000	12 10 0	12 10 0	12 10 0	12 10 0
2,500	500	2,000	20 16 8	12 10 0	18 15 0	16 13 4
3,500	500	3,000	29 3 4	12 10 0	25 0 0	20 16 8
4,500	500	4,000	37 10 0	12 10 0	31 5 0	25 0 0
5,500	500	5,000	45 16 8	12 10 0	37 10 0	29 3 4
6,500	500	6,000	54 3 4	12 10 0	43 15 0	33 6 8
7,500	500	7,000	62 10 0	12 10 0	50 0 0	37 10 0

Table 2 shows that there is a point where rating on any of the four methods produces identical results. This is at the point where the capital value of a property is three times the unimproved value – the same relationship as is found in the total rateable values for the whole district.

Where the capital value is less than three times the unimproved value, a property benefits from rating being on capital value.

Where the capital value is more than three times the unimproved value, a property benefits from rating being on unimproved value.

Methods 3 and 4 give rating relief to the properties detrimentally affected by the existing system of rating in force in a district and increase the rates on those properties at present favourably treated by the existing system.

This proposal is mentioned in the section of these submissions dealing with rating problems encountered by the Valuation Department where it is included in the list of possible solutions.

(e) Rating on the capital value less the value of the dwelling. This suggestion was made by a county rating on unimproved value and faced with the hill country *v.* flat country problem mentioned earlier. Whilst it might solve that problem, it is considered that it creates a new one in that residential property would be given considerable rating relief. An example will explain this:

(i) *Urban Property*—

Capital Value	Unimproved Value	Value of Improvements
£	£	£
3,000	400	2,600 (including house at £2,400)

The rating value would be £3,000 less £2,400 = £600.

(ii) *Farm Property*—

	Capital Value	Unimproved Value	Value of Improvements
	£	£	£
(a) Fertile flats	12,500	5,000	7,500
(b) Hills	8,000	500	7,500

(each case including house at £2,500)

The rating values would be (a) £10,000; (b) £5,500.

The residential property is considerably better off under this system of rating than it is with either capital value or unimproved value rating.

VIII. SUMMARY

48. There are nearly 300 counties, cities, boroughs, and town districts which rate on valuation rolls supplied by this Department.

49. Any system of rating must produce anomalies. However, the anomalies are not as great or as widespread as might generally be thought and large numbers of local authorities have little in the way of rating problems.

50. Just as it is very convenient to blame the Department when a local authority decides to increase its rate yield following a revaluation, so there is a tendency to put all the blame for rating problems on the operations of the Department. In most districts which have rating problems there are other factors at work to aggravate them.

51. The solution to rating problems is not through altering the valuation system. After all, the present valuation system has become well founded over many years and sight must not be lost of the fact that Government valuations are used for a number of purposes besides rating.

To attempt to solve rating problems solely by amending the valuation system could disrupt the use of valuations for other purposes.

52. It is submitted that the problems are mainly caused by rating systems, not valuations, and that the solution should be by amendments to the rating systems (including the possibility of a fourth alternative system). If further relief is required, this should be met by giving local authorities greater power to remit rates in whole or in part, subject to adequate safeguards.

NON-RATEABILITY

1. Approximately 9 per cent of the capital value of all property assessed on the district valuation rolls prepared by the Valuation Department is shown as being legally non-rateable as far as general rates are concerned.

2. The value of State rental houses is not included in the non-rateable total but other Crown-owned property on which grants in lieu of rates may be being paid (e.g., residential accommodation facing dedicated roads) is included because the totals are compiled having regard to legal liability and without regard to the *de facto* situation. No account either is taken of the Crown's liability to pay special rates in terms of the Local Authorities Loans Act 1956.

3. The position in practice is still further complicated by the fact that in many cases the local authorities will not be treating their own properties, especially those not associated with their trading activities, as rateable.

4. The following tables set out the position as between boroughs and counties and cover the situation in regard to the unimproved value also. The figures are as at 31 March 1957 rounded to the nearest million pounds.

Counties

	Capital Value £	Per Cent	Unimproved Value £	Per Cent
Rateable value ..	948,000,000	91·42	305,000,000	93·85
Non-rateable value ..	89,000,000	8·58	20,000,000	6·15
Gross value ..	£1,037,000,000	100·00	£325,000,000	100·00

Boroughs and Town Districts (Independent)

	Capital Value £	Per Cent	Unimproved Value £	Per Cent
Rateable value ..	1,314,000,000	90·06	337,000,000	90·59
Non-rateable value ..	145,000,000	9·94	35,000,000	9·41
Gross value ..	£1,459,000,000	100·00	£372,000,000	100·00

All Districts

	Capital Value £	Per Cent	Unimproved Value £	Per Cent
Rateable value ..	2,262,000,000	90·63	642,000,000	92·11
Non-rateable value ..	234,000,000	9·37	55,000,000	7·89
Gross value ..	£2,496,000,000	100·00	£697,000,000	100·00

5. The relationship between non-rateable and gross values differs quite a lot as between individual local districts, and figures relating to the four main cities and some counties are set out below. In these districts a break-down between Crown property and other types of non-rateable property is also shown.

Auckland City

	Capital Value	Per Cent	Unimproved Value	Per Cent	Rating System
Non-rateable—	£		£		
Crown ..	7,301,615	3·82	3,443,730	5·22	A.V.
Other ..	8,762,945	4·60	2,781,820	4·22	
Total ..	16,064,560	8·42	6,225,550	9·44	
Gross value	£190,744,215	100·00	£65,970,520	100·00	

Wellington City

	Capital Value	Per Cent	Unimproved Value	Per Cent	Rating System
Non-rateable—	£		£		
Crown ..	12,908,450	8·08	3,870,055	8·58	U.V.
Other ..	8,845,920	5·53	2,219,870	4·92	
Total ..	21,754,370	13·61	6,089,925	13·50	
Gross value ..	£159,782,380	100·00	£45,104,865	100·00	

Christchurch City

	Capital Value	Per Cent	Unimproved Value	Per Cent	Rating System
Non-rateable—	£		£		
Crown ..	3,815,465	2·74	1,213,065	3·05	U.V.
Other ..	8,099,010	5·81	1,749,460	4·40	
Total ..	11,914,525	8·55	2,962,525	7·45	
Gross value ..	£139,429,985	100·00	£39,769,130	100·00	

Dunedin City

	Capital Value	Per Cent	Unimproved Value	Per Cent	Rating System
Non-rateable—	£		£		
Crown ..	3,484,260	4·21	1,302,075	5·93	U.V.
Other ..	8,111,280	9·80	1,275,885	5·82	
Total ..	11,595,540	14·01	2,577,960	11·75	
Gross value ..	£82,773,330	100·00	£21,940,180	100·00	

Devonport Borough

	Capital Value	Per Cent	Unimproved Value	Per Cent	Rating System
Non-rateable—	£		£		
Crown ..	3,849,350	30·75	145,675	6·07	U.V.
Other ..	234,775	1·87	48,900	2·04	
Total ..	4,084,125	32·62	194,575	8·11	
Gross value ..	£12,519,295	100·00	£2,399,925	100·00	

Franklin County

	Capital Value	Per Cent	Unimproved Value	Per Cent	Rating System
Non-rateable—	£		£		
Crown ..	140,565	0·54	46,255	0·51	U.V.
Other ..	691,375	2·68	63,470	0·70	
Total ..	831,940	3·22	109,725	1·21	
Gross value ..	£25,821,910	100·00	£9,050,170	100·00	

Waikato County

	Capital Value	Per Cent	Unimproved Value	Per Cent	Rating System
Non-rateable—	£		£		
Crown ..	1,799,045	6·73	376,835	4·46	C.V.
Other ..	499,805	1·86	37,390	0·44	
Total ..	2,298,850	8·59	414,225	4·90	
Gross value ..	£26,748,780	100·00	£8,454,965	100·00	

Horowhenua County

	Capital Value	Per Cent	Unimproved Value	Per Cent	Rating System
Non-rateable—	£		£		
Crown ..	1,356,835	8·72	108,440	2·17	C.V.
Other ..	267,365	1·72	34,145	0·69	
Total ..	1,624,200	10·44	142,585	2·86	
Gross value ..	£15,553,448	100·00	£4,851,288	100·00	

Paparua County

	Capital Value	Per Cent	Unimproved Value	Per Cent	Rating System
Non-rateable—	£		£		
Crown ..	3,335,095	16·60	604,610	8·71	C.V.
Other ..	655,210	3·26	73,930	1·07	
Total ..	3,990,305	19·86	678,540	9·78	
Gross value ..	£20,088,835	100·00	£6,938,560	100·00	

APPENDIX 15: A STATEMENT BY THE NATIONAL ROADS BOARD

CONTENTS

INTRODUCTION

The National Roads Board was formed on 1 April 1954, and operates under the National Roads Act 1953 and amendments.

This submission deals with the financial operations of the Board over the four years ending 31 March 1958. It should be noted, however, that all figures for 1957–58 are tentative only as final figures are not yet available.

The subject is dealt with in five main parts, namely:

Part I : National Roads Fund – receipts.

Part II : National Roads Fund – expenditure, and its distribution.

Part III: Future policy on distribution of funds.

Part IV: Adequacy of amounts at present made available to local bodies.

Part V : Projected future expenditure.

I. NATIONAL ROADS FUND - RECEIPTS

1. Revenue is received from seven main sources, namely:

   (a) Petrol tax.
   (b) Tyre tax.
   (c) Milage tax.
   (d) Registration and licence fees.
   (e) Heavy traffic fees.
   (f) Government contribution.
   (g) Miscellaneous receipts.

2. *Petrol Tax*—Petrol tax is levied at the rate of 1s. 3¾d. per gallon and the total proceeds of the tax are paid into the National Roads Fund.

Rebates of tax are payable under certain conditions set out in section 62 of the Transport Act 1949.

Proceeds of this tax since 1 April 1954 have been:

	Gross Tax	Rebates	Net Tax
	£	£	£
1954–55	14,242,178	2,198,884	12,043,293
1955–56	15,394,075	2,379,592	13,014,483
1956–57	16,162,124	2,519,833	13,642,295
1957–58	16,942,289	2,346,380	14,595,909

3. *Tyre Tax*—This is levied as a Customs charge on pneumatic rubber tyres and solid rubber tyres, inner tubes, and tyring material and, since the manufacture of tyres commenced in New Zealand, has been of little importance.

Proceeds of the tax since 1 April 1954 have been:

	£
1954–55	28,571
1955–56	27,533
1956–57	22,203
1957–58	30,726

4. *Milage Tax*—This tax is payable on non-petrol-using vehicles, in accordance with a graduated scale set out in the Transport Act 1949.

Proceeds of the tax since 1 April 1954 have been:

	£
1954–55	170,858
1955–56	206,774
1956–57	265,495
1957–58	309,521

There are a number of exemptions from the payment of full milage tax, the main ones being trolley buses, which get a 100 per cent exemption and diesel vehicles which get 40 per cent exemption.

5. *Registration and Licence Fees*—These are payable by all road-using vehicles in accordance with a schedule contained in section 34 of the Transport Act 1949.

These fees have produced the following revenue since 1 April 1954:

	£
1954–55	1,864,972
1955–56	2,076,877
1956–57	2,216,643
1957–58	2,344,336

6. *Heavy Traffic Fees*—These fees are payable by all vehicles over 2 ton weight, in accordance with a graduated scale laid down in the Heavy Motor Vehicle Regulations.

Proceeds of these fees since 1 April 1954 have been:

	£
1954–55	1,974,710
1955–56	2,173,398
1956–57	2,275,174
1957–58	2,420,549

7. *Government Contribution*—Section 22 (3) of the National Roads Act 1953 provides for the payment of £1,000,000 per annum into the National Roads Fund from the Consolidated Fund.

This payment represents the Crown's contribution.

8. *Miscellaneous Receipts*—These represent in the main:

(a) Credits for materials, etc., transferred from works and stock suspense accounts.

(b) Rents on properties.

(c) Disposal of surplus land.

(d) Repayment of advances.

(e) Interest.

They have produced the following revenue since 1 April 1954:

	£
1954–55	96,594
1955–56	122,300
1956–57	155,913
1957–58	141,346

9. *Total Revenue*—The Board's annual revenue has been:

Brought forward from—	£
1953–54	889,406
1954–55	17,178,997
1955–56	18,621,365
1956–57	19,577,722
1957–58	20,842,387

Appendix A sets out the revenue in detail over the four years 1954–55 to 1958–59, together with estimated receipts until 1960–61.

II. EXPENDITURE

10. *General*—The Board's responsibilities are national in character, and briefly its objective is the provision of a national network of Class II highways and roads (together with bridges) of such a standard that the road transport industry can operate efficiently, and at the same time providing conditions satisfactory to the private motorist.

The Board's main attention must of necessity be focused upon the main arterial routes of the country as these naturally carry the heaviest concentrations of national traffic. The main activity is on the State highway system.

Until recent years the central roading authority has confined its direct attention to that portion of the arterial system lying outside the main urban areas. Board policy over recent years has, however, recognised the part that the main urban routes play in the national arterial system, and policy evolution has now resulted in the Board declaring State highways through the larger urban areas as from 1 April 1958. This will be referred to later in the submission.

11. The Board's expenditure can be dealt with under four main headings, namely:

(i) State highways.
(ii) Main highways.
(iii) Subsidies to local bodies.
(iv) Administration and other expenditure.

12. *State Highways*—At 1 April 1957, 5,300 miles of State highways (and motorways) had been gazetted.

One hundred and sixty-four miles were located within the boundaries of boroughs with a population of under 6,000 and 5,136 miles in county areas.

Until 1 April 1958 State highways were not gazetted in boroughs and cities with a population in excess of 6,000 population.

On State highways the Board carries the full cost of expenditure on the carriageway.

Expenditure on State highways has been as follows:

	£
1954–55	7,288,725
1955–56	9,706,601
1956–57	10,477,902
1957–58	8,764,488

With a few exceptions in the case of boroughs, the Board does not delegate its powers on State highways, and all maintenance and construction work is carried out through the agency of the Ministry of Works.

13. *Main Highways*—On 1 April 1957, there were 7,789 miles of main highways declared. One hundred and sixty-two miles were located within the boundaries of boroughs of under 6,000 population; the remaining 7,626 miles being in county areas.

The normal subsidy rate is £3 to £1 on both maintenance and construction, although higher rates are approved when circumstances warrant an increased rate.

In the case of main highways, the Board generally delegates its powers to the local bodies concerned. There are, however, a number maintained by the Ministry of Works, due either to the inability of the local body to provide a proper service (e.g., Peninsula County) or the location or purpose of the particular route (e.g., Te Anau-Milford Main Highway and Lake Pukaki - Hermitage Main Highway). In many cases the Board agrees to the Ministry of Works undertaking a particular work on a main highway where it is beyond the physical resources of the local body.

Expenditure on main highways has been as follows:

	Boroughs Under 6,000	County Areas
	£	£
1954–55	105,922	2,636,191
1955–56	130,419	3,861,907
1956–57	275,134	4,409,649
1957–58	258,609	3,599,351

14. *Subsidies to Local Bodies*—Under statutory requirements and a number of policies, the Board pays a variety of subsidies to local bodies, namely:

(a) To boroughs with a population of 6,000 or more (on population).
(b) To boroughs with a population of less than 6,000 (on population).
(c) To counties on rates collected.

(d) To local bodies for flood damage.
(e) To local bodies for extraordinary damage.
(f) To local bodies for bridge renewals.
(g) To local bodies by way of special grants on account of unfavourable financial conditions.
(h) To boroughs over 6,000 for construction work on arterial routes.
(i) To public bodies for unusual works.

15. *Boroughs (Population Subsidy)*—Section 23 (1) (a) of the National Roads Act 1953 provides that the Board shall pay an annual subsidy of 22s. per head of population to each borough or city with a population of 6,000 or more. The subsidy is based on the population on the 1st day of April of the year of payment, and is made on the certified statement supplied by the Government Statistician.

Payments each year have been:

	Population	Subsidy £
1954–55	1,085,010	1,191,520
1955–56	1,110,670	1,224,359
1956–57	1,093,817	1,203,199
1957–58	1,122,499	1,234,704

(N.B.—1956–57 was based on the population census figures).

16. *Boroughs Under 6,000 (Subsidy on Population)*—Section 23 (1) (b) of the National Roads Act 1953 makes provision for the payment of an annual subsidy of 15s. per head of population to each borough with a population of under 6,000. The subsidy is based on the Government Statistician's certificate of population on 1 April for the year of payment.

This subsidy is 7s. per head less than that for the larger boroughs and cities because the smaller municipalities have the benefit of the State and main highways system.

Payments each year have been:

	Population	Subsidy £
1954–55	260,480	199,198
1955–56	267,990	207,110
1956–57	280,610	216,390
1957–58	285,007	218,653

Subsidies payable under this heading must be spent on roading.

17. *County Councils (Subsidy on Rates)*—Section 2 (1) of the National Roads Amendment Act 1954 requires the payment to county councils of an annual subsidy on the basis of 8s. for each £1 of general rate and special and separate roading rates collected in the previous financial year. Rates levied or collected on behalf of other *ad hoc* authorities are deductible.

These subsidies must be spent on roading.

Payments have been as follows:

	Rates Collected in Previous Year £	Subsidy £
1954–55	4,077,278	1,643,870
1955–56	4,646,298	1,865,804
1956–57	5,109,185	2,047,251
1957–58	5,576,634	2,232,279

18. *Flood Damage*—Flood damage received by local bodies to roads and streets is subsidised. Such subsidies are confined to specific and definable damage such as the replacement of washed out bridges, removal of slips, etc.

Applications from municipalities for assistance under this heading are rare and each case is dealt with on its merits.

In the case of counties, however, the Board has ruled that the county must spend from its own funds in any one year the equivalent of $2\frac{1}{2}$ per cent of its general rate and separate and special roading rates before flood damage subsidies are paid. Expenditure over this figure is subsidised on a £2-for-£1 basis (or higher in special cases).

Payments over previous years have been as follows:

	Boroughs Over 6,000	Boroughs Under 6,000	Counties
	£	£	£
1954–55	..	..	97,499
1955–56	..	386	86,696
1956–57	4,442	414	181,456
1957–58	680	224	155,211

19. *Bridge Renewals*—Special subsidies are made available to all local bodies for the renewal of existing bridges on roads and streets. They are as follows:

To cities, boroughs over 6,000 .... £1 for £2.
To counties, and boroughs under 6,000 ...... £3 for £2.

(N.B.—New bridging on roads and streets is not subsidised from the National Roads Fund. Subsidies for new bridging of a development nature are available from the Consolidated Fund Roads Vote).

Certain districts or local bodies are confronted with a major difficulty in so far as bridging is concerned, and special subsidy rates in excess of normal have been approved (e.g., Northland counties and Gisborne city).

Expenditure from the Fund has been:

	Boroughs Over 6,000	Boroughs Under 6,000	Counties
	£	£	£
1954–55	500	14,584	133,356
1955–56	37,586	3,673	273,173
1956–57	51,887	5,970	411,937
1957–58	34,585	9,797	499,579

20. *Special Grants*—Special grants are made to some local bodies for pecific works on account of either special conditions relating to the vork itself or to offset unfavourable financial conditions pecular to he local body.

In municipal areas, for instance, there is a number of new and ast-growing boroughs, such as East Coast Bays and Tawa Flat, which re faced with the problem of heavy development expenditure, but no stablished developed areas from earlier years to provide any financial rength. Assistance for roading has been granted in such cases.

Similarly, in rural areas there are counties whose geographic situaon or climatic conditions have proved a barrier to development and nancial strength. Rating on Maori land has made difficulties in her areas.

Assistance under this heading has been paid as follows:

	Boroughs Over 6,000	Boroughs Under 6,000	Counties
	£	£	£
1954–55	6,961	15,779	98,674
1955–56	13,685	40,076	181,823
1956–57	76,145	61,411	190,329
1957–58	207,414	40,736	164,282

21. *Boroughs over 6,000 (Subsidies for Construction Work on Arterial Routes)*—In 1956 the Board decided that it would subsidise approved construction works in the larger municipalities (i.e., over 6,000 population) provided such works resulted in the improved carrying capacity of those routes which could be considered as extensions of the already existing State highway system.

Whilst a number of schemes were approved with £3 for £1 subsidies, expenditure has not been heavy:

	£
1956–57	16,573
1957–58	62,698

This policy was not achieving the results hoped for by the Board, particularly in the larger urban areas, and as a result has been replaced from 1 April 1958 by the declaration of State highways through some of the municipalities with a population in excess of 6,000.

22. *Grants to Public Bodies for Unusual Works*—Under section 4 of the National Roads Amendment Act 1956 the Board is empowered to make assistance available to any public body for roading purposes. The section has only been used once to date to provide a contribution to the Auckland Harbour Bridge Authority for the northern approaches to the harbour bridge.

23. *Administration and Other Expenditure*—The main items of expenditure under this heading are:

(a) The administration charge payable to the Ministry of Works.

(b) Revenue collection expenses.

(c) Purchases of Bailey bridging steel, etc.

The payments can be summarised as follows:

	Ministry of Works	Bridging	Collection Expenses	Other	Total
	£	£	£	£	£
1954–55 ..	750,000	..	218,701	139,192	1,107,893
1955–56 ..	875,805	104,810	243,191	158,578	1,382,384
1956–57 ..	1,057,056	331,653	286,808	115,306	1,790,823
1957–58 ..	944,622	357,768	278,385	93,210	1,673,985

24. *Total Expenditure*—The annual total expenditure since 1 April 1954 has been:

	£
1954–55	14,616,544
1955–56	19,198,671
1956–57	21,731,099
1957–58	19,771,913

Appendix B summarises the expenditure for these years, together with programme figures until 1960–61.

III. FUTURE POLICY

25. *General*—As indicated earlier in the submission, the Board's prime objective is the provision of a national highway system. The national arterial routes are its main concern, and per means of subsidies to local bodies it is building up the standards of the outer network. Its main objective and purpose is the provision of a roading system, and it is not, as many think, the distribution of funds to local bodies. The Board's funds are, of course, provided largely from motoring sources, and as the development of roading also involves a financial contribution from local resources, the Board is careful to ensure that there is an equitable balance between the interested parties.

The effects of the Board's activities have been under continual and critical review over a long period, but it will be appreciated that activities over a number of years must be studied before trends become apparent. Although four years have elapsed since the Board was formed, only during the past 12 months has it been possible to study the effects of the first three years' operation in so far as local bodies are concerned.

From the reviews carried on to date it is apparent that some anomalies do result from the operations of the present legislation. When compared, however, with the cost of the vast undertakings being successfully put through by the Board they are quite small in value. It is the Board's opinion that any attempt to hurriedly remove these anomalies could quite easily lead to others of equal value in other directions.

Present statistics made available through the Government Statistician do not provide a very true position in so far as roading expenditure is concerned. The Board looks on roading expenditure as that incurred on the carriageway. Present information supplied by local bodies is known to include such activities as lighting, sweeping and cleaning, footpaths, grass cutting, and even carnival decorations. Until these extraneous activities can be extracted, the Board hesitates to base any new system on present information. A uniform system of local body accounting, particularly in so far as roading expenditure is concerned, is considered to be a pre-requisite of any major change.

The intentions behind the present legislation are that subsidies paid by the Board, particularly those on rates and population, should supplement local revenues for the benefit of the roading system. The legislation requires that the subsidies must be spent on roading, and the hopes behind the enactment were that they would be matched from local resources.

The Board agrees that the only way to achieve this effectively is to subsidise expenditure on carriageways. The adoption of this policy will, however, require:

(a) Uniformity in local body accounting, together with the adoption of a Roading Account in which are credited both National Roads Board subsidies and local contributions from rates, etc.

(b) The raising of loans for purely roading purposes. At present many local bodies follow the practice of raising "Works Loans" covering a variety of works from pavilions to street works. From present local body accounts, particularly municipalities, it is impossible to ascertain the extent of roading loan charges.

(c) The Board having the right to fix an upper limit for the subsidies payable to any local body in any one year.

26. *State Highways in Cities*—A major policy change becomes effective as from 1 April 1958. This is the decision to declare as State highways those routes through the larger municipalities which can be considered extensions of the national arterial network.

As a result the Board will be accepting full financial responsibility for all carriageway maintenance and construction of approximately 110 miles of streets.

Annual maintenance expenditure is estimated to cost £300,000 per annum. Construction expenditure is expected to average £1,500,000 per annum by 1959–60, increasing thereafter.

Those local bodies which will be affected by this policy change are the ones which are facing the heaviest roading expenditure because of increased traffic without any commensurate increase in *per capita* allowance. The new policy takes care of all the worst examples, and any secondary examples not covered can be met by special grants for special purposes. By this policy the Board is taking the initiative in accepting responsibility for seeing that attention to the principal roads in the country forming the skeleton of the roading system are given priority.

Whilst the maintenance of the State highways through the larger municipalities can be looked upon as a relief, the capital expenditure proposed by the Board will be an addition to the construction expenditure already being met.

27. *Per Capita Subsidy: Boroughs Under 6,000*—From the study already made there is a realisation that small boroughs under 6,000 are not as favourably placed as was previously believed, even though they have the benefits of the State and main highway system. The Board has therefore decided to recommend to the Government that the *per capita* subsidy for the boroughs with a population of under 6,000 should be increased from 15s. to 22s. per head as from 1 April 1958. This is estimated to cost £100,000.

28. *Allocation Between Interested Parties*—The cost of providing and maintaining the roading system should be spread over those who benefit either directly or indirectly. It is not easy to determine the extent to which the general taxpayer, the land owner, and the road user should share the cost, but we can be guided by the general worldwide thought on the subject, and this follows the formula that one-third of the cost should be applied by each section.

The National Roads Act has been so arranged that the contribution of the general taxpayer and the road user have been merged. In New Zealand, therefore, we are only concerned with the division between the central authority and the local authorities or land owner which could follow world precedent proportioning of 66⅔ per cent to 33⅓ per cent.

The Board has no overall directive powers in so far as local body contributions are concerned, and the land owner's contribution is, therefore, largely governed by local considerations. The Board, on the other hand, places most emphasis and effort on the State highways (or arterial routes) and these are divorced from both local politics and financial considerations. These factors tend to override any "allocation between interested parties".

Figures since 1 April 1954 show the following position in so far as New Zealand is concerned:

	National Roads Board £ (million)	Per Cent	Local Body £ (million)	Per Cent
1954–55	13·44	72	5·23	28
1955–56	17·65	72	6·81	28
1956–57	19·96	74	7·12	26
1957–58	17·82	71	7·12	29

(N.B.—The National Roads Board figures are subject only to minor adjustment. The local body figure for 1957–58 has been assumed as being the same as 1956–57, but it most likely would be higher.)

A breakdown of these figures into the major local body groups shows the effect of Board policy.

In rural areas the Board's endeavours to have the main State highways brought up to standard show percentages which are more favourable to the landowner than the overall figures.

	National Roads Board £ (million)	Per Cent	Local Body £ (million)	Per Cent
1954–55	11·8	79	3·1	21
1955–56	15·8	79	4·0	21
1956–57	17·8	81	4·1	19
1957–58	15·6	79	4·1	21

When it is realised that these figures include such projects as the Northcote-Albany Motorway (north from Auckland Harbour Bridge), new access to Mt. Maunganui, the southern outlet (Auckland), Blenheim Road (Christchurch), and the Dunedin-Waitati Motorway, which are not strictly "rural" in character, the landowners' contribution becomes nearer to average.

The larger municipalities on the other hand, without the addition of the examples quoted in the last paragraph, have shown a much higher landowner contribution, as shown in the following table:

	National Roads Board £ (million)	Per Cent	Local Body £ (million)	Per Cent
1954–55	1·2	43	1·6	56
1955–56	1·3	37	2·2	63
1956–57	1·4	37	2·3	63
1957–58	1·5	39	2·3	61

The effects of the new policy (i.e., the declaration of State highways through cities and boroughs) should, however, adjust these percentages materially.

Relief from maintenance will reduce the landowners' contribution by £300,000 to £2 million. It will increase the National Roads Board contribution to £1·8 million. Construction of these routes will increase the Board's contribution by £1·5 million to £3·3 million. Construction activity is likely to reduce the local contribution by at least £200,000 per annum and the percentages should be therefore more towards the following:

National Roads Board	Local Body
£ 3·3 million	£ 1·8 million
64 per cent	36 per cent

It is also pointed out that the municipal figures for roading expenditure include footpath sweeping and other activities and could be reduced by as much as 20 per cent on this account.

Such a reduction would have the effect of increasing the Roads Board contribution to something like 69 per cent, with the local authority contribution dropping to 31 per cent.

These are merely facts and, as has been emphasised previously, the Board's objectives do not include arriving at a formula for accurately apportioning subsidies between local bodies but rather to follow a national policy based on roading needs whether they exist in urban or rural areas. For instance, the Board's participation in promulgating Auckland's metropolitan roading plan does not mean particularly that the Board is attempting to readjust roading subsidies within the Auckland metropolitan area, but is following a policy of providing important new thoroughfares that will be used by contributors to roading funds from a much wider periphery. In other words, it is regarded as a national undertaking.

IV. ADEQUACY OF AMOUNTS AT PRESENT AVAILABLE TO LOCAL BODIES

29. This question resolves itself into one of the degree to which road improvement work should be carried out. The basic essential is to have roads that satisfactorily support the vehicles that move over them. The next stage in the improvement work is to increase running efficiency by reducing wear and tear on vehicles as well as road maintenance costs. And lastly to still further improve the roads so that any deleterious effects resulting from road usage will be removed and so improve conditions for travellers or residents.

Every local authority will have a different combination of achievement in these directions, and therefore it is difficult to answer the question with one overall statement.

The older well-established boroughs with extensive built-up areas and the counties containing the more easily developed valuable land will be more than adequately provided for by the present distribution of roading subsidies.

At the other end of the scale are those boroughs which have sprung up or extended over recent years where all the amenities of urban life have to be provided at one time at great cost, which probably has to be spread over a community of a young age group. Commensurate with this problem is that of the county which through poor access or much crossing of waterways or poor geological formation is struggling to get even past the first stage in roading development and has little scope in rallying local finance to accelerate progress. The Board recognises their position and endeavours to assist them by special assistance.

In between these two limits are those boroughs and counties which would be regarded as normal and where the present arrangements amended as suggested in the proposals now before the Board should leave the local bodies in the position where they can bring the standard of roading to a good average standard.

Generally speaking it is felt that present moneys available to local bodies are sufficient.

V. PROJECTED FUTURE RECEIPTS AND EXPENDITURE OF THE BOARD ARE INCORPORATED IN APPENDICES A AND B

APPENDIX A

National Roads Fund: Actual and Projected Future Receipts

—	Actual 1954–55	Actual 1955–56	Actual 1956–57	Actual 1957–58	Projected 1958–59	Projected 1959–60	Projected 1960–61
	£	£	£	£	£	£	£
Petrol tax	12,043,293	13,014,483	13,642,295	14,595,909	15,200,000	15,400,000	15,900,000
Registration fees	1,864,972	2,076,877	2,216,643	2,344,336	2,400,000	2,450,000	2,500,000
Heavy traffic fees	1,974,710	2,173,398	2,275,174	2,420,549	2,500,000	2,500,000	2,550,000
Tyre tax	28,571	27,533	22,203	30,726	25,000	25,000	25,000
Milage tax	170,858	206,774	265,495	309,521	340,000	360,000	390,000
Government contribution ..	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Miscellaneous receipts ..	62,510	80,550	132,330	123,846	150,000	150,000	150,000
Interest	34,083	41,750	23,583	17,500	15,000	15,000	15,000
	17,178,997	18,621,365	19,577,723	20,842,387	21,630,000	21,900,000	22,530,000
Special petrol tax	889,406	..	..	..	..	..	..
Balance brought forward ..	..	3,451,859	2,874,553	721,176	1,791,650	1,401,647	981,647
	18,068,403	22,073,224	22,452,276	21,563,563	23,421,650	23,401,647	23,611,647

APPENDIX B

National Roads Fund: Actual and Projected Future Expenditure

—	Actual 1954–55	Actual 1955–56	Actual 1956–57	Actual 1957–58	Projected 1958–59	Projected 1959–60	Projected 1960–61
	£	£	£	£	£	£	£
Highways	10,030,838	13,698,927	15,162,686	12,622,448	14,057,079	13,800,000	13,800,000
Population and rate subsidies ..	3,034,587	3,297,242	3,466,840	3,685,637	3,800,000	3,850,000	3,900,000
Municipal roads State highways	..	..	16,573	62,698	1,050,000	1,550,000	2,300,000
Subsidised highways	..	..	..	324,448	150,000	..	..
Government roads	36,454	119,839	149,124	128,102	120,000	150,000	150,000
Extraordinary damage ..	39,419	61,150	110,311	162,087	150,000	150,000	150,000
Flood damage	97,499	87,081	186,312	156,115	200,000	200,000	200,000
Special assistance	121,414	235,609	377,955	412,432	300,000	500,000	500,000
Bridge renewals	148,440	314,439	469,794	543,961	710,000	600,000	600,000
Steel and Bailey	96,857	104,810	331,653	357,768	100,000	..	..
Ministry of Works administration	750,000	875,805	1,057,056	944,622	1,050,000	1,100,000	1,160,000
General expenses	9,797	12,276	12,896	15,838	15,000	20,000	20,000
Purchase of plant	27,118	105,495	89,121	75,093	50,000	60,000	60,000
Advances	3,614	39,000	10,202	..	5,000	10,000	10,000
Toll gates, etc.	1,807	1,807	3,087	595	..	..	..
Collection expenses	218,701	243,191	286,808	278,385	330,000	330,000	340,000
Unauthorised	..	2,000	681	1,684	5,000	..	..
	14,616,545	19,198,671	21,731,099	19,771,913	22,092,079	22,320,000	23,190,000
Balance carried forward ..	3,451,859	2,874,553	721,176	1,791,650	1,329,571	1,081,647	421,647
	18,068,404	22,073,224	22,452,275	21,563,563	23,421,650	23,401,647	23,611,647

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R – denotes Report.
A – with numeral denotes Appendix and Appendix No.

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