

St. John's, September 9, 1948

Your letter of 8 September.[†]

...
 3. I attach, for the consideration of the Delegation, notes by Finance Department on financial questions arising from Confederation, together with sketch provincial budgets[†] for the first two years of union and explanatory notes thereon. The notes are confined to general budgetary questions or matters for which Finance Department is responsible but Note 3 deals with general financial points affecting most departments. It is assumed that financial points affecting particular services (e.g. Fisheries Board, Railway, Gander) will be submitted by the responsible departments.

W. M. MARSHALL

[PIÈCE JOINTE/ENCLOSURE]

Mémorandum du ministère des Finances de Terre-Neuve
Memorandum by Department of Finance of Newfoundland

1. *Newfoundland Government Surplus.*

The arrangements proposed by the Canadian Government provide (paragraph 9) that the whole of the accumulated surplus (now amounting to approximately \$28 million) will be made available, under prescribed conditions, to the Province for maintenance or improvement of Government services or for developmental purposes. As such expenditure must be met in dollars, the arrangements can be made fully effective only in so far as the surplus is held in dollars. But \$3.2 million is held in sterling against redemption of sterling debt for which the Province will be responsible, \$7.2 million is represented by interest-free loans to the United Kingdom, while nearly \$6 million, arising from fish sales, is in blocked sterling deposits held against redemption of the 3% Guaranteed Sterling Stock. By the end of 1948-49 the last item may increase to nearly \$12 million and the dollar portion of the surplus may be little more than \$5 million.

It will be observed from the figures submitted in Note 3 that the Provincial Budget will be in deficit from the outset and the Delegation will doubtless wish to press Canada to arrange for the whole of the surplus to be made available in dollars. In this connection the following points may be borne in mind:

(a) *Interest-free loan.* Including \$1.8 million derived from war-time borrowing, the outstanding balance of the interest-free loan to the United Kingdom is now \$9 million. This is repayable in Canadian dollars on demand, and this fact was confirmed by the Secretary of State when he met the delegation from the National Convention in April, 1947.

(b) *3% Guaranteed Sterling Stock.* Under the "proposed arrangements" Canada undertakes to assume responsibility for the servicing and retirement of the 3% Guaranteed Stock. By the end of the current financial year the total of the interest-free loan plus the blocked sterling deposits held for redemption of the Stock may be \$21 million, which is equivalent to approximately one-third of the net outstanding amount of Stock after allowing for the sinking fund. The Stock is