

1901.  
NEW ZEALAND.

# PUBLIC ACCOUNTS COMMITTEE.

## NEW ZEALAND MIDLAND RAILWAY:

REPORT ON THE PETITIONS OF J. H. B. COATES (Nos. 132 AND 263, 1900) AND NORMAN H. M. DALSTON (No. 267, 1900), TOGETHER WITH MINUTES OF EVIDENCE.

*Laid upon the Table of the House, 5th November, 1901, and ordered to be printed.*

### ORDERS OF REFERENCE.

*Extracts from the Journals of the House of Representatives.*

WEDNESDAY, THE 3RD DAY OF JULY, 1901.

*Ordered*, "That a Committee, consisting of ten members, be appointed to examine into and report upon such questions relating to the Public Accounts as they may think desirable, or that may be referred to them by the House or by the Government, and also into all matters relating to the finances of the colony which the Government may refer to them; five to be a quorum: the Committee to consist of Mr. J. Allen, Mr. Fisher, Mr. W. Fraser, Mr. Graham, Mr. Guinness, Mr. Morrison, Mr. Palmer, Captain Russell, Hon. Sir J. G. Ward, and the mover."—(Rt. Hon. R. J. SEDDON.)

THURSDAY, THE 10TH DAY OF OCTOBER, 1901.

*Ordered*, "That the Public Accounts Committee be directed to report on the petitions of the debenture-holders and the shareholders of the Midland Railway, and that the report of the Royal Commission on the Midland Railway be referred to the said Committee for the purpose of enabling the Committee to decide in respect to the said petitions."—(Rt. Hon. R. J. SEDDON.)

## REPORT.

THE Public Accounts Committee, to whom the above-mentioned petition was referred for consideration, have the honour to report as follows:—

That, although the colony has received injury by the non-completion of the contract and the action of the debenture-holders, and notwithstanding the colony's proved legal rights, still, in consideration of the losses the debenture-holders and shareholders of the Midland Railway have sustained, and taking into the computation all moneys that have been paid by the debenture-holders or the company pursuant to demands made by the Crown, and also all profits that have been derived from the working of the open sections of the railway during the period between the seizure and the vesting in the Crown, the Committee have the honour to recommend,—

That the sum of £110,000 be offered to the Receiver for the debenture-holders, on condition that he gives a receipt on behalf of the debenture-holders setting forth that the colony has dealt equitably and justly, and that he is fully satisfied on their behalf.

That a sum of £20,000 be offered on similar terms to Mr. Dalston on behalf of the shareholders.

That a Bill be passed this session to give effect thereto, with such conditions as may be deemed advisable to completely safeguard the interests of the colony.

That each debenture-holder and each shareholder shall give a receipt to the Receiver and the attorney for the company for the money, stating that the colony has dealt equitably and justly with him, and that he is fully satisfied.

4th November, 1901.

GEO. FISHER, Chairman.

### PETITIONS, AND REPORT OF COMMISSION.

[For Petitions *vide* I.—11, 1900.]

[For Report of Royal Commission *vide* H.—2, 1901.]

# MINUTES OF PROCEEDINGS.

TUESDAY, 29TH OCTOBER, 1901.

The Committee met pursuant to notice.

*Present:* Mr. J. Allen, Mr. Fisher (Chairman), Mr. W. Fraser, Mr. Graham, Mr. Guinness, Captain Russell, Rt. Hon. R. J. Seddon, Hon. Sir J. G. Ward.

A letter from the Under-Secretary for Public Works, relative to the New Zealand Midland Railway Accounts, was read as follows:—

Public Works Department, Wellington, N.Z., 28th October, 1901.

SIR,—

*Midland Railway Accounts.*

I have the honour to acknowledge the receipt of your letter of 23rd instant asking for a return in detail of the amounts paid by the Midland Railway Company, or its debenture-holders, to the Government in pursuance of demands made upon the company under sections 123 and 125 of "The Railways Construction and Land Act, 1881," and in reply to transmit to you herewith a return giving the information asked for.

In reply to the questions contained in the footnote to your letter, I have to state that, in my opinion, the sum of £7,331 3s. 9d. should not be added to the amount of £50,242 19s. 3d. referred to in the memorandum signed by myself on behalf of Mr. H. D. Bell, and appearing on page 159 of Parliamentary Paper H.-2. of the current session. The several sums making up the £50,242 19s. 3d. were utilised by the Government in carrying on construction work upon the railway, but the £7,331 3s. 9d. (though possibly fairly chargeable to a capital account had such an account existed) was expended upon protective works, rolling-stock, signals, and improvements on the *opened sections of the railway*. This expenditure was necessary for the preservation and operation of the railway in order to enable it to earn the revenue with which it has been credited, and had nothing to do with the new construction works beyond the end of the opened line.

I have, &c.,

H. J. H. Blow,

Under Secretary.

The Chairman, Public Accounts Committee, House of Representatives.

[Enclosure.]

*New Zealand Midland Railway.*

RETURN showing amounts paid by the New Zealand Midland Railway Company or the debenture-holders pursuant to demands made by the Government after the Government took possession of the railway: 12th October, 1896, £4,463 17s.; 27th January, 1897, £12,845 5s. 6d.; 2nd September, 1897, £6,954 8s.; 26th January, 1898, £13,613 4s. 7d.: total, £37,876 15s. 1d.

Net receipts from working the opened sections of the railway from date of seizure until the line became vested in the Crown. (See Exhibit No. 2, Parliamentary Paper H.-2. of 1901); £12,366 4s. 2d.

Total receipts: £50,242 19s. 3d.

Public Works Office, 28th October, 1901.

G. J. CLAPHAM, Accountant.

MONDAY, 4TH NOVEMBER, 1901.

The Committee met pursuant to notice.

*Present:* Mr. Fisher (Chairman), Mr. J. Allen, Mr. W. Fraser, Mr. Graham, Mr. Guinness, Mr. Palmer, Captain Russell, Right Hon. R. J. Seddon, and Sir J. G. Ward.

The minutes of the previous meeting were read and confirmed.

Messrs. Coates and Dalston were present and examined, their evidence being taken down by a shorthand writer.

Mr. Fisher moved, and the question was proposed, That the Committee has no recommendation to make.

And the question being put, the Committee divided, and the names were taken down as follow:—

*Aye*, 1.—Fisher.

*Noes*, 6.—Fraser, Guinness, Palmer, Russell, Seddon, Ward.

So it passed in the negative.

Motion made, and question proposed, That the sum to be offered be £130,000.

And the question being put, the Committee divided, and the names were taken down as follow:—

*Ayes*, 5.—Fraser, Guinness, Palmer, Russell, Ward.

*Noes*, 4.—Allen, Fisher, Graham, Seddon.

So it was resolved in the affirmative.

*Resolved*, That the sum of £130,000 to be offered be divided as follows: £110,000 to the debenture-holders, and £20,000 to the shareholders.

*Resolved*, That the Committee do make the following Report to the House:—

That, although the colony has received injury by the non-completion of the contract and the action of the debenture-holders, and notwithstanding the colony's proved legal right, still, in consideration of the losses the debenture-holders and shareholders of the Midland Railway have sustained, and taking into the computation all moneys that have been paid by the debenture-holders or the company pursuant to demands made by the Crown, and also all profits that have been derived from the working of the open sections of the railway during the period between the seizure and the vesting in the Crown, the Committee have the honour to recommend that the sum of £110,000 be offered to the Receiver for the debenture-holders, on condition that he gives a receipt on behalf of the debenture-holders setting forth that the colony has dealt equitably and justly, and that he is fully satisfied on their behalf. That a sum of £20,000 be offered on similar terms to Mr. Dalston, on behalf of the shareholders. That a Bill be passed this session to give effect thereto, with such conditions as may be deemed advisable to completely safeguard the interests of the colony. That each debenture-holder and each shareholder shall give a receipt to the Receiver and the attorney for the company for the money, stating that the colony has dealt equitably and justly with him, and that he is fully satisfied.

The Committee then adjourned.

[NOTE.—There being no quorum present at the next and final meeting of the Committee, on the 7th November, these minutes were not confirmed. The members present at the final meeting were—Messrs. J. Allen, Fisher, and Graham.—GEO. FISHER, Chairman.]

## MINUTES OF EVIDENCE.

MONDAY, 4TH NOVEMBER, 1901.

JAMES HUGH BUCHANAN COATES in attendance and examined. (No. 1.)

1. *The Chairman.*] You are Receiver and representative of the debenture-holders of the Midland Railway?—Yes.
2. Have you received a copy of the report of the Midland Railway Commission, and do you know its contents?—I have received a copy of the report, and know its contents.
3. *Rt. Hon. R. J. Seddon.*] You are the petitioner?—Yes.
4. On behalf of the debenture-holders?—Yes.
5. You have noticed that the House has decided to refer the petition, together with the report of the Royal Commission, to the Public Accounts Committee?—Yes.
6. You have stated to the Chairman that you have received a copy of the Report of the Royal Commission?—Yes.
7. Is there anything you would like to say to the Committee in reference to the matter?—In regard to the Report of the Royal Commission?
8. You appeared before the Committee on a previous occasion, and you were represented by counsel, who addressed the Committee, and the result was the setting-up of a Royal Commission?—Yes.
9. Have you anything to say now with regard to the matter?—I should like to explain what I interpret the finding of the Commission to be. It is very plain that the report of the Commission is limited by the strict conditions which were submitted to it. I am quite satisfied with the labour which was taken by the Commission, and that their finding was in accordance with the evidence which was brought before them. The interpretation, as it appears to me, is this: that the reasonable cost of the construction of the railway was £674,784, and of this sum £313,000 was provided by the colony—at least, it was produced from the land given by the colony as a premium to encourage the company to carry on the work. This leaves a sum of £361,724 which has been provided by the debenture-holders. The result is that a constructed railway is now in the hands of the colony for which no equivalent has been given to the debenture-holders for their expenditure of £361,724. I am now speaking as to the finding of the Commission. In addition to this amount, there are two sections of the railway which have been valued at nil—the Springfield Section and the Nelson-Motupeko Section—on which a sum of £124,000 was expended by the debenture-holders. The selling-value which has been estimated by the Commission, based on the conditions laid down, is £192,833. I am satisfied that on the conditions which were set forth in the Commission this sum may be considered the reasonable selling-value. I have nothing further to say, except I earnestly hope that, after four years of negotiations for settlement of this matter, the Committee will be able to arrive at some final decision based on the findings of the Royal Commission. Of course, I appear before you as a suppliant, and have no legal standing whatever. On the whole, I recognise that the best has been done to arrive at an equitable finding by the Commissioners, although, as I said at first, the conditions laid down were very restricted. Nevertheless, as a suppliant, I can say no more than that I accept the finding of the Commission, and shall be glad if the Committee will come to a final decision, and in the interests of all concerned have the question settled this session. I shall be pleased to answer any questions.
10. You have noticed that in one part of the report of the Commissioners there is a reference to a sum of £192,000?—Yes; that is the selling-value to which I have referred.
11. In reference to that £192,000, there is a summing-up by the Commission?—Yes; you mean with regard to the division.
12. Have you anything to say as to that?—Well, my view of that finding is that the apportionment of it is in favour of the Crown. However, I have already said that I am satisfied with the finding. If you ask me do I consider there is anything to be put against that I will say——
13. I did not ask you anything upon that point. You did not mention it in your evidence in chief?—No.
14. There is nothing at all put there as regards the company?—No.
15. If the debenture-holders are losers and the Government are losers, the shareholders are also losers?—Yes.
16. Then, putting a hypothetical case, if the Commission find that there is so much to be given to the debenture-holders and so much to the Government, there is nothing to be given to the company?—Yes; that is the finding of the Commission.
17. Anything to say on that point?—As to whether it was justified in not apportioning anything to the company?
18. If we are all losers?—Yes; very heavy losers, but my first care is for the debenture-holders. I do not represent the company.
19. Have you anything to say on that point?—No. The debenture-holders are in quite a different position as creditors of the company. Mr. Dalston represents the company. I have petitioned for equitable consideration on behalf of the debenture-holders, and not on behalf of the company.
20. In your evidence in chief in regard to that point you say you are satisfied with the finding of the Commission?—Yes.
21. That is, interpreting your evidence on that point, £126,000 is what you are satisfied with?—Yes. That is the finding of the Commission under the terms laid down. The selling-value of £192,000 is reasonable, and the apportionment thereof is also reasonable.
22. Is that what you meant when you said the finding was satisfactory?—Yes.

*The Chairman* : Mr. Coates has expressed himself with regard to the finding of the Commission, and, to my mind, he is very clear ; but if there is any part of his explanation which is not clear to any member of the Committee, perhaps he will ask Mr. Coates a question on the point.

*Mr. J. Allen* : I understood Mr. Coates to say in one part of his evidence that he represented all the interests, but he modified that afterwards.

*The Chairman* : Yes. He disclaimed any connection with the company. He said that Mr. Dalston represents the company, and had absolute power to deal with regard to their interests.

24. *Mr. J. Allen.*] You have power to deal with regard to the interests of the debenture-holders without reference Home?—My solicitor advises me it is so. Mr. Young, who was Receiver in England, has been ordered by the English Court to close his receivership, and I am now the sole representative of the debenture-holders' interests.

25. *Hon. Sir J. G. Ward.*] Regarding the debenture-holders, Mr. Coates, there have been statements made—I do not know whether it is within your knowledge—that many of the present debenture-holders are not original debenture-holders?—It has been so said.

26. It is a material point: do you know whether it is so?—I have not a list of the debenture-holders. I believe some of the debentures have been sold, but not very many. Most of the original debenture-holders are still on the list.

27. So, if relief is given, it would be relief to the original debenture-holders?—To the majority of them.

28. *Mr. W. Fraser.*] I was not quite clear upon one point. Do I understand you to say, Mr. Coates, that the powers which you hold from the debenture-holders would warrant you in completing anything which would commit them, without reference to them?—My solicitor has always informed me, and still informs, that I have complete authority to deal finally with the settlement of this matter.

29. *Mr. Guinness.*] Are you prepared, without any reference to the debenture-holders, to accept any offer which may be made to you by the Crown? Are you prepared to bind the debenture-holders without any further reference to them?—Yes. I may say I am advised it is my duty to do so, and I am prepared to agree to a settlement. I have no legal standing whatever, but appeal to the colony for just consideration for the debenture-holders. I have done my best to set forth their claims.

30. And to give a final discharge?—That I am prepared to do in such form as may be required by the Crown.

31. For the amount which you consider represents the interests which you represent?—Yes. I feel the colony will not stand on their technical rights, but will recognise and not ignore the undoubted moral claims of the debenture-holders. I cannot legally demand anything, and I am prepared to accept what the colony considers fair and reasonable.

*The Chairman* : Mr. Coates has expressed himself as satisfied with the finding of the Commission, and has placed himself in the hands of this Committee.

32. *Mr. Graham.*] And, further, that he has no legal position, and that he will accept any reasonable offer as a final discharge on the part of the debenture-holders?—[*Mr. Coates*] Yes.

33. *Rt. Hon. R. J. Seddon.*] I wish to ask Mr. Coates whether he has heard that debenture-holders, who have appealed to us as suppliants, have endeavoured to injure the credit of the colony?—I have heard of it, and I have read of it in the Press. I complained to the late Receiver in England as to the action which was taken, as I considered it was not to the interests of the debenture-holders whom I represented. I felt that it was very improper, and expressed myself strongly on that point. I may add that this action was only confined to a small section of the debenture-holders, and not by any means by a majority of them. I am sure the Government will recognise that it is a very difficult thing to control a large body of debenture-holders who consider they have a grievance.

34. *Mr. J. Allen.*] Does that apply to your previous statement as to your power to represent them?—The Court has appointed me as the representative of the debenture-holders, who will be bound by any decision I arrive at for a settlement. That is what I am advised by my solicitors.

NORMAN HOWARD MAXWELL DALSTON in attendance and examined. (No. 2.)

35. *Rt. Hon. R. J. Seddon.*] You petitioned the House as representing the shareholders of the Midland Railway Company?—I did.

36. You are aware that a Royal Commission was appointed to inquire into this matter?—Yes.

37. Have you received a report of that Commission?—Yes.

38. Have you anything to say in that respect?—Well, I can only take the same ground that Mr. Coates has taken. As a suppliant I appeal to you for some redress on behalf of the shareholders of the company. I find by the report of the Royal Commission that there is nothing recommended to cover the loss of the shareholders. The shareholders have invested £250,000 in this concern. They have no legal claim, and, upon the advice given by you, Sir [to *Rt. Hon. R. J. Seddon*], in October, 1900, we have thrown ourselves upon the generosity of the colony.

39. It is a pity you did not do it then, and should have waited until you had exhausted your legal remedy?—That was in 1896. We were in the hands of the English receiver, Mr. Young.

40. It was 1897 I suggested it?—I hope it is not too late now.

41. You have said that you are satisfied with what Mr. Coates has said, that the shareholders should receive nothing?—No, I do not say that at all. I am very anxious to get something for the shareholders.

42. You say that you are satisfied that £192,000 is a fair selling-value?—Yes, under the terms of the Commission.

43. There is something else besides that. Are you satisfied with that?—Certainly not.

44. You had better give your reasons why?—Inasmuch as the company has contributed about a third of the whole capital upon this railway, I think a fair thing would be to rank them in that ratio with the debenture-holders for dividend purposes.

45. Are the Committee to understand that while you are satisfied that £192,000 is a fair selling-value of the railway, you differ from the Commission as regards the division?—Yes.

46. You think it ought to be a third which should go to the shareholders. There is £126,000 to be distributed, and you think two-thirds should go to the debenture-holders—that is, £84,000 to the debenture-holders, and £42,000 to the shareholders?—That is rather more than I contemplated. I should say £100,000 to the debenture-holders, and £26,000 to the shareholders.

47. The only further question is in regard to that which was put to Mr. Coates as to his power with respect to binding the debenture-holders. Is there any doubt as to your being able to bind the shareholders?—No; I have the fullest power by power of attorney, to which the memorandum and articles of association are attached. That gives me power to do everything that the company can do, except that which is required to be done by an extraordinary general meeting. So I have full power to give a complete discharge. I produced my power of attorney to the members of the Royal Commission.

48. *Hon. Sir J. G. Ward.*] I want to ask you whether, as representing the company, you can say whether, in the event of any payment by the colony, the shareholders who would receive anything would be the same shareholders who had suffered by the loss which had taken place?—I think the same answer can be given as was given by Mr. Coates in regard to the debenture-holders. We found that a large majority of the debenture-holders and of the shareholders are the original ones. Of course, there are cases in which transfers have taken place, but they are not numerous.

49. *Mr. Guinness.*] Is it a fact that the company owe money to residents in New Zealand?—They do owe some money in the way of salaries and tradesmen's accounts.

50. Are you prepared to give a guarantee, in case of any money being given by the colony, that you will pay these people in New Zealand out of that money?—It would be my first duty. We only owe a small amount of money to tradesmen, and I believe it would be the wish of the directors that we should not leave the House without paying these tradesmen's bills.

*Approximate Cost of Paper.*—Preparation, not given; printing (1,200 copies), £3 4s. 6d.

By Authority: JOHN MACKAY, Government Printer, Wellington.—1901.

*Price 6d.]*

