

by the reduction of charges. The expenditure side of the Department's finances is, in the nature of things, more directly within the control of the Department than the revenue side, and in respect of expenditure, therefore, there is a greater scope for vigilant activity in the direction of placing the finances of the Department in the most favourable position that the nature and quantity of the traffic permit. In this connection it is interesting to note that for the year ended 31st March, 1922, there was a deficit, after allowing for interest on the capital expenditure on open lines at the "policy" rate ($3\frac{3}{4}$ per cent.), of £1,021,156. In 1923 the deficit was reduced to £284,385, and for the year now being dealt with there was a surplus of £31,802; and, as indicating the extent to which economy of expenditure has assisted towards achieving this result, it is to be noted that the percentage of expenditure to revenue in 1922 was 93·89; in 1923, 81·79; and in 1924, 77·37.

The necessity for requiring that every proposal involving further expenditure shall disclose a reasonable prospect of a commensurate return must be an absolute condition of the adoption of any such proposal if the finances of the Department are to be placed on a strong footing. This does not necessarily mean that every proposal shall be bound to afford an immediate return, but there must be a reasonably certain prospect of an adequate return within the not-too-distant future. In this connection it is necessary to guard against the usual extreme optimism of those advocating services or concessions involving expenditure, while at the same time avoiding the unduly pessimistic view which would, in a young country such as New Zealand, be a bar to progress. The avoidance of undue conservatism on one hand and of indulgence in unduly speculative expenditure on the other has been a constant care of the management throughout the year, and it is believed that in the face of many difficulties the operations of the Department have rendered general satisfaction to the people of the Dominion, while, as already indicated, it has been possible to attain this measure of achievement at a cost below that of the previous year.

Calculating the interest on the capital invested in the railways at the policy rate of 3 per cent. from 1896 to 1909, and at the policy rate of $3\frac{3}{4}$ per cent. from 1910 to 1924 inclusive, the total net amount required to be earned by the railways to meet the interest charges is £27,252,551. The net amount actually earned is £28,667,936, a surplus of £1,415,385, which was paid into the Consolidated Fund in excess of the policy requirement. In addition, reductions made in rates in pursuance of the policy amounted to over £2,000,000.

During the ten years, 1st April, 1914, to the close of the year under review, the railways have returned a sum of £327,027 in excess of the amount required to pay working-expenses and interest at the policy rate of $3\frac{3}{4}$ per cent. It should be taken into account that these ten years embrace the period affected by the war and post-war conditions.

The policy obtaining in New Zealand has been to regard the financial return as of less immediate importance than the developmental aspect, and for that reason the return required on railway capital has been fixed at $3\frac{3}{4}$ per cent., which is, of course, less than the average interest on the public debt. The value of the concessions granted in railway rates and services, however, represents a sum more than sufficient to cover the difference between the interest at the policy rate of $3\frac{3}{4}$ per cent. and the amount that would be required to meet the full liability at the average rate of interest on the public debt in respect of the capital invested in the railways.

Among the services which have been performed at less than actual cost may be mentioned—

Commodity.	Weight.	Value of Freight.	Average Distance hauled.	Rate per Ton.	Rate per Ton per Mile.
	Tons.	£	Miles.	s. d.	d.
Lime for manuring farm lands ..	71,872	4,229	66	1 2	0·21
Road-metal for local bodies. . .	229,165	33,484	45	2 11	0·78
Native brown coal.	988,898	444,884	104	9 0	1·03

During the year 75,298 tons of butter were carried an average distance of forty-eight miles at a charge of $\frac{1}{4}$ d. per pound, and 72,852 tons of cheese were carried for an average distance of fifty miles at $\frac{1}{4}$ d. per pound. It will be seen from this that the rates for dairy-produce are very low.

Comparing the result achieved on the various sections during the year, it will be observed that the South Island main line and branches section produced a return of only £2 2s. 8d. per cent. on the capital invested, while the North Island main line and branches gave a return of £6 7s. 6d. per cent. Of the smaller sections only three returned any interest on the capital invested—viz., Gisborne, which returned 17s. 7d. per cent.; Westland, 6s. 6d. per cent.; and Westport, £4 17s. 2d. per cent. Sections which failed to return sufficient revenue to cover actual working-costs are—Whangarei, £6,653; Kaihu, £1,169; Cape Foulwind, £1,512; Nelson, £5,170; Picton, £3,403; Lake Wakatipu steamer service, £1,573.

Allowing for interest at the policy rate of $3\frac{3}{4}$ per cent., the loss on the Whangarei Section was £42,747; Kaihu, £8,365; Gisborne, £20,091; South Island main line and branches, £259,709; Westland, £83,684; Nelson, £21,851; Picton, £29,191; Cape Foulwind line, £5,016; Lake Wakatipu steamers, £3,246. The North Island main line and branches and the Westport Section yielded a profit of £507,833 over the policy rate.

It will be seen by the table of branch lines given hereunder that the losses on South Island branches amounted to £173,300, representing over 66 per cent. of the deficiency of the whole South