

have been carried out to working-expenses, the idea being that this method maintains the stock at its original functional value. Particulars of these we deal with under the heads of "Management (Mechanical and Permanent Way)."

It is stated that "it is in the want of an account which runs on from year to year, and the existence of which is quite independent of annual appropriation, that the explanation of the fact that there is no depreciation account of the Railway Department mainly lies."

An adequate reserve is a necessity, not only for the purpose of meeting the cost of replacement, but in order to equalize the charge for renewals. An instance of misleading figures due to charging renewals only as they arise is furnished by the profit and loss shown on the Whangarei Section of railway during the past few years. In 1920 renewal of line accounted for £1,561 only, and a profit was published of £8,484. In 1921 renewals cost £8,310, and a loss of £540 resulted. In 1922 and 1923 the renewals were £12,511 and £27,061 respectively, and the losses were £10,670 and £18,622.

In our report upon "Management (Mechanical and Permanent-way)" we indicate the reserves that should be made.

Our recommendations under this head, whilst preventing a further slipping-back, will not provide for the past, which must be made good out of revenue as and when renewal arises.

#### LOSSES UPON BRANCH LINES.

The loss upon the working of certain sections of railway is published in the accounts, and there is also special reference to the loss upon the Otira Tunnel Section. In the case of the latter we do not regard these figures as indicating fairly the result of construction of this very expensive tunnel,  $5\frac{1}{4}$  miles in length, with its machinery and equipment for electrical working. To pick out 9 miles of line, including the tunnel, and show the loss upon that small section of a through-out run between Christchurch and Greymouth, a distance of 145 miles, does not exhibit a true picture, inasmuch as traffic could not be conveyed from one side of the South Island to the other but for tunnel-construction. A real figure of value can only be obtained by taking the earnings and expenses between Christchurch and Greymouth districts and applying them to the cost of construction of the throughout route.

In calculating losses upon branch lines no credit is given for earnings upon trunk lines from traffic passing to and from the branches. A branch line may, taken by itself, show a loss, whereas the earnings upon the main line due to branch-line construction may be sufficient to turn the loss into a profit. A case in point is the Fairlie line, which in 1923-24 shows a deficit (including interest) of £381, but the mileage earnings from the traffic on the main line were £15,607. In all countries there are sections of railway which do not pay their way, and New Zealand is no exception. Any country with its transport system not fully developed may be expected to have for many years portions of line regarded by the Railway Department as non-paying, especially if they are not connected up with the Main Trunk system, although from a State point of view the developmental value of such lines, apart from Crown land and forest improvement, amply justifies their construction. There is a further advantage to the State in which railway revenues do not share—i.e., increased taxable income, not only adjacent to new lines but generally throughout the State, due to the opening-up of the country by transport facilities. It is a question for consideration whether or no the Railway Department should be relieved of any loss by aid from consolidated revenues. If the State decides to undertake the construction of more than a certain number of developmental lines within a given period, it is clear that railway finance may break down, followed by high charges and inefficient services as a result of pressure to economize. New Zealand's prospective railway system in the North Island is a linking-up of through routes, and there are few dead ends. It is different in the South, where there are many branch lines with no early prospect of forming them into through routes to and from more prosperous localities. It is not unreasonable that some share of general State increment should go to the agency producing the result,