

When we come to a forecast of future working-expenses we find estimates of reduced costs of operation, as submitted to the House of Representatives, varying from 17 per cent. to 5 per cent. upon certain works, mainly in reduction of grade, as a result of the proposed capital expenditure of £8,000,000-odd. If we take the whole of this amount as producing $2\frac{1}{2}$ per cent. return upon the additional capital, it means a saving of £200,000, or nearly 4 per cent., upon present working expenses. As will be seen upon reference to our report upon "Management (Mechanical and Operating)," we are of opinion that the working-ratio can be reduced very considerably, and we put the percentage of working-expenses to receipts at 70 per cent. when the various changes have been made, the works proposed carried out, and a greater density of traffic, involving less cost in proportion to the tonnage conveyed, which may be anticipated in the ordinary course of events.

The position in 1934-35 may therefore be expected to be,—

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Gross revenue	11,873,159
Working-expenses at 70 per cent.	£8,311,211
Reserves	350,000
	<hr/> 8,661,211

leaving a net revenue of £3,211,948, and yielding 4·59 per cent. interest upon a capital of £70,000,000.

In making our recommendations we couple therewith a continuance of the present liability of consolidated revenue to meet interest during construction of new lines by the Public Works Department.

We recommend that stores be paid for out of railway funds, and that as soon as possible, by appropriation from net receipts, the cost of stores be eliminated from Loan Account.

We advocate the submission of quarterly and yearly reports to the House of Representatives in accordance with past practice, together with a yearly balance-sheet showing capital, revenue, and net revenue, followed by departmental accounts in the usual company form, and a forecast of the capital commitments for the following year. This should bear the signature of the Chairman of the Board and the Accountant, and be certified by the Auditor-General.

We recommend that the railways be so worked and managed that gross receipts shall not be more than sufficient to cover working-expenses, reserves, and the interest on capital, including sinking funds—that in the event of a surplus it be devoted to reduction of rates and fares. If, on the other hand, a loss appears, that rates and fares be increased to cover the deficit.

NOTE.

Since writing the above we have been advised the result of the stock-taking of stores on hand in the custody of Branches—and not under the control of the Stores Branch—as described in Part IV (d) of our Report under the heading of "Stores." It shows that material to the minimum value of £467,955, accumulated over several years, has been charged to working-expenses, although such material has not been used. There is an additional amount (estimated by the Comptroller of Stores at £100,000) representing the value of second-hand stock for which no credit has been given the permanent-way, locomotive, or signal branches. Altogether, the value of such stores represents 33 per cent. of the total expenditure of the Railway Department upon stores for the last financial year, as shown in the published accounts. In the ordinary course the branches concerned would be credited with these values in the present financial year, when, as a result, the published working-expenses of the railway would exhibit figures contrary to the actual facts. We suggest that, as an alternative, this amount of, approximately, £570,000 should be utilized as a reserve to meet arrears of rolling-stock renewal. It will be observed that this asset has the effect of making more favourable our estimate of the future prospects of the railways.