

FINANCE AND ACCOUNTS.

The new system of finance, providing for the separation of the Railway Funds from the Consolidated Fund, and a reorganization in the accounting system of the Department in order to present the accounts in a form more in accordance with commercial practice, was brought into operation at the commencement of the year now under review, and the accounts as shown in the Appendices fully set out the financial position of the Department.

The policy adopted in this regard also provides that the Department meets the actual interest paid on all fixed and floating capital, and for the year just ended the total interest charge was £1,913,311, as against £1,654,845 for the previous year—an increase of £258,466.

The rate of interest with which the Department is now charged is the actual rate paid on Railway Capital loans as compared with the policy rate of $3\frac{3}{4}$ per cent. in previous years. In addition to payment of the increased interest rate, provision has been made for depreciation and deferred expenditure in connection with the replacement of obsolescent plant and equipment by the creation of a Renewals Fund. The amount standing to the credit of this fund at the 31st March was £280,838.

With locomotives, carriages, wagons, buildings, structures, and machinery, much of which has been in use for periods in excess of twenty years, the time is approaching—and in some instances has arrived—when the plant should be replaced with more modern and up-to-date material.

This cannot be done by charging the replacements to Capital Account, and to charge heavy expenditure of this class to working-expenses in the year in which it is actually incurred is not always practicable; and, even if practicable, is not desirable, in that it entirely upsets comparisons from year to year as to actual operating results.

The alternative has therefore been adopted of charging to working-expenses a fixed percentage annually, based on the estimated life of the various assets to provide for depreciation and renewals; and for the future the renewal of all rolling-stock and equipment, when its useful and economical life is ended, will be a charge against this fund, which will necessarily require to be built up to a substantial sum in order to meet the heavy charges which can be foreseen.

A Betterments Fund has also been opened to provide an account out of which improvements and minor additions can be made, for which no capital funds are available, and an allocation of £60,000 has been made to this fund in the year's accounts.

An Insurance Fund has been opened to provide for possible losses by fire and to cover payments under the Workers' Compensation for Accidents Act, the unexpended balance being £4,784.

To further equalize the annual operating figures a small charge is regularly made against working-expenses to provide a fund to meet extraordinary expenditure caused by slips, floods, and accidents. The expenditure incurred by such causes is liable to fluctuate violently from year to year, and the provision now made will prevent such unforeseen incidents upsetting the value of the working-expenses figures. At the 31st March the unexpended balance in this account was £24,205.

In assuming its own financial burdens the Department also relieved the Consolidated Fund of the payment by way of contribution which it has been the practice to make to the Railways Superannuation Fund. For the year just ended the contribution made by the Department to this Fund was £145,000, or £65,000 more than the previous year.

BRANCH LINES.

In placing upon the Department the onus of bearing its own financial burdens, the question of developmental and unprofitable branch lines and isolated sections arose, and after full consideration it was decided as a matter of policy that the loss on certain specified lines which come within the above category should be recouped to the Department.

The revenue and working expenditure account for each of such lines is kept separately and is subject to audit by the officers of the Audit Department. In arriving at the revenue figures each line is first credited with its full proportion of the freight on the basis of the mileage carried on the branch and, in addition, on traffic which originates on the branch and is consigned to the main-line stations, or *vice versa*, the branch is also given credit for all revenue in excess of the actual cost of working the main-line services that is earned by the main line in carrying such traffic.

The effect of this is to reduce the ascertained loss on the branch lines, and it might be submitted that such a basis of calculation is not equitable to the main line, but it was decided to give the branch lines full credit not only for the actual revenue earned by conveyance on the branch but also for their value as feeders to the main line.

In adopting the policy of recouping the Railway Department for the loss incurred in the working of these developmental lines when placing the Department's finances on a definite basis, it was recognized that such lines had been provided in advance of settlement and could not be expected to pay their way until such time as the districts which they serve have arrived at a stage of much closer settlement and more intense cultivation. These lines have a value to the Dominion additional to the extent to which the country they open up is able to maintain them, and, in deciding to bear the loss on working, the Government accepted a liability, no greater than it has borne in the past, as the alternative to allowing the Railway Administration to reduce services, increase freights, or, in some cases, close branch lines altogether, a course which no Government desirous of developing the maximum welfare and prosperity of the Dominion as a whole would be likely to entertain.