

depreciation, or reserves of any kind. Renewals of assets were, in many instances, charged against working-expenses, but in other cases assets were abandoned or worn out, and the necessary adjustments of capital to take these assets out of the accounts were not made. There arrives a time when it is not economically sound to keep an asset which has been in existence and in use for a long period of years in commission by continually undertaking repairs, and the Department is now faced with this position. It has been found necessary within a period of a few years to scrap a considerable number of the engines and rolling-stock, practically the whole of the original workshop facilities, numerous bridges, and many of the principal termini. The effect is that the revenue of the Department is not sufficient to carry in any one year, or even over a period of years, the charge for depreciation accrued from the date of purchase or construction to the 31st March, 1925, and this accrued depreciation has now to be considered and dealt with, as in very many instances the assets are worn out and are being discarded.

Evidence before your Commission showed that as a result of investigations conducted by the heads of departments in conjunction with the Chief Accountant it was estimated that a sum of £10,000,000 was necessary to cover the accrued depreciation of assets from the inception of the Department to the 31st March, 1930, and this sum would include the loss on assets which have been, or shortly will be, scrapped.

From the 1st April, 1925, onwards, the Department has been charging against working-expenses the necessary depreciation incurred in each year, and the amounts charged are covered in the sum of £1,350,235 previously mentioned in this report.

By authority of section 20 of the Finance Act, 1929, the capital liability on which the Department is required to earn interest was reduced by £8,100,000, but no authority was given to the Department to write down its capital liability and to reduce its assets by a corresponding amount. As stated above, the assets of the Department have been reduced in value by the sum of £10,000,000 either by way of depreciation or by loss and abandonment. A proper and correct adjustment of the position should be made by writing down the assets and by reducing the capital liability of the Department accordingly. A reduction of capital by £10,000,000 will be covered by the cancellation of loan capital of the railways by the sum of £8,100,000, specially dealt with in the Finance Act, 1929, and by a further appropriation by the Treasury of £1,900,000.

Your Commission is of opinion that this adjustment of capital should be made so that the assets of the Department will be shown at their true value.

Reserve Fund to be set aside each Year to cover Depreciation and Renewals.—From the information given above, it will be noted that under the present system of accounting, which has been in operation since 1st April, 1925, and in each year's accounts a reasonable and sufficient amount is being charged against the revenue earned to cover depreciation and renewals for the year and without this charge being made the true and correct result of the year's operations cannot be ascertained. The amount under this heading to be set aside each year should be fixed according to the value and state of the assets, and your Commission is satisfied, after fully considering the schedules of assets and the rates of depreciation allowed thereon, that proper provision is now being made.

(11) Whether the present arrangements for the maintenance of combined railway and road bridges are equitable to the railways.

The total number of combined road and rail bridges in the railway system is thirty-four, with a length of approximately 33,450 lineal feet. The total amount at present contributed by local bodies for the use of these bridges is approximately £4,307 per annum. The amount of contribution for each bridge was fixed by a Commission which was set up in 1904, but since that time the position has greatly altered. The cost of renewals has more than doubled, and, owing to the increase in weight, speed, and density of road traffic, very much heavier wear-and-tear is involved. Further, the proportion of competitive to feeder traffic has largely increased through the development of motor-vehicles carrying goods and passengers long distances, which at the time the Commission sat were carried by rail.