

The £8,100,000 represents the amount of ordinary revenue moneys expended on railway capital works in past years, and this amount will now in effect be treated as ordinary revenue diverted to *unproductive* capital works, instead of to productive capital works as hitherto. The absence of any interest charge on this amount will in effect provide a subsidy to the Working Railways Account of £344,250 per annum (which however will not be shown in the accounts) in place of the subsidy on branch lines and isolated sections, which has hitherto been shown in the accounts.

*Expenditure in respect of Railways not brought to Charge in the Railway Accounts.*

In my report last year reference was made to the allocation to the Working Railways Account of the charges and expenses of raising the capital moneys expended in the construction and development of the railways. An allocation has now been made, but this allocation does not cover the full amount of charges and expenses as it has been held by the Crown Law Office that the Railway Finance Regulations, as they now stand, do not permit of the allocation of certain charges and expenses incurred in raising moneys for the redemption and conversion of loans. It seems clear, however, that a large proportion of such charges is, from an accounting point of view, properly chargeable against the railways. The total amount expended for charges and expenses of raising public works loans for the five years to the 31st March, 1930, was as follows :—

Year.	Charged to Ordinary Revenue Account.	Charged to Public Works Fund.	Charged to Loans Redemption Account.	Total.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1925-26 .. ..	..	297,180 17 5	13 19 6	297,194 16 11
1926-27 .. ..	..	155,372 18 0	7 10 8	155,380 8 8
1927-28 .. ..	76 2 6	100,297 3 5	2,510 2 5	102,883 8 4
1928-29 .. ..	551 0 0	438,259 13 4	724,876 18 4	1,163,687 11 8
1929-30 .. ..	..	518,170 19 9	0 12 10	518,171 12 7
	627 2 6	1,509,281 11 11	727,409 3 9	2,237,317 18 2

Of the total of £2,237,317 18s. 2d., the sum of £1,146,095 5s. 10d. represented charges and expenses on fresh loans, while £1,091,222 12s. 4d. represented charges and expenses of loans raised for redemption or conversion of existing loans. An appropriate proportion of the £1,146,095 5s. 10d. has been allocated to the railways, but no portion of the £1,091,222 12s. 4d. has been so allocated. A statement appearing on page xii of the tables accompanying the Budget for last year (B.-6, 1929) shows that of the total expenditure of £108,322,299 made from the Public Works Fund to 31st March, 1929, some £52,320,084 was expended on the railways, representing approximately 52/108ths of the total expenditure on public works. As the £1,091,222 12s. 4d. represents charges incurred in connection with the loans from which such expenditure was made, approximately 52/108ths of such charges should, from an accounting point of view, be allocated as railway expenditure, and it follows that the Railway Accounts have during the last five years been undercharged by an amount exceeding £500,000 in respect of charges and expenses. In the interests of correct accounting it would seem that the Railway Finance Regulations should be so amended as to enable the full amount properly chargeable against the railways to be so charged.

It is to be noted that in respect of the period prior to 1st April, 1925, no portion of the charges and expenses of raising any public-works loans for railway purposes has been charged against the railways, the Railway Finance Regulations having been so drawn up as to prevent the charging of any such expenses incurred prior to that date which is the date of separation of the Railway Accounts from the Consolidated Fund. This also applies to Public Works Departmental administration charges incurred in connection with the railways. The capital expenditure on the railways as shown in the Railway Accounts is therefore apparently understated by a large sum in respect of these items.

Other loan charges of which the railways should bear a proper proportion are stamp duty on transfers of New Zealand Consolidated Stock and the charges of management of such stock. It is doubtful whether there is lawful authority to recover from the railways a proportion of the stamp duty on transfers, but in the case of charges of management the Finance Act, 1927 (No. 2), section 15, apparently provides full authority to recover a due proportion of such charges from the Working Railways Account. Such proportion would probably amount to not less than £10,000 per annum, but up to the present no portion of these charges has been recovered.

Another item of expenditure on railways which is not brought into the Railway Accounts is interest incurred during construction of lines and works. The Railway Finance Regulations do not permit of the charging of this expenditure against the railways, whether incurred before or after the separation of the Railway Accounts from the Consolidated Fund. The result is that the interest paid on public-works loans used for railway purposes for the period during the construction of the railway-works, falls as a direct and final charge on the Consolidated Fund, and is not in any way charged in the Railway Accounts. The amount involved must amount in all to a good many millions.