

It is indeed gratifying to record the magnificent public response for the relief of distress, the total subscriptions being in excess of £147,000. The distribution of this sum in the devastated area has helped in a very real measure in the work of restoration. Public subscriptions.

STATE SUPERANNUATION FUNDS.

The unsatisfactory financial position of the several State superannuation funds—Superannuation funds. *i.e.*, Public Service, Teachers,' and Railways, was drawn attention to in last year's Budget, and, as I have already indicated, the Government directed that additional subsidies amounting to a total of £175,000 were to be paid to the credit of the Public Service and Teachers' Funds during last financial year. This has had the effect of improving the position to some extent, but there is still a large amount required to place the funds on a sound actuarial basis.

In accordance with the Government's promise, a Committee has been set up, consisting of the Public Service Commissioner, the Financial Adviser to the Government, and a representative of each of the superannuation funds. The Committee has been directed to investigate the whole position and report to the Government on the state of the funds, and generally what action is considered necessary to place the matter of superannuation for the public services on a sound and satisfactory basis.

The Government is accordingly withholding further action until the Committee's report is received.

RAILWAYS.

As has already been announced, the Budget difficulties for the current financial year have been greatly increased by the fact that the Railways have now reached a position when, on the present basis of operations, they can no longer meet the interest payable on the capital invested therein. As the total of the contribution to Railway capital from revenue, amounting to £8,100,000, has already been written off the capital is now represented almost entirely by loan-money. The interest on the whole of the public debt, including that on the £51,000,000 invested in Railways, is paid out of the Consolidated Fund. The approximate amount of the interest on the Railway portion of the debt has, in the last few years, been recovered from the separate Working Railways Account, notwithstanding the heavy losses which have been incurred by the Railways. The position will, I think, be more clearly understood if I briefly review the financial history of the Railways during the past five years. New Zealand Government Railways.

Prior to 1925-26 the Railway accounts formed part of the Consolidated Fund, and the excess of revenue over working-expenses, though not specifically appropriated for that purpose was, as part of the common pool, available to meet, as far as it would, the interest payments on the relative portion of the public debt. In this way any shortage in the earnings of the Railways was automatically made good each year out of taxation. As a standard the Railways were expected to earn $3\frac{3}{4}$ per cent. on the capital, although the actual interest cost was higher than that. Under these arrangements no reserves were set aside to provide for renewals and depreciation of assets, but losses were met as they accrued, although the amount of the losses was not disclosed by the accounts.

Arising out of the report of the Fay-Raven Commission of 1924, the Govern- Fay-Raven Commission. ment of the day, with the avowed object of placing the Railways on a commercial basis, passed legislation separating the Railway finances from those of the Consolidated Fund. Reserves were to be built up for renewals and depreciation, and interest at the average cost per cent. of the capital was to be paid each year to the Consolidated Fund, which, however, was to pay back to the Railways the amount of losses on branch lines and isolated sections. An amount of £1,327,649, representing surplus earnings from former years, after deducting the policy rate of interest, was handed back to the Railways as working capital and a general reserve. Such were the arrangements made.

Interest-rates were fixed at $4\frac{1}{8}$ per cent. in respect of the bulk of the capital derived from the Public Works Fund, and at the average of the actual rates on the special loans raised under the Railways Improvement Authorization Act, 1914, Interest on Railway capital.