

5. The company pay the money raised upon their shares or bonds into the Government Treasury or Bank, either in England or the Colony, as the case may be.
6. By and with the consent of Government, drafts are made on this capital for works in progress, &c., or other expenditure authorized.
7. Rolling stock to be provided by company to satisfaction of Government.
8. Fares and tolls regulated by Government, and to be reduced when dividend of 10 per cent. is paid on capital.
9. When line is completed, Government give company a full title to land and lease of ninety-nine years.
10. The railway company and their officers, servants, agents, and accounts, are under supervision and control of Government, with access to all correspondence and minutes.
11. The Government appoint an *ex-officio* director, who has a veto on all proceedings of the Board.
12. The Government sanction has to be obtained for all expenditure.
13. The company keep a capital account, which is from time examined and checked by Government.
14. The company have to keep the line and rolling-stock in good working order during ninety-nine years.
15. The company keep a revenue account, which is audited by Government.
16. All moneys received by company are paid into Treasury, and dealt with only by order of Government.
17. The Government absolutely guarantee interest at 5 per cent. on capital expenditure, from the time of each payment into Treasury, for ninety-nine years.
18. Profits, after paying working expenses and setting aside a reserve and amortization fund, shall be applied towards payment of interest in reduction of guarantee.
19. If profits exceed 5 per cent. in any year, one moiety of excess to go in reduction of any payments made by Government under guarantee, and the other moiety to the company. If Government have been already repaid, or have not made any advances, then the whole surplus goes to company.
20. Government reserve special privileges as to transport of mails and troops.
21. Railways become the property of the Government at end of ninety-nine years.
22. Company may surrender railway to Government at any time, who shall then pay the cost thereof.
23. Government may, after twenty-five years, purchase railway at mean market value of stock for three preceding years.

The advantages of this system are very great. There being an absolute guarantee and no uncertainty, the capital can be raised upon almost the same terms as upon Government bonds. There is a double responsibility: on the part of the Government to see that the works are thoroughly substantial; on the part of the company to keep down the expenditure in the hope of a dividend above 5 per cent. There being two entirely distinct interests represented at the Board (that of the company by the majority of the directors, men of commercial experience and large shareholders, and having therefore a considerable direct interest in the matter; that of the Government by an *ex-officio* director, not a shareholder, and therefore with no interest in the company, but with the power of veto on all proceedings) many objectionable proceedings, under other circumstances too common, are rendered impossible. In fact, the guarantee and supervision of the Government, combined with the commercial advantages of a company and the special knowledge of practical men, enable an enterprise to be more satisfactorily and rapidly carried out than by any other mode that has been devised.

We would therefore recommend that some such system should be adopted in New Zealand; that the railways should be located with great care, using where necessary gradients of 1 in 40 and curves of 330 feet radius, and the cost reduced to a minimum, whilst the use of the best materials and workmanship should be insisted on; that a gauge of 3 feet 6 inches, rails of 40 lbs. to the yard, and a speed of 25 miles an hour (see enclosed clauses of Regulation of Railways Act of last year, permitting the construction of light lines in Great Britain), should be agreed upon; and that when opened, the railways should be worked in a very different way to that obtaining in older countries, so as to more thoroughly serve the districts through which they pass, and to save immensely in the working staff and the expenses consequent thereon.

We would further recommend that the Government should grant to a company, which we shall be happy to form for the purpose, an unconditional guarantee of such rate of interest as will ensure the stock being placed at par, under some such conditions as those of which we have already given the heads. We then believe that the amounts paid on the guarantee will be speedily recouped by the sale of lands and minerals, which would under this arrangement remain untouched, and that a rapid extension of railways would result.

From lengthened experience we are convinced that a gauge of 3 feet 6 inches will be amply sufficient for any traffic which can be foreseen in New Zealand.

We enclose copies of two Half-yearly Reports of the Indian Tramway Company, which will set at rest any question as to the safety of the 3 feet 6 inch gauge, even for speeds of 40 miles an hour.

A. Fitzgerald, Esq., London.

We have, &c.,

CHARLES FOX AND SONS.

Sub-Enclosure 2 to Enclosure in No. 4.

A. FITZGIBBON, Esq., London, to JOHN MORRISON, Esq., London.

DEAR SIR,—

11, Foster Lane, London, March 19, 1869.

Referring to the practicability or otherwise of getting capitalists to undertake the construction of the proposed railway from Nelson to Cobden upon the terms submitted by the Government of that Province, I beg to say that, in pursuance of the understanding between us, I submitted the matter for the consideration of Messrs. Sir Charles Fox and Sons, the eminent engineers, handing them copies of the several documents furnished to you by the Nelson Government.