

71. *Mr. Montgomery.*] Can you give any data for that assumption?—No absolute data; but it is only reasonable to expect that the working expenses would be less as part of a large system than if worked individually. All these matters were taken into consideration when forming the estimate.

72. *Mr. Wilson.*] In your estimate of value did you take into consideration that in the cases of all the other district railways you asked the companies to forego half rates?—Yes, in all other cases we asked the companies to forego half rates; and in this case the value to the Government would be about £110,000 if the company were to forego half rates, or £118,000 if they forego all rates—that is, assuming that the Government collected the amount of rates which the company agreed to forego. What I mean is that if the Government took over the company's right to collect the half or the whole of the back-rates, and did so collect them, we could afford to give so much more to the company.

73. Do you know that the offer is £110,000?—Yes.

74. You say the total amount the Government could afford to pay is £102,000, *plus* the total amount of rates £15,600, making a total of £117,600, which you would offer to the company?—Yes, if the Government were prepared to collect the whole of the rates.

75. Then, when the Government offer £110,000, they practically give them the value of the railway, and pay half the rates?—Yes. As I understand it, in that case the company would get the value of the railway to the Government—about £102,000—*plus* the £8,000 of back rates which they would agree to forego, and which the Government would also forego to the ratepayers.

76. Will it not come out practically that the Government will have to pay the other half of the rates?—Yes: assuming that the value of the railway to the Government is only £102,000, it would practically amount to that.

77. Have you any knowledge as to what arrangement was to be made with the Insurance Association to pay the £75,000 of debentures?—Have you the right to pay that, or has the company any right to pay that off at any time?—No, I do not think so. The company issued debentures to the extent of £40,000, which are held by the Association, with a currency of twenty-three years.

78. How much of that has run out?—There are twenty-three years to run from March, 1886.

79. That is, at 6 per cent.?—Yes; and the balance, £35,000, is at $6\frac{1}{4}$ per cent.

80. How many years has that to run?—About ten and a half years from March, 1886.

81. Have you calculated, if the Government could get this amount converted at 4 per cent., the difference, on taking over this debt, between the payment of the interest at 6 per cent. on the £40,000 with so many years to run, and the £35,000 at $6\frac{1}{4}$ with ten and a half years to run?—Do you mean the premium you would have to pay for converting these into a 4-per-cent. security?

82. You may take it that way if you please?—The average present calculated value of an annuity of that description depends upon the rate at which capital would fructify in the open market.

83. What I want to get at is what amount of money invested in the open market would give the extra 2 per cent.?—Yes, I understand that. You mean the present value of an annuity equal to the difference of interest; but that would depend altogether upon what money is worth in the open market. Supposing, for instance, that you invested £10,000: that would produce, say, £800 a year for a given number of years if it fructified at 5 per cent.; but if it fructified at 6 or 7 per cent. it would produce a much larger annuity or for a longer period. Assuming that money in the open market is worth 5 per cent. we reckoned the present value of the difference of interest on these mortgages at about £8,000; but it depends altogether upon what you take to be the market-value of money. If the market-value of money in this colony is more than 5 per cent., then the premium would be less than £8,000; while, if market-value of money is less than 5 per cent., then the premium would be more than £8,000. Thus, if you assumed the market-value of money at only 4 per cent., the premiums would amount to £18,000. The actual interest payable for the terms of the mortgages is £4,675 altogether, while at 4 per cent. it would be £3,000.

84. You say that at 4 per cent. the present value would be £18,000 additional. What did Mr. Gavin think about it?—He was, I think, of opinion that the Insurance Association could reinvest their money at 5 per cent.—that they could get at least that as an average rate, and that they ought therefore to take a premium of £8,000 for converting these debentures into a 4-per-cent. security.

85. Do you think they would take £10,000?—I have no knowledge as to what they would take.

86. But the taking-over of these mortgages will involve a great additional cost to the Government?—Yes, it will either involve an addition to the nominal cost-price, or else the payment of present rate of interest.

87. So that the actual cost to the Government of taking over these £75,000 of debentures would be at the least £8,000?—The Government might not redeem them at all: they might let them run on as they stand at present, unless the Insurance Association is willing to sell at a reasonable price; and so long as the mortgages continue the ratepayers would pay half the interest on them.

88. Under the original Act the ratepayers are liable up to 2 per cent.?—Yes; but it is proposed in the case of this railway that the interest should be divided evenly between the ratepayers and the Government.

89. The ratepayers would be liable for half?—Yes; the ratepayers would be liable for half of the whole interest payable, whatever it may be, instead of being liable for exactly 2 per cent. on the cost of the railway.

90. Then, if the colony gives £110,000 for the railway and redeems these debentures, it will cost £8,000 more at least?—Yes. It might be reckoned on that basis to cost the colony £118,000.

91. We have had the evidence of Mr. Maxwell. In considering the value of the railway to the Government he thought the Government could make it pay by working it themselves, or, as he put it, that he would advise an expenditure of £110,000 to make the line—that was, if he had a clear sheet to begin with: do you agree with him in that?—I think it depends upon what view you take of it. To say that it would actually pay the Government to buy it for a certain sum might simply