

II. FINANCE.

An examination of the Capital Account of the New Zealand railways indicates that comparatively small sums were paid for land purchases, that several branch lines were purchased from private companies, and Harbour Board funds provided for the construction of certain lines, the obligations upon them being assumed by the Railway Department. Some six to seven millions sterling were spent upon railway-construction out of accumulations of the consolidated revenue, and no loans were, therefore, issued for this amount.

The average capital cost per mile is £13,560, being about £3,000 less than New South Wales, which system is on the 4 ft. 8½ in. gauge and has heavier rails, but £5,500 more than Queensland and £4,900 more than South Australia, the former being a 3 ft. 6 in. gauge system, and the other partially so.

RAILWAY CAPITAL COMMITMENTS.

At the 31st March last, capital commitments upon lines open for traffic were £41,399,427. At the same date the State indebtedness upon those lines and works, plus lines under construction, totalled £48,270,352. Railway capital, therefore, represents between one-fourth and one-fifth of the total Loan Account of the State of £220,000,000 resting upon the Consolidated Revenue Funds. Whether this amount represents exactly the Loan Account of the State attributable to railways is not quite clear. It is on evidence £6,500,000 less, due, as before noted, to the employment of accumulated funds upon construction work.

In the last twenty years the Capital Account on lines open for traffic has been doubled, and since 1914 there has been an addition of £9,044,340, or, roughly, 28 per cent., whilst mileage of line has increased by 190 miles only, or 6·64 per cent. The railway capital, revenue expenditure, and interest figures from 1914 to 1924 are given in the preceding table, whilst the diagrams on previous pages show how the revenue was earned and how it was spent in 1913-14 and 1923-24.

“ POLICY RATE ” OF INTEREST.

The interest charged to the Railway Department is not the actual figure paid upon State loans, but is a “ policy rate ” fixed at 3¼ per cent. The history of the fixing of an arbitrary figure commenced in 1896, when the railways were regularly earning more than sufficient to meet the actual interest (3 per cent.) due upon State loans attributable to railways, and it was then decided as a policy of State to so reduce rates and fares that the net earnings should be no more than proved necessary to meet the actual interest paid. The 3 per cent. figure continued until 1910, when, due to a rising rate of interest upon loans, it was increased to 3¼ per cent., at which rate it has since remained.

Net receipts balanced, excepting in the years 1914 and 1915, the policy and loan interest up to 1920. From the latter date, however, the increased cost of working the lines, notwithstanding a general increase of 40 per cent. in goods rates and 25 per cent. in passenger fares from 1914 onwards, brought down the net receipts below the policy rate of 3¼ per cent. to the extent of £124,376 in 1921, £1,021,156 in 1922, £284,385 in 1923—a total of £1,429,917. In 1924 there was a surplus of £31,802 over the 3¼ per cent., but a shortage of £226,345 on interest paid by the State. The shortage during these years on interest actually paid on loans was £2,320,667. These figures prove that whilst an advance of rates and fares was sufficient to meet increased working-expenses from 1915 to 1920 and covered both policy and actual interest during those years, the increased charges were not sufficient to provide for the higher rate of wages and enhanced cost of stores, plus interest on increased capital coming into effect from 1919 onwards.

INCREASE IN CAPITAL AND INTEREST ON LOANS SINCE 1914.

Of the increase in capital since 1914 of £9,044,340 new lines (at a cost of £14,950 per mile) account for £2,884,368, new rolling-stock and machinery £3,622,298, grade improvements £307,091, while £2,230,583 has been expended in connection with additions and improvements to stations and works. Concurrently with the