

1886.  
NEW ZEALAND.

## PUBLIC ACCOUNTS COMMITTEE.

REPORT ON PROPOSED PURCHASE OF THE WAIMEA PLAINS RAILWAY, TOGETHER WITH  
MINUTES OF PROCEEDINGS, EVIDENCE, AND APPENDIX.

*Report brought up 28th July, 1886, and ordered to be printed.*

### ORDERS OF REFERENCE.

*Extracts from the Journals of the House of Representatives.*

TUESDAY, THE 20TH DAY OF JULY, 1886.

*Ordered*, "That Parliamentary Papers D.-6 and D.-6A, relative to the purchase of district railways, laid on the table this day, be referred to the Public Accounts Committee."—(*Hon. Mr. Richardson.*)

WEDNESDAY, THE 21ST DAY OF JULY, 1886.

*Ordered*, "That the Public Accounts Committee be requested to consider the papers having reference to the proposed purchase of the Waimea Plains Railway, and report as to whether the terms of the contract to which they propose to give effect are such as the Committee can recommend to the House."—(*Hon. Mr. Richardson.*)

### REPORT.

THE Public Accounts Committee, to which were referred the papers laid upon the table of the House, relative to the proposed purchase of the Waimea Plains Railway (D.-6 and D.-6A), together with an instruction to report as to whether the terms of the contract to which they propose to give effect are such as the Committee can recommend to the House, have the honour to report: That in the opinion of the Committee the proposed terms of purchase of the Waimea Plains Railway, as set forth in the agreement embodied in Parliamentary Paper D.-6A, are such as the Committee can recommend.

28th July, 1886.

F. J. Moss, Chairman.

### MINUTES OF PROCEEDINGS.

WEDNESDAY, 21ST JULY, 1886.

THE Committee met at 11 o'clock.

*Present*: Mr. Moss (Chairman), Mr. Barron, Mr. Cowan, Hon. Mr. Ballance, Hon. Major Atkinson, Mr. Dargaville, Mr. Holmes, Dr. Newman, Mr. Peacock, Mr. Montgomery, and Mr. Wilson,

Order of reference of the 20th July read.

*Resolved*, That the order of reference of the 20th July, 1886, on the motion of the Hon. Mr. Richardson, referring Parliamentary Papers D.-6 and D.-6A, relative to the purchase of district railways, to the Committee, is not sufficiently specific, and that the Chairman be requested to ask the House to give more definite instructions.

THURSDAY, 22ND JULY, 1886.

The Committee met at 11 o'clock.

*Present*: Mr. Moss (Chairman), Mr. Barron, Mr. Dargaville, Hon. Mr. Ballance, Mr. Cowan, Mr. Gore, Mr. Wilson, Mr. Peacock, Hon. Sir Julius Vogel, Hon. Major Atkinson.

The minutes of the previous meeting were read and confirmed.

Order of reference of the 20th July respecting the Waimea Plains Railway read.

Mr. Maxwell, General Manager of Railways, was in attendance, and gave evidence.

FRIDAY, 23RD JULY, 1886.

The Committee met at 11 o'clock.

*Present*: Mr. Moss (Chairman), Mr. Barron, Mr. Wilson, Mr. Dargaville, Mr. Cowan, Mr. Montgomery, Mr. Peacock.

The minutes of the previous meeting were read and confirmed.

Consideration of purchase of Waimea Plains Railway was then resumed.]

Letter from Mr. Maxwell, of the 22nd July, read.

Mr. O'Connor, Under-Secretary for Public Works, was in attendance, and gave evidence.

*Resolved*, That this meeting adjourn till 11 o'clock on Monday, the 26th July, 1886, to consider the purchase of the Waimea Plains Railway.

MONDAY, 26TH JULY, 1886.

The Committee met at 11 o'clock.

*Present*: Mr. Moss (Chairman), Mr. Cowan, Mr. Dargaville, Mr. Montgomery, Dr. Newman, Mr. Holmes, Hon. Sir Julius Vogel, Hon. Major Atkinson, Mr. Wilson, Mr. Barron, Mr. Peacock, Hon. Mr. Ballance.

The minutes of the previous meeting were read and confirmed.

Memorandum from the Chairman to Mr. Maxwell, General Manager of Railways, read.

*Resolved*, on motion of Mr. Peacock, That the Chairman be requested to get the evidence in the matter of the Waimea Plains Railway printed by to-morrow (Tuesday), including Mr. O'Connor's memorandum.

The further consideration was deferred for Mr. Cowan to furnish a list of ratepayers, amount of rates in arrear, and amount due by each.

The Committee adjourned till Tuesday, the 27th July, 1886, at 11 o'clock, to settle the Waimea Plains Railway question.

TUESDAY, 27TH JULY, 1886.

The Committee met at 11 o'clock.

*Present*: Mr. Moss (Chairman), Mr. Cowan.

There being no quorum, the Chairman adjourned the meeting till Wednesday, the 28th July, 1886, at 11 o'clock.

WEDNESDAY, 28TH JULY, 1886.

The Committee met at 11 o'clock.

*Present*: Mr. Moss (Chairman), Mr. Cowan, Mr. Dargaville, Mr. Barron, Mr. Wilson, Mr. Holmes, Hon. Sir Julius Vogel, Mr. Peacock, Dr. Newman, Mr. Gore, Hon. Mr. Ballance, Mr. Montgomery, Hon. Major Atkinson.

The minutes of the meetings of the 26th and 27th July were read and confirmed.

Mr. Cowan produced the *Mataura Ensign* of the 16th June, 1885, and 9th July, 1886, containing information asked for by Committee on 26th instant.

The Chairman reported and read the following correspondence: Letter and memorandum from Mr. Maxwell, of the 26th July, 1886; telegram from Mr. Leary, Dunedin, to Mr. Cowan.

Mr. Cowan moved, That the proposed terms of purchase of the Waimea Plains Railway, set forth in the agreement embodied in Parliamentary Paper D.-6A, are such as the Committee can recommend.

Upon which it was moved by Mr. Wilson, by way of amendment, That all the words after the word "That" be omitted, for the purpose of inserting the following in lieu thereof: "this Committee considers that the Government should not pay more than a sum equal to £110,000 cash for the Waimea Plains Railway; but should leave the company the right to collect half-rates up to date of purchase."

And the question being put, That the words proposed to be left out stand part of the question.

The Committee divided, and the names were taken down as follows:—

*Ayes*, 7.—Hon. Major Atkinson, Hon. Mr. Ballance, Mr. Cowan, Mr. Dargaville, Mr. Gore, Mr. Holmes, Hon. Sir Julius Vogel.

*Noes*, 5.—Mr. Barron, Mr. Montgomery, Dr. Newman, Mr. Peacock, Mr. Wilson.

So it was resolved in the affirmative.

And the original question being put, it was resolved in the affirmative.

*Ordered*, That the said resolution be reported to the House this day.

The Committee adjourned till 11 o'clock on Thursday, the 29th July, 1886.

## MINUTES OF EVIDENCE.

THURSDAY, 22ND JULY, 1886. (Mr. F. J. Moss, Chairman.)

Mr. J. P. MAXWELL, General Manager of Railways, examined.

1. *The Chairman.*] You wish to continue your evidence in respect to certain other railways. We want information about the Waimea Plains Railway, as we are engaged in investigating an agreement submitted to the Committee by the owners, and purporting to be between them and the Government, for the purchase by the latter of this line. Can you give any information as to the condition of this railway, the character of the traffic, the character of the country, and other general matters that may strike you as necessary?—I can only give the Committee limited information about the Waimea Railway, because it has never been under the General Government: it has always been worked by the company. We only know it so far as we exchange traffic. I have been over the line a good many times. I have had it looked into a few months since to see what order it was in. I think it is in fair order, taking its age into account. It is a well-constructed line; but, owing to its age, the cost for renewal of sleepers will be getting heavier year by year. Except in that respect there can be nothing much amiss with it. I have not heard anything of it for a few months, since I had it looked into unofficially. For some considerable time the company worked

in connection with the Government trains. The printed correspondence of last year shows that that operation ceased, and the company did not work in connection with the Government. They took the matter up again in February, 1885. The Government made fresh arrangements for working with the company. That arrangement subsists up to the present date. We exchange traffic. Goods are booked through from Dunedin to Kingston, and *vice versa*. The character of the country through which the line passes is good. I should think there is a good deal of grain grown there. The crops are good, so far as I am aware; but I have not any personal knowledge of that. I believe the route is considerably used by travellers and tourists from Dunedin to the Lakes. I think it is a line on which traffic is bound to grow, both as regards passengers and goods, if proper facilities are given.

2. *Mr. Dargaville.*] What is the length of the line?—Thirty-seven miles.

3. Have you heard what is the price named for the purchase?

*Mr. Cowan:* £110,000.

4. *Mr. Dargaville.*] Do you consider, Mr. Maxwell, that the line is well provided in the ordinary sense?—I have only this information on that point: I understand that the Public Works Department made an estimate of the value of the works, and found it to be about £95,000. I think that appears in the correspondence. This is the only information that I have on the subject as to what the value might be.

5. You are aware that the Public Works Department had a valuation of the line made about two years ago—prior to last session? What officer was employed to make that valuation?—I do not know. I understand £95,000 to be the valuation of the department. I cannot give you any detail. I should feel bound to accept that estimate.

6. *Mr. Dargaville.*] That is under £3,000 a mile. Can you, speaking from recollection, tell us what is the average cost of the railway-line?—It would be between £7,000 and £8,000 a mile—that is, including all stations.

7. *Mr. Gore.*] But not including rolling-stock?—Yes—everything.

8. *Mr. Dargaville.*] You say that this line is in good order with the exception of the sleepers?—It is in fair order for its age. That is the result of an examination unofficially made a few months ago. That is, I see nothing to find fault with particularly.

9. *Mr. Cowan.*] In this offer there is a schedule, in addition, of things to be given with the line. You will see there that two locomotives are included in the value stated. Can you give the Committee an idea of the value of these two locomotives?—I suppose they would be worth £2,500.

10. Could you roughly give the value in these schedules?—No, I could not, indeed: I could look through them and speak of them some other day.

11. Then we will take the two locomotives at £2,500. £110,000 is quoted for the thirty-seven miles—that is, £2,972 per mile (about); that has to be reduced by the £2,500: will you now tell the Committee if you think it is a judicious purchase to make by the Government?—According to the present results of working, as I have been informed of them, I think it will return 2 per cent. If it continues to do the same work as they say they did last year, at the same rates and fares, the return would be nearly 2 per cent., roughly speaking.

12. I asked you if you thought it would be a judicious purchase. I wish you to consider that question in connection with that of this line being an addition to the general system of railways?—It is hardly a question for me to say whether an investment that would return 2 per cent. is a judicious one or otherwise.

13. From a traffic point of view it would be an advantage to the Government to have possession of the line on reasonable terms?—I think we could probably work a little cheaper: not on the line itself; but I think it probable we could work the Government lines a little cheaper in connection with it if we had the line ourselves.

14. You have said that if it is acquired on reasonable terms it would be an advantage. I think you said “considerable advantage”?—I think it would be advantageous to the Government to possess it if it were acquired at a reasonable figure.

15. This figure, £2,972 a mile, seems to be a reasonable figure?—That is rather in excess of the value of the actual work.

16. By how much?—£95,000 was the valuation of the cost of the railway: it seems to be £15,000 in excess of that.

17. Are you aware whether or not this was computed in the £95,000?—I believe that to be merely the value of the work.

18. Do you speak from your knowledge or from hearsay?—Not from my own knowledge, but from documents in the Public Works Department. They state that to be the valuation. I think you will find it in the printed papers presented last session. It must be something about that. I have no personal knowledge of it. I am speaking of the cost of the works—the actual outlay.

19. Ninety-five thousand pounds for thirty-seven miles—that would be near equal to £2,567 a mile. With that knowledge, would you still say that the railway is dear at the figure quoted?—I stated that it is not for me to say whether it is advantageous for the colony to go into an investment of that kind or not. But I can say this much: Were it put to me in this way, “Would you consider it a good thing to make this railway at a cost of £110,000?” I would say, “Yes, undoubtedly.”

20. It brings additional business to the Government lines?—How much I could not estimate.

21. But you are certain that the possession of this railway would be an advantage?—Yes; I think we should gain by having it.

22. Are you aware of the provisions of the District Railways Purchase Act? I would draw your attention to the provision that, on all district railways purchased by the Government the atepayers divide the cost of working up to 4 per cent?—In general terms, I have perused the Act. I know about it.

23. With the knowledge that the district is to be liable for half the interest, is this purchase such that you would consider it a judicious investment?—I think the question as to what is to be done in regard to the ratepayers is not one that relates to a professional opinion at all. I do not think it would be my business to offer an opinion as to whether the relief of ratepayers should be taken into account.

24. You said that this would yield 2 per cent.?—I said that at the present rate of profit it would be about that. According to the audited accounts the company made £2,000 last year: if they continue at that, it would be equal to nearly 2 per cent. on £110,000.

25. With the knowledge that the district would divide up to 4 per cent. with the Government, and that there would be profit of 2 per cent. to the Government, would this purchase be judicious with reference to its conjunction with the general system of railways?—I do not think it properly devolves upon me to give an opinion except upon professional matters. It appears to me to be purely a question of policy, what the colony may be prepared to do about these ratepayers.

26. Have you any knowledge in regard to the way in which the company have worked the line—whether the cost was moderate or extravagant?—I do not think there has been much extravagance about it; practically none, so far as I know.

27. Are you aware that five paid servants travel with each train?—No, I am not. There would probably be three in any case—driver, fireman, and guard—necessarily. I also understand they have what is called a “travelling stationmaster.” I do not see any extravagance in that; they must have some one to attend at the stations whether he travels or is stationary.

28. And porter?—Very likely; but then, a porter who is carried about instead of being stationary. You could not say that one stationmaster and one porter for thirty-seven miles of railway is extravagant. I think it is very cheap management.

29. These five officers and a paid secretary in Dunedin, together with all the expenses connected with traffic, would be over £2,000. Could you indicate to the Committee what reduction you could bring to bear on that—on the working of the line?—A paid secretary connected with direction or management would not be necessary if it belonged to Government. As to requiring a stationmaster and a porter on a length of thirty-seven miles, I do not think we could dispense with them. The only particular gain I can see from connection with the Government would be in the mode of working. I am tolerably certain that if we had the control of the running we could fit their trains to ours and ours to theirs so as to work cheaper. I have no doubt we could save £1,000 a year on trains running on the Government lines.

30. Not on the railway?—On the system—that is, by having one system throughout.

31. You are aware that, with respect to the branch-railway to Riversdale, a certain amount of money has been expended: do you think that would be an additional incentive to the Government to become owners of this line?—I am not aware what has been spent on the Riversdale Branch; but it would be inconvenient to have a Government branch connecting with a private line. I do not think I could assess the amount of inconvenience.

32. Is it your opinion that that fact would be another incentive to the Government to become possessed of this line?—If the Riversdale line is built it is certainly another reason for desiring to possess this railway.

33. As regards Riversdale and Switzer's, there is a provision in the public works appropriations for that railway?—So I understand.

34. Then, suppose that work to be continued—there has been already a considerable amount of money spent—seven miles of extension finished: do you think that would be another incentive?—Yes, decidedly.

35. *Mr. Gore.*] What is the condition of this line as compared with the Government line which has been in use for a number of years: would there be any necessity for a large amount of repairs?—There is no doubt a certain amount of repairs would be necessary. I think that in future they would be heavier than in the past.

36. Do you think they would be heavier than on the Government line?—Not on the average.

37. *Mr. Barron.*] You have seen a statement by the company of the working expenses: can you inform us whether there would be any material reduction if the line is acquired by the Government?—

*Mr. Wilson:* Or any increase?

*Witness:* They would naturally increase year by year as the line grows older, even if there were no increase of traffic; if there is an increase of traffic the expenses would increase with it: but I do not see anything in the figures that would lead me to say there was extravagance.

38. *Mr. Barron.*] This line stands in the way of the Government having a direct connection between Dunedin and the Lake District?—Yes—between Dunedin and the Lakes.

39. Then, from that point of view, you think it is more desirable that it should belong to the Government than to the present proprietors?—I think there is no doubt it is desirable.

40. Apart from everything else, supposing the question of purchase were referred to you as to whether this were a reasonable price to give?—If you put it in this way, “Would you advise the Government to build this line at a cost of £110,000,” I would say “Yes.”

41. *Mr. Wilson.*] Have you looked into this question of the rates?—That is beset with many difficulties. If you take this question of rates into consideration it is not easy to say whether it is a reasonable price. I have looked very closely into the subject, and into the provisions of the District Railways Act and other points relating to this question. There are a great many difficulties surrounding it. How the Government should elect to treat the ratepayers it is not for me to say.

42. *Mr. Cowan.*] It would appear from your statement that £1,000 a year would be gained on the working expenses?—Indirectly.

43. But, if that is so, it is fair to say that it would pay 3 per cent.?—Yes, if the £110,000 were invested in building the line, and it continued to make the same profit. I can only say that if I had a clean sheet and were asked as to the advisability of building the line at that cost, I would say

“Yes.” But it is difficult for me to propound a plan as to how the ratepayers should be treated, or how the question of the Insurance debt should be dealt with. If I am required to go into the matter fully I can give an opinion. But there are various liabilities attaching, and there are many considerations to be taken into account other than professional ones.

44. Can you explain the liability with regard to interest?—The Government is liable to a certain guarantee up to a certain date.

45. *Hon. Sir Julius Vogel.*] Are you favourable to the purchase?—Yes, if it can be arranged at a reasonable price.

46. Do you regard it as a paying line?—If we take it into the system and work it with the Government lines we should save £1,000 a year.

47. You say we should save more by working it ourselves?—Yes—by arranging our own train-services as we should wish.

48. *Mr. Cowan.*] Are you aware that the company insisted upon the Government foregoing half-rates—the half is £7,860?—No; I have not read the correspondence.

49. You are aware that the Minister raised his offer by £2,000. That addition to his offer was brought about in this way: When this £7,560 of rates was forced on the company they asked the Government to bear half this loss with them. The Government declined to meet them half-way, but raised their offer by £2,000. Seeing that the company have given up these rates, would you not say that the price is reasonable?—I would not like to answer without reading the whole of the correspondence.

50. The particular point in your evidence is that, if you were asked by the Government to give a price for building an entirely new line in the position of this railway at a cost of £110,000, that would be a good thing to do?—Yes.

51. Suppose the Government can get the line from the company, who give up a claim to £7,860—bearing that concession in mind, is the price, in your opinion, a reasonable one for the company to ask?—I will read the correspondence, and reply.

52. The £2,000 added by the Minister to the price being taken into consideration?—[The following correspondence was read by witness:—

Railway Department, 22nd July, 1886.—Sir,—I have the honour to inform you that I have read the correspondence contained in Parliamentary Paper D.-6, 1886, handed to me by the Committee, and, in reply to Mr. Cowan's question, “If the Government can get the railway for £110,000, seeing also that the company agrees to forego about £7,860, rates due to it, is the price a reasonable one to ask?” I have to remark as follows: If the company asked the Government for £110,000 cash, and did not ask the Government to take over any liabilities, the request would be a reasonable one, I think. But it appears that the Government is asked to pay £35,000 cash, and to take a liability of £75,000, due to the Insurance Association. Having regard to the rate of interest at which the colony can get money, and the rates payable for the insurance loan, it would appear that the sum asked by the company considerably exceeds £110,000.—I have, &c., J. P. MAXWELL, General Manager, New Zealand Railways.—The Chairman, Public Accounts Committee, House of Representatives.

*Re Waimea Plains Railway.*—Memorandum for Mr. Maxwell.—Referring to your letter of the 22nd instant, the Committee wish to bring to your notice that Mr. O'Connor estimates at about £8,000 the difference between 6 and 6½ per cent., interest payable on the debentures issued by the company, and the 4 per cent. ordinarily paid by Government, and to ask you how far, if at all, the sum added to the £110,000, at which the line is offered to the Government, would affect the opinion expressed in your evidence on the subject.—F. J. MOSS, Chairman, Public Accounts Committee.—Wellington, 23rd July, 1886.

*Re Waimea Plains Railway.*—Railway Department, Head Office, Wellington, 26th July, 1886.—Sir,—In reply to your letter of the 23rd July, 1886, in which you state that it is estimated that about £8,000 will be added to the suggested price of £110,000 by the Government taking over the liability of the Insurance Association debt, and ask if that fact would affect the opinion expressed in my evidence, I have the honour to state that the opinion I expressed was “that if the company asked the Government for £110,000 cash, and did not ask the Government to take over any liabilities, the request would be a reasonable one.” This opinion would be unaltered. I may point out that if the sum to be paid is £118,000 instead of 110,000, the value as an investment to the Government might be taken at 2.54 per cent. instead of 2.73 per cent., assuming that the railway rates and fares are kept in the future as high as they now are, and that the Government can make a direct profit of £2,000 a year on working, and could in other ways effect an economy of £1,000 a year, if the line were Government property. Regarding the additional sum mentioned—namely, £8,000, I am not able to give personal evidence as to the correctness of this calculation, but I am under the impression that this sum would not correctly represent the additional cost.—I have, &c., J. P. MAXWELL, General Manager.—The Chairman, Public Accounts Committee, Wellington.

Wellington, 25th July, 1886.—F. J. MOSS, Esq., Chairman, Public Accounts Committee.—Sir,—I wish to ask Mr. Maxwell the following question, which I wish put on record in the evidence, as well as Mr. Maxwell's answer: Mr. O'Connor, Under-Secretary for Public Works, has stated in his evidence that you were, with Mr. Gavin and himself, appointed to draw up a report upon the value and purchase of the Waimea Railway. For the purposes of that report I understood Mr. O'Connor to say that a calculation has been made of the premium which would be required by the Insurance Association to allow the Government to pay off the amount due by the Waimea Railway Company, which bears interest at 6 and 6½ per cent.; that the minimum of that payment would be £8,100, the maximum £18,000. If the first sum were added to the amount offered by the Government it would bring the amount paid up to £118,100. You stated that you considered that, in your opinion, £110,000 was not too much to pay. In the view, however, that the present offer would mean £118,100 at the lowest computation. I wish to ask you if you consider this offer is a fair one, or if you consider that £110,000 is the full value, and whether you can recommend the Committee to agree to the offer made by the Government. I also think it would be well to write to Mr. Richardson to say whether the Government had taken this further sum, which will have to be paid to the Assurance Association, and if any arrangement had been made with the Assurance Association, in the event of a purchase, whereby a sum was fixed that the Government would pay in paying off the £75,000 due by the Waimea Railway Company.—Your obedient servant, JAMES G. WILSON.—Will Mr. Maxwell be good enough to send, for the Committee, an answer to the questions in this letter.—F. J. MOSS.—25th July, 1886.—My opinion was that £110,000 cash was not an unreasonable sum to ask. This was having regard to the average interest the colony gets from its investments in railways, which was £2 17s. 3d. per cent. on the cost of opened lines last year. I am aware of no further reasons having been adduced for increasing the price to £118,000. As the ratepayers of the district, while being relieved of the payment of £7,860, back rates, are still, I understand, to be responsible for part-payment of interest on the cost, jointly with the Government, their burden would be increased by adding to the price, as well as that of the Government.—J. P. MAXWELL.—26th July, 1886.—The Chairman, Public Accounts Committee.

FRIDAY, 23RD JULY, 1886.

Mr. C. Y. O'CONNOR, Under-Secretary, Public Works Department, examined.

53. *The Chairman.*] The Committee is inquiring into the purchase of this railway, as proposed by the Government in accordance with the agreement in Parliamentary Paper D.—6A. Have you seen the agreement?—Yes.

54. Will you give the Committee any information you may possess respecting this railway, as to its condition, its value, its likelihood of being useful to the general system of railways if purchased by the Government?—The value of the railway is an intricate question. It has—as I stated in connection with the other district railways last year—to be looked at from three points of view, each of which is entirely distinct from the others—first, what it would cost to construct a work of equal magnitude; second, what it is worth to the company from a commercial point of view; and, third, what it might be worth to the Government. It is not necessarily worth the same amount to the company that it would be to the Government. As regards the first of these values, I have made a careful examination of the company's statements, and have also made an estimate of the work done, and I think the value of the railway, as an engineering and construction work, is between £90,000 and £95,000.

55. Is that the intrinsic value?—Yes, the intrinsic value. That is what it would have cost to construct it at ordinary contract-rates.

56. *Mr. Cowan.*] What is that a mile?—About £2,500.

57. You have evidence of what it did cost?—Yes; but in the amount I have just stated I have not included anything for interest or financing in any shape. This estimate is on the basis of what it would cost in actual cash to construct a work of equal magnitude.

58. *Mr. Wilson.*] What length of time did it take to construct?—From the time it was first authorized to the time it was opened for traffic was a little under two years. It was authorized in December, 1878, and completed in August, 1880.

*Mr. Montgomery:* Perhaps Mr. O'Connor might state it from the time the railway was commenced until it was finished: I may have to ask him some questions about that by-and-by.

*Witness:* I stated two years.

59. *Mr. Montgomery.*] Yes, that was from the time it was authorized; but I want you to tell us how long it was from the time the work was commenced. I ask the question in order that we might be able to calculate the interest?—I have not that information with me, but I can supply it later on. (Have since ascertained that work was commenced in January, 1879.)

60. *The Chairman.*] From £90,000 to £95,000 is your estimate of the value of the line upon the basis of engineering and construction?—Yes, and I am now coming to its value to the company as a commercial enterprise, on the basis of the receipts the company would get from the railway, including all rates and revenue of whatever kind which they would be entitled to.

61. *Mr. Wilson.*] That is, without any question of foregoing any rates?—I mean if they sold under the provisions of the present Act as it stands. On that basis it would be worth to the company, according to my reckoning, about £97,000 in round numbers.

62. That is, taking everything into consideration—interest and all?—Yes, everything.

63. *Mr. Cowan.*] Interest during construction?—No, I have not included that. What I have given now is what would be the selling-value of the railway in the open market, calculated on the basis of all the probable receipts.

64. *Mr. Peacock.*] That £97,000 includes claims for interest?—It is what I reckon to be the commercial value of the railway—its value as a commercial enterprise, taking into account everything the company is entitled to get from the ratepayers and everybody else.

65. *Mr. Wilson.*] You have another value to place on it?—Yes—its actual value to the Government; and that is the most difficult value to define. The way I have endeavoured to get at it is by finding out how the Government would stand if they bought the railway at a certain price, and, next, how the Government would stand if they did not buy; taking account of what rates, &c., the Government would be liable for in each instance. That is the only way that I know of getting at it. On that basis it comes out that the amount which the Government could afford to give for it, and be just where they are at present, would be in or about £102,000.

66. *Mr. Montgomery.*] Does that estimate take into account the interest the Government is liable for?—The estimate I have given in this case is more a comparative than an actual estimate. An actual estimate of what the railway would be worth to the Government from a commercial point of view would be a very difficult thing to arrive at. I am merely estimating at present how the Government would stand if they purchased the railway for a given sum, and then how they would stand if they allowed it to continue under the present régime. On that basis I reckon that the Government could afford to give £102,000 for it, irrespective of the overdue rates.

67. *Mr. Peacock.*] What amount of overdue rates are in question?—About £16,000. According to my calculation the Government could afford to give £102,000 if the company gets the overdue rates, or £118,000 if the Government gets the overdue rates.

68. *Mr. Wilson.*] That is, the total rates?—Yes, the total rates up to the 31st March, 1886.

69. *Mr. Peacock.*] Will you state what the amount of rates due were up to March, 1886?—£15,600. That, deducted from £118,000, would leave something about £102,000 in round numbers.

70. May I ask you the nature of the distinction you make between the £97,000 estimated as the commercial value, including rates in arrear, and the other estimate of £102,000 which you say it would be worth to the Government without rates?—There is no necessary relationship between the two valuations. The £97,000 is, I think, about the value of the concern as a commercial enterprise, in view of the law as it stands at present; whereas the £102,000 is what I reckon the Government could afford to give for it, exclusive of the overdue rates, in view of how the Government will stand if they buy it as compared with how they will stand if they do not buy it. In considering the value of the railway to the colony as compared with its value to the company it has also been assumed that the Government could work it cheaper than the company could.

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 6½ 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 6½ 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

mean that it would pay 4 per cent. clear interest on that sum. Looking at it commercially, at any rate, you would have to show that it would give you 4 per cent. clear interest before you could say that it actually paid. Speaking generally, I mean you can get money at 4 per cent.; and anything that will give you 4 per cent. or more you might buy with advantage; but anything that would give less than 4 per cent. you would lose by, from a commercial point of view.

92. But Mr. Maxwell made a distinct statement that it would be worth while to the colony to make it at £110,000?—He probably meant to say so on a broad basis. I should suppose that he meant to say that it could be made to pay as well as our railways pay on the average.

93. I do not know whether you consider £118,000 too much?—If you are looking at it purely as an investment you could only afford to give what it would pay 4 per cent. upon.

94. *Mr. Cowan.*] Before we leave this question of the debentures, is it the fact that the Government has guaranteed £40,000 of them?—Yes.

95. What security is there attached to the balance of £35,000?—I thought the Government had guaranteed them all, but I am not sure. At any rate, the association has a mortgage over the railway for both lots.

96. Do you know what amount the Government has guaranteed?—I cannot say. I thought it was the whole amount.

97. Will you state to the Committee what the average cost per mile some of the lines of railway have been to the Government?—Some lines of that character, which follow the line of watershed between two rivers without crossing rivers, have been made very cheaply. The Malvern Hills line did not cost, I think, more than about £2,500 a mile. The Rakaia Railway, which the Government bought a short time back, is in a similar position. It cost about £3,000 a mile. Another railway from Ashburton has been made very cheaply, costing, I think, not much over £2,000 a mile.

98. Taking the whole of the railways of the colony, what is the average?—About £7,000 a mile. There is a great difference in the cost of railways which cross the lines of drainage and those which follow the watersheds.

99. But lines similar to this cost about £3,000 per mile?—Yes.

100. Have you seen the agreement entered into between the company and the Government?—Yes; I have it here.

101. The Third Schedule contains a number of sections of land, also fencing, and a number of other articles: have you placed a value on the contents of these schedules—that is, in making your valuation have you taken into consideration all that has been done—thirty-seven miles of fencing, for instance?—There is not thirty-seven miles of fencing done, to the best of my belief.

102. It says so in the schedule?—That must be a mistake if it says so. Of course the general spirit of the whole agreement is that they are to give us everything they have. The line is fenced in places, I think, over the whole thirty-seven miles, and thus the description conveys the whole of the fencing which exists; but the line is not continuously fenced throughout.

103. What I ask you is, whether you have decided on the value of the fencing?—Yes, upon the actual fencing done; but there is not thirty-seven miles of fencing.

104. Do you recollect the amount of fencing you allowed for?—I cannot say at this moment; but I think there would be from ten to fifteen miles of fencing done.

105. There are two locomotives: what do you reckon to be the value of them?—They are valued at about £3,000, I think.

106. Do you give credit for these in your calculation of value?—Yes.

107. What is the exact length of the line?—Thirty-six miles some odd chains.

108. What condition is it in as compared with the average of Government lines?—It is fairly good; but it was reported to us that many of the sleepers wanted renewal. We had a report made some time ago.

109. In that report is it stated that much expenditure would be required to put the line in thorough working order?—The report says, amongst other things, “The annual cost of renewing sleepers will now become very heavy.”

110. That applies to all railways according to age, does it not?—The Government railways are generally kept up to a high state of efficiency; as a rule, they are kept in first-class order: on companies' railways the lines are frequently run down a good deal, and then they do a lot of repairs all at once.

111. You conclude that the actual value of work and material on this line is £95,000—that is, equal to £2,500 a mile?—Yes. That is, I believe, what it cost. Taking fencing and everything, it only comes to that. It was built very cheaply.

112. Have you computed what is the value of it as an adjunct to the general system of railways?—No, I could not say.

113. Mr. Maxwell said yesterday that, in that view, it was worth £1,000 a year?—Yes, I believe he estimates it at that. What I understand him to mean is that if he had the working of this line in his own hands he could so arrange the running of trains that he would save £1,000 in working the Government lines.

114. Do you agree with him?—I cannot form an opinion as to its actual worth to the Government from that point of view; but I only know enough about it to be able to say that some such saving is, no doubt, practicable, and that it ought to be considered.

115. You have not computed it?—No, I have not got the necessary data.

116. You are not in a position to say that the estimate of £1,000 a year saving is excessive?—No, I have no reason to think it is excessive. In our calculations as to the value of the Waimea line we have taken no account of the gain that might accrue to the Government in the working of its own railways; but, on the other hand, we have not made any allowance for possible reduction in rates or charges on the Waimea line itself.

117. There is in favour of the purchase by the Government the fact that the line to the Switzers will join it?—Yes, but we have not allowed anything for that.



118. Taking it for granted that Mr. Maxwell's estimate of £1,000 a year as the saving in working this as an adjunct to other lines is not far out, what additional capital does that represent?—Assuming that we can get money at 4 per cent., £1,000 a year to the Government is worth £25,000.

119. That is, £25,000 of capital?—Yes; but as against that you have to consider how you will stand as regards the revenue on the Waimea line itself—that is to say, whether the Government would keep up a scale of rates and charges that is altogether exceptional.

120. Have you any knowledge of what the district is capable of supplying? Is the traffic an increasing or a decreasing one?—An increasing one, I should say, certainly.

121. You say the prospect of the traffic being kept up is good?—I should say so.

122. You say that the gross value will be £117,634 in the event of the company foregoing the whole of the rates due to them?—Yes, that is so; but I should have stated that that was the value on the 31st March, 1885. It is a little different now.

123. This agreement is to come into operation on the 31st March, 1886?—Yes: that makes the difference.

124. That would not be very great, I presume?—It will increase the value to the Government by £3,000, nearly—that is, presuming that the Government gets the right to collect the back-rates.

125. Your calculation previously was computed from the 31st March, 1885?—Yes; but the agreement is proposed to take effect from the 31st March, 1886. That would make the railway worth £3,000 more to the colony, on the assumption that the Government gets the whole of the back-rates. If they do not get the rates it may be less rather than more value.

126. With the knowledge that the company is to forego half the rates, would that increase of value be reduced by a half?—Our valuation was made on the assumption that the Government took over the whole of the rates.

127. Amounting to how much—£15,600?—Yes, about that.

128. Deducting the rates from that gross total brings the amount to what you think would be the value of the line?—Yes—to £102,000.

129. Under the District Railways Act the Government have called upon the company to forego half the rates?—Yes.

130. Is that the reason the Government value has risen from £102,000 to £110,000?—No. The valuation was about £118,000 in all, including all back-rates; and the Government gives £110,000 in money, and leaves the company with the right to collect about £8,000 of the back-rates, which comes in all to about £118,000.

131. You have stated that there is an amount of Government-guaranteed interest which has not been paid?—Yes: it comes to about £2,700.

132. Is that, in your opinion, an equitable or a legal debt from the Government?—It is not a legal debt: I think it is an equitable debt.

133. It is unsatisfied?—Yes, it is unsatisfied; and a large amount of rates is in a similar condition. But this is all included in the £118,000—I mean, that full credit for all these things is given to the company in the estimate of £118,000.

134. Looking to the question of general policy, have you considered the propriety or otherwise of relieving that district of the immense burden of rates that has accumulated?—Yes. I certainly think, if it can be done without entailing a large loss upon the colony, it ought to be done: and on the first blush of the matter it seemed that it ought to be easy to do, as the company is guaranteed 7 per cent., whereas the Government can get money for 4 per cent; but the matter is made much more difficult by these debentures that the company has issued at a high rate of interest.

135. Then you think that consideration for the ratepayers should come into the calculation?—Certainly I think so.

136. You are aware that a certain sum of money has been expended on the branch line from Riversdale to Switzers?—Yes, that is so, and there is further provision for it in the Loan Act of this year.

137. Is that fact another element in the question whether the Government should possess this Waimea Plains Railway?—Yes. We have stated that in the notes accompanying our estimate.

138. You have not put a value upon it?—No; we have not attempted to turn it into figures.

139. Are you aware that this Switzers branch will open up a large agricultural district?—So I have heard; but I do not know the district.

140. Will the fact of the Insurance Association reverting back to the Government control affect the position you take up?—I should think not. I do not presume that the Government would agree to sell at a less price than the insurers were willing to accept.

141. Then the actuarial value would come into the calculation of the price of this railway?—I think it is bound to. If you pay a given amount of interest it means to the Government a given amount of capital, although it may not express that amount.

142. Can the cost of premium payable for redeeming this loan be fairly charged as against the working of the railway?—Yes, I think so. It is almost as broad as it is long. The ratepayers will merely pay a higher rate of interest, instead of paying a lesser rate of interest on a larger sum—I mean on the sum we should have to pay for the equity of redemption.

143. You see no difficulty in arranging the question of interest?—There is no difficulty, provided the excess of interest is shared, share and share alike, between the Government and the ratepayers.

144. *Mr. Montgomery.*] Has Mr. O'Connor stated the reason why the present value to the company is stated at £97,000?—That was a calculation based on the probable receipts of the company from all sources, and the capital which that amount of receipts would express. We set down as nearly as we could the probable receipts from the railway year by year for twenty years, and calculated from that.

145. Why twenty years?—Because the whole thing is based on twenty years. Under the District Railways Purchasing Act the ratepayers continue to pay for that period.

146. That is taking for granted that it is purchased under the conditions of the Act of last year?—As a matter of fact, the commercial value is taken on the assumption that it is not purchased.

147. Then why say twenty years?—The reason we took twenty years was that in cases where the purchase is made the ratepayers have to pay for twenty years, and we therefore carried all the estimates on for twenty years in order to have them uniform; but where the calculation assumed that the Government would not buy, then, of course, we only included rates due under existing Acts. If the Government does not buy, the liability of ratepayers ceases at the end of fifteen years from date that railway was opened for traffic.

148. I want to know how long the ratepayers are liable for from this date?—Up to 1897—that is, eleven years from this date.

149. And the Government guarantee?—That is for same period.

150. Respecting the 30-per-cent. clause: will you state the operation of that clause?—The effect of it is that, from and after the end of five years from the time the railway is opened for traffic, 30 per cent. of the gross earnings has to be reckoned as profit, whether or not there is any such profit. Putting it to practical application, we ascertain what the actual profit is, and if it exceeds 30 per cent. of the gross earnings, we deduct the actual profit from the amount of the guarantee. If, on the other hand, the actual profit is less than 30 per cent. of the gross earnings, then we take 30 per cent. of the gross earnings from the amount of the guarantee.

151. So that this 30 per cent. of the gross earnings very materially affects the amount the Government and the ratepayers will have to pay in the shape of guaranteed interest?—Yes. For several years the company made hardly any actual profit. The average profit made for the first five years of its existence was only a small percentage of the gross receipts. It did not amount to anything like 30 per cent. If the 30-per-cent. clause had operated during that period the ratepayers and the Government would have had to pay very much less than they were actually rated for.

152. During that five years they had to pay rates irrespective of the 30-per-cent. clause. They had, then, to pay the actual deficit?—Yes; that is so. During five years the company got in actual receipts about £26,000 altogether.

153. *Mr. Cowan.*] That is irrespective of rates?—Yes; that is actual receipts—gross earnings. That averaged, say, £5,000 a year. The actual profit during the same period was £3,200: that, for each of the five years, would be, say, £600 a year. Thus you have—gross earnings, £5,000 a year; and actual profit, £600 a year. But 30 per cent. of £5,000 would be £1,500; so that if the 30-per-cent. clause had been in operation during those years the ratepayers and the Government would have escaped payment of £900 a year, which they are debited with.

154. *Mr. Montgomery.*] The 30-per-cent. clause came into operation at the end of the first five years?—Yes; and the case is still more noticeable in the last year of the five years. In that year the company got in actual receipts £6,000, and they only made a profit of £40. If the ratepayers and the Government had got credit for 30 per cent. that year they would have got credit for £1,800, whereas, as a matter of fact, they only got credit for £40.

155. You stated that it was two years from the time the line was authorized until it was opened. Did you mention this in connection with charging interest on capital?—Yes, that is so.

156. Can you say what was the time the works commenced and capital began to be expended?—No; I will get the information and put it in evidence. [Works commenced in January, 1879, and completed in August, 1880.]

157. Will you say also, if you please, how many months' interest might be charged on the whole capital, considering the rate at which it was expended?—That is, what would be the interest on capital? At what rate shall I calculate the interest?

158. *Mr. Wilson.*] They had a right to look for 7 per cent. Say what would be the interest on the capital at 7 per cent.? If they found their own money they were entitled to 7 per cent.?—On this basis I reckon that interest on outlay during construction would amount to about £6,000.

159. *Mr. Montgomery.*] Was your calculation as to what it would cost the Government to make the line in view of providing the money for it at 4 per cent?—I was not calculating any interest whatever. The estimate I gave was the probable cash cost.

*Telegram from Mr. R. H. Leary, Dunedin, to Mr. Cowan, M.H.R.*

Dunedin, 26th July, 1886.—Cuthbert Cowan, M.H.R., Wellington.—Following are the shareholders, Waimea Plains Railway Company: John Butement, F. C. Borges, Basil Sievwright, J. T. Mackerras, N. Y. A. Wales, J. H. Scott, John Macaffer, Robert Reid, James Gray, Robert Wilson, James Mills, R. A. Lawson, Thomas Green, Darcy Haggitt, Bendina Hallenstein, L. E. Reade, Albert Beaver, James Wilkie, R. A. Low, William Ames, Alexander Matheson, F. E. Mullarly, Keith Ramsay, James Robin, William Farnie, Edward Bence, Alexander Burt, John Wilkins, George Beattie, Robert Lorimer, Donald Stalker, John Major, John Roberts, John Hislop, Renshaw, Denniston, and Co., John Frankeiss, Esmond Roberts, E. E. C. Quick, Joseph Clarke, R. H. Leary, G. M. Bell, Donald Boyd, Henry Driver, W. J. M. Larnach, Flora M. Nickolson, John Robertson, Matthew Holmes, G. W. Elliott, George Turnbull, D. A. McLachlan, B. C. Calverley, Julius Wenkeim, Michael Welsh, H. G. Cameron, G. F. Henry, James Turnbull, James Hockworth, Horace Bastings, A. E. Richardson, Peter Pirie, Alexander Michie, William Rice, W. J. M. Purdie, James Douglas, Mary Walls, Proudfoot and McKay, John Mitchell, James Williamson, John Murray, Jane M. McLean, T. S. Graham.—R. H. LEARY, Secretary.