

and expenditure devolved on the Department, within the limits prescribed by parliamentary control. The objects aimed at were, firstly, to set up an organization that would apply the test of financial results to the administration of the Department, and, secondly, to ensure that the accounts should record the results of the Department in the clearest possible form. The accounts have been subdivided to show separately the results of purely railway operation, and of subsidiary services such as refreshment-rooms, Advertising Branch, Lake Wakatipu steamers, and departmental dwellings.

Expenditure has been reclassified to furnish an accurate analysis and allocation of costs for the information and guidance of officers charged with the duty of controlling expenditure.

In order to make systematic provision for depreciation and to equalize the losses arising from fires, slips, floods, and accidents, regular monthly contributions have been levied against working-expenses and credited to special funds.

The accounts for the year under review are published in the revised form. In comparing results with previous years due allowance has to be made for the altered system of accounting. As far as possible the figures for the year 1924–25 have been adjusted to make the comparisons as clear and accurate as possible, but the details are in many cases necessarily only approximately correct.

DEVELOPMENTAL LINES.

In pursuance of the policy previously announced, an investigation has been made into the finances of branch lines and isolated sections of railway which were built in order to encourage settlement and to develop the resources of the country. Officers of the Treasury, Audit, Crown Law, and Railway Departments conferred in order to determine an equitable basis for arriving at the true position of such lines after assessing their value as feeders of the main lines.

The results are shown in detail in a table appended to this Statement. The outstanding facts disclosed by the figures are the low earning-capacity of these lines and the high ratio of fixed capital charges to revenue. At the present stage of development the earnings could not be materially increased even if the railway had a monopoly of the traffic. Since the investment in railways consists mainly of loan-moneys, the capital charges cannot be reduced, as even if the lines were closed the capital charges would still have to be met.

The only method by which any appreciable improvement can be effected is by the reduction of the working-expenses. In order to reduce traffic and locomotive charges experiments are now being made with light rail-cars of various types, while maintenance charges are also being reduced to the lowest point consistent with safe working. The best that can be expected of such means is, however, the reduction of the gap between operating revenue and expenditure. In very few cases is there any immediate prospect of obtaining any net revenue to meet capital charges.

The problem of providing adequate transport facilities in sparsely settled countries is not peculiar to New Zealand. Investigation shows that the practice in other countries is to pay the railway authority from the public funds for remunerative services involved in the working thereof, it being recognized that the benefits accruing to the State as a whole far outweigh the cost to the State.

In New Zealand the payment made to the railways has been confined to specified branches and to isolated sections of line not connected with the main system. The payment is so regulated that every improvement effected in the results on unassisted lines must automatically reduce the payments in aid of the branch lines, and in a lesser degree of the isolated sections.

There has been from time to time some criticism of the arrangement under which the specified branches and isolated sections of line are directly subsidised from the Consolidated Fund, such criticism being generally in the direction of suggesting that the payment involves practically giving the Railway administration a blank cheque on the Consolidated Fund wherewith to provide services at its discretion on branch lines, the inference being apparently that services wasteful in their nature or unjustified will be provided under such circumstances which would not otherwise have been established. Such a suggestion is quite wrong, and must