

1917.

VICTORIA.

FINAL REPORT

OF THE

ROYAL COMMISSION

ON THE

WORKING AS A BUSINESS UNDERTAKING

OF THE

VICTORIAN RAILWAYS.

PRESENTED TO BOTH HOUSES OF PARLIAMENT BY HIS EXCELLENCY'S COMMAND.

By Authority:

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GEORGE THE FIFTH, *by the Grace of God of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas King, Defender of the Faith, Emperor of India.*

TO our trusty and well-beloved TOM RICHARD JOHNSON.

GREETING :

WHEREAS the Governor of our State of Victoria with the advice of the Executive Council thereof has deemed it expedient that a Commission should forthwith issue to inquire into the working as a business undertaking of the Victorian Railways more especially in relation to the prevailing rates charges methods practices and policies existing adopted or favoured by those concerned or connected with the management of such Railways with the view of ascertaining whether and how far such matters, or some or any of them, is or are, or is or are not, ineffective for the purpose of or prejudicial to the earning of revenue or unnecessary as tending to increase the working expenses of the Railways, and generally to report such alterations and improvements in the organization and conduct of the business of the Victorian Railways as may seem best fitted to increase the railway revenue and keep down expenses without unduly hampering traffic or production : NOW KNOW YE that we reposing great trust and confidence in your knowledge and ability have constituted and appointed and by these presents do constitute and appoint you TOM RICHARD JOHNSON to be our Commissioner for the purposes aforesaid : AND WE do by these presents give and grant unto you full power and authority to call before you such person or persons as you shall judge likely to afford you any information upon the subject of this our Commission and to inquire of and concerning the premises by all other lawful ways and means whatsoever : AND WE will and command that this our Commission shall continue in full force and virtue and that you shall and may from time to time and at any place or places proceed in the execution thereof and of every matter and thing therein contained, although the same be not continued from time to time by adjournment : AND WE direct that you do with as little delay as possible and before you leave the State of Victoria report to us under your hand and seal the result of the said inquiry.

IN TESTIMONY WHEREOF we have caused these our Letters to be patent and the Seal of our said State to be hereunto affixed.

(I.S.) WITNESS our trusty and well-beloved the Honorable SIR ARTHUR LYULPH STANLEY, Knight Commander of the Most Distinguished Order of Saint Michael and Saint George, Governor of the State of Victoria and its Dependencies in the Commonwealth of Australia, &c., &c., at Melbourne, in our said State, this seventeenth day of April, One thousand nine hundred and seventeen, and in the seventh year of our reign.

(Signed) A. L. STANLEY.

By His Excellency's Command,
(Signed) D. McLEOD,
Chief Secretary for the State of Victoria.

17.4.17.

Entered on record by me in the Register of Patents Book No. 29, page 2, this seventeenth day of April, One thousand nine hundred and seventeen.

(Signed) W. A. CALLAWAY,
Under-Secretary.

FINAL REPORT.

*To His Excellency the Honorable SIR ARTHUR LYULPH STANLEY, Knight
Commander of the Most Distinguished Order of Saint Michael and Saint
George, Governor of the State of Victoria and its Dependencies in the
Commonwealth of Australia, &c., &c.*

MAY IT PLEASE YOUR EXCELLENCY :

Your Commissioner, appointed on the 17th day of April, 1917, to inquire into--

The working as a business undertaking of the Victorian Railways, more especially in relation to the prevailing rates, charges, methods, practices, and policies existing, adopted or favoured by those concerned or connected with the management of such Railways, with the view of ascertaining whether and how far such matters, or some or any of them is, or are, or is, or are not, ineffective for the purpose of or prejudicial to the earning of revenue or unnecessary as tending to increase the working expenses of the Railways, and generally to report such alterations and improvements in the organisation and conduct of the business of the Victorian Railways as may seem best fitted to increase the Railway revenue and keep down expenses without unduly hampering traffic or production,

has the honour to submit the following Report :—

The inquiry was opened without delay after the issue of the Commission, and has proceeded without interruption.

Forty-two witnesses have been called, including Members of the Legislature, two of the Railways Commissioners, several of the principal Railway officers, and other gentlemen not connected with the Railways who were prepared to furnish information useful to the inquiry.

One hundred and eighty-seven exhibits have been put in as evidence, and afford valuable information with regard to many matters affecting the working of the Railways, either directly or indirectly.

The total route mileage of the Victorian Railway system is 4,126 miles, and your Commissioner has travelled over by daylight, and inspected, some 1,977 miles, the routes covered including practically all the main arteries of traffic and a number of typical branch lines. Several of the principal stations have been visited, including Bendigo, Ballarat, Ararat, Geelong, Seymour, and Benalla ; and, the lay-out of station-yards, and the arrangements at locomotive depôts in country districts, have been investigated.

Your Commissioner has also spent two days at the Newport Locomotive Works, and made himself thoroughly acquainted with the scope of the operations carried on there; and the Locomotive Depôt at North Melbourne has been inspected.

The Gravity Shunting Yards and the Goods Depôts have also been visited, and the methods of handling goods traffic examined.

In visiting the South-Eastern line, an opportunity was taken to inspect the surface arrangements at the State Coal Mine, but it was not deemed necessary to inspect the underground working.

INTERIM REPORT.

On the 19th day of May, 1917, your Commissioner submitted an Interim Report, of which the following (omitting formal parts) is a copy :—

“ Your Commissioner has made considerable progress in the inquiry with regard to prospective revenue and working expenses, and it is in evidence that the estimated deficit for the year 1917–18 will approach, if not exceed, £750,000.

“ Your Commissioner is making careful inquiry into the possibility of effecting economies in the present methods of working, but sees no prospect of materially reducing such estimated deficit by such means.

“ Under these circumstances, your Commissioner has come to the conclusion that it is necessary to increase the fares and freights at present in operation upon the Victorian Railways so as to provide at least £500,000 of additional revenue for the year 1917-18.

“ Your Commissioner begs to suggest that such increased charges should take effect from the commencement of the next financial year, 1st July, 1917.

“ These recommendations I have the honour to submit for Your Excellency’s consideration.”

Your Commissioner, having come to the conclusion that substantially increased fares and freights were unavoidable if the finances of the railways were to be placed on a sound basis by ordinary commercial means, considered it advisable to report at an early stage of the inquiry, in order that the increased fares and freights, if decided upon, might be made operative from the first day of the financial year, commencing 1st July, 1917.

PUBLIC CRITICISM OF RAILWAY MANAGEMENT.

While recognising that an absolutely independent inquiry within the limits of the Commission was essential, it was considered desirable to endeavour to ascertain the substance of any criticism directed in recent times against the management and working of the Victorian Railways ; and, with this object in view, a careful perusal was made of the official reports of the Parliamentary Debates of both Houses of the Legislature of Victoria for the 1916 Session, and also of press articles bearing upon the same subjects.

The criticisms disclosed were of a very general nature, the chief subjects being the high percentage of working expenses to gross revenue, viz., 64·94 per cent. for the year 1915–16, as compared with previous periods, and the fact that, following a number of years in which substantial surpluses were shown by the Railways, in the year 1914–15 the heavy loss of £842,436 was made on the year’s operations ; and that in the next year, 1915–16, although a record gross revenue of £5,705,162 was obtained, as well as a record revenue of 8s. 3·03d. per train mile, a loss of £337,952 was made. It was also alleged, in general terms, that there was an overmanning of the Department ; that the system of management was at fault ; and that a general lack of supervision of employees was noticeable.

With a desire to obtain, if possible, evidence on these points, invitations were extended to several Members of the Legislature to attend personally and give evidence before the Commission. Some few only of those so invited availed themselves of the opportunity given, partly owing to the incidence of the Federal elections, but the evidence tendered failed to disclose any particulars of the alleged overmanning of the Service, or of the suggested defects in management and supervision.

As regards criticisms in the public press, the editors of the *Age* and the *Argus* were each invited to depute a representative to speak to statements which had appeared in their columns, but the invitations, although acknowledged, were not accepted.

It was, therefore, necessary, to proceed with the inquiry without anything established by criticism of the Railway management, other than that, as already stated, the working expenses of the Railways represented 64·94 per cent. of the gross revenue for the year 1915–16, and that, although the revenue for that year was the greatest on record, a loss of £337,952 was shown.

WORKING RESULTS FOR 1915-16 AND 1916-17, AS COMPARED WITH PREVIOUS YEARS.

Having in view the heavy deficits already referred to—for the year 1914-15 of £842,436, for 1915-16 of £337,952, and also an estimated deficit for 1916-17 exceeding that of 1915-16—it seemed desirable at the outset of the inquiry to ascertain definitely whether—and, if so, to what extent—the deficits referred to were caused by unsatisfactory operation as compared with the working results obtained during the preceding period of prosperity from 1905-6 to 1913-14, or whether they were due to other causes, or to abnormal and exceptional circumstances not connected with the ordinary working of the system.

Accordingly, an investigation has been made into the conditions of working covering the periods under review, and comparisons and statements setting out the results were put in evidence. These show clearly that, as regards actual train operation, the results obtained in 1915-16 and the first eight months of 1916-17 compare favorably with the results in any of the previous years. The following short table will serve to indicate this:—

| | Year 1905-6. | Year 1910-11. | Year 1915-16. | 8 months, 1916-17. |
|---|--------------|---------------|---------------|--------------------|
| (A) Percentage of actual to authorized loads of locomotives over ruling grades— | | | | |
| Mixed trains | 64 | 68 | 70 | 71 |
| Goods trains | 80 | 79 | 83 | 88 |
| (B) Average gross tonnage per traffic train mile— | | | | |
| Passenger trains | 151 | 175 | 192 | 199 |
| Mixed trains | 161 | 172 | 199 | 201 |
| Goods trains | 267 | 256 | 300 | 317 |
| (C) Average goods and live stock net tonnage per— | | | | |
| Mixed train mile | 38 | 34 | 38 | 41 |
| Goods train mile | 106 | 98 | 118 | 129 |
| Loaded truck mile | 6·2 | 6·5 | 7·5 | 7·8 |

In the foregoing table, the year 1905-6 is considered a fair starting point, as being the third year of the new Administration, consisting of three Commissioners, appointed in 1903, and in which a surplus of £99,328 was shown; and 1910-11 is chosen as the last year of the same Administration, in which there was a record surplus of £282,975.

It should be borne in mind that the comparison in part (A) of the above table is not affected by the increased tractive power of locomotives put into service in the years between 1905-6 and 1916-17, the figures representing the percentage of actual to authorized load of the locomotive over the ruling grade, and they are significant from the point of view that, the nearer the actual loading approaches to the possible load, the less is the train mileage necessary to provide a given amount of transport, and, all other conditions being equal, the working expenses incurred in the operation are smaller.

The average gross tonnage per traffic train mile, as shown in part (B), also shows a satisfactory increase, this being brought about to some extent by the greater tractive power of the locomotives now in use.

It will also be noticed in part (C) that the average goods and live stock net tonnage per loaded truck mile shows a considerable advance.

Evidence was also tendered as to the working expenses (excluding special and abnormal charges) per gross ton mile and per train mile for corresponding periods. These are set out in the following table:—

| Year. | Working Expenses per Gross Ton Mile. | Working Expenses per Train Mile. |
|-------------------|--------------------------------------|----------------------------------|
| | <i>d.</i> | <i>s. d.</i> |
| 1905-06 | 0·274 | 4 3·08 |
| 1910-11 | 0·267 | 4 6·42 |
| 1915-16 | 0·279 | 5 4·31 |
| (1915-16) | (0·217) | (4 2·04) |

A further comparison was made as to the results for the years 1905-6 and 1915-16, on the assumption that the rates of wages and prices of coal and other materials prevailing in the year 1905-6 also prevailed in the year 1915-16. The result for the latter year, on this assumption, is shown in brackets at the foot of the above table.

The foregoing figures, in conjunction with the fact that the revenue earned per train mile for 1905-6 was 8s. 0·79d. as compared with 8s. 3·03d. in 1915-16, notwithstanding the operation of higher fares and freights in the former year, point clearly to the conclusion that the retrogression in the financial position in the more recent period cannot be ascribed to inefficient working.

REVIEW OF FINANCIAL POSITION.

As the inquiry proceeded, it was evident that the present financial position of the Railways, showing a deficit amounting for the year ending 30th June, 1916, to £337,952, was brought about, not by serious loss on the actual working of the Railways, but by—

- (a) The incidence of abnormal charges against working expenses ;
- (b) The large increase in interest charges, due to exceptional capital expenditure ; and by
- (c) The increase in wages and cost of materials.

Before dealing particularly with the financial position for the year 1915-16, it may be interesting to review the financial results of the Railways over a period of years.

PERIOD PRIOR TO 1903-4.

The evidence of Mr. E. B. Jones, one of the Railways Commissioners, sets up a brief review of the financial aspect of Railway working, commencing with the year 1872, but your Commissioner is of opinion that it is not necessary to say more than that, for the fifteen years prior to 1903-4, a vigorous policy of Railway construction appears to have been followed, the new lines opened for traffic during these years amounting to 1,365 miles—an average of 91 miles per annum—while the deficits were large and consistent. During this period the Railway policy of the Government appears to have been influenced largely by a desire to develop the rural districts of the State.

PERIOD FROM 1903-4 TO 1910-11 INCLUSIVE.

With the advent of a new Administration in 1903-4, when three Commissioners were appointed, there was a marked change in Railway policy. During this régime, covering a period of eight years from the year 1903-4 to 1910-11 inclusive, the total capital expenditure was comparatively small. This is shown in the following table :—

STATEMENT OF EXPENDITURE CHARGED TO CAPITAL ACCOUNT FOR TWENTY YEARS ENDING 30TH JUNE, 1916.

| Year ending 30th June. | New Lines and Surveys. | Additions and Improvements on Existing Lines. | Rolling-stock. | Total. |
|------------------------|------------------------|---|----------------|------------|
| | £ | £ | £ | £ |
| 1897 | 24,186 | 127,214 | 69,851 | 221,251 |
| 1898 | 12,551 | 177,512 | 82,839 | 272,902 |
| 1899 | 112,436 | 206,318 | 135,393 | 454,147 |
| 1900 | 190,626 | 290,656 | 121,086 | 602,368 |
| 1901 | 203,077 | 167,914 | 115,594 | 486,585 |
| 1902 | 171,123 | 154,315 | 142,942 | 468,380 |
| 1903 | 208,200 | 85,952 | 66,557 | 360,709 |
| 1904 | 33,273 | 72,458 | 136,479 | 242,210 |
| 1905 | 44,301 | 39,750 | Cr. 21,710 | 62,341 |
| 1906 | 31,657 | 81,837 | 34,110 | 147,604 |
| 1907 | 34,250 | 112,979 | 12,199 | 159,428 |
| 1908 | 38,125 | 187,722 | 174,168 | 400,015 |
| 1909 | 129,976 | 269,752 | 158,558 | 558,286 |
| 1910 | 197,928 | 250,511 | 208,126 | 656,565 |
| 1911 | 253,882 | 328,125 | 397,826 | 979,833 |
| 1912 | 355,959 | 445,796 | 914,634 | 1,716,389 |
| 1913 | 397,915 | 544,606 | 816,785 | 1,759,306 |
| 1914 | 481,459 | 770,701 | 815,927 | 2,068,087 |
| 1915 | 535,610 | *1,452,826 | 726,209 | 2,714,645 |
| 1916 | 360,678 | *1,429,008 | 504,341 | 2,294,027 |
| Total | 3,817,212 | 7,195,952 | 5,611,914 | 16,625,078 |

* Includes expenditures towards Electrification of the Melbourne Suburban Lines, as follows :—

| | |
|--------------|------------------|
| Year 1914-15 | £751,980 |
| Year 1915-16 | 690,482 |
| | <u>1,442,462</u> |

During this period the total capital expenditure for all purposes was £3,206,282, or an average of about £400,000 per annum, and 180 miles of railway were opened—an average of $22\frac{1}{2}$ miles per annum. The increase in interest charges was small, from £1,473,532 in 1902-3 to £1,516,764 in 1910-11, an increase of only £43,232, a result contributed to also by the renewal of loans on more favorable terms.

In consequence of the above conditions, the considerable prosperity during the period, and the efficient Administration, large surpluses were shown (excepting in the year 1907-8) during the years 1905-6 to 1910-11.

Comparatively small sums were spent in increasing the equipment as regards locomotives, carriages, and waggons; and it is clear, as stated by Mr. Jones in his evidence, that the potential reserve of the system was to a large extent reduced, if not altogether exhausted, during this *régime*.

At the same time, it is fair to point out that the members of that Administration recognised the necessity of providing for less prosperous times by having set up in 1907, through Parliament, two Funds, entitled :—

- (a) The Railway Interest Reserve Fund; and
- (b) The Railway Additions and Improvements Fund,

contributions to which Funds were to be made from surpluses arising from railway working. These Funds will be referred to in greater detail at a later stage.

PERIOD 1911-12 TO 1915-16 INCLUSIVE.

As contrasted with the period last dealt with, the period 1911-12 to 1915-16 is remarkable for a very great expansion in capital expenditure. Reference to the foregoing table shows that for the five years the additional capital expenditure amounted to £10,552,454, or an average of about £2,110,000 per annum—as compared with £400,000 per annum for the previous eight years.

The interest charges increased in much greater proportion—from £1,516,764 to £1,927,107, a total increase during the five years of £410,343, as compared with a total increase of £43,232 during the preceding eight years.

The allocation of the capital expenditure during this period is shown for each year in the table referred to, and, summarized for the five years, is as follows :—

| | |
|--|-------------|
| New lines and surveys | £2,131,621 |
| Additions and improvements on existing lines | 3,200,475 |
| Electrification of suburban lines | 1,442,462 |
| Rolling-stock | 3,777,896 |
| | £10,552,454 |

The expenditure of £2,131,621 on new lines and surveys indicates an active construction policy, the increase in the average number of miles open for traffic during the period being 450, or an average increase of 90 miles per year, as compared with the average increase of $22\frac{1}{2}$ miles during the preceding eight years.

The expenditure of £3,200,475 on additions and improvements on existing lines also indicates a great expansion as compared with the work done during the preceding period. The expenditure was mainly involved by works which may be indicated under the following headings :—

- (a) Duplication and regrading of lines, and new station buildings;
- (b) Rearrangement and extension of station yards;
- (c) New workshops, additions to workshops, and provision of machinery, &c.;
- (d) Gravitation yards, shipping shed, additional accommodation, power signalling installation;
- (e) Strengthening and improvement of bridges;
- (f) Relaying of lines with heavier rails.

The expenditure on electrification of £1,442,462 has been wholly unproductive up to the present, and, besides contributing its quota to the very heavy interest charges mentioned above, has also entailed heavy charges against the working expenses of the Department.

The expenditure of £3,777,896 on rolling-stock for the period under review was also exceptional as compared with similar construction in the previous eight-year period. As previously indicated, the potential reserve of the system had been, to a large extent, reduced, and this became evident in the succeeding years; as, in consequence of the

The item "Special and Abnormal Charges against Working Expenses, £292,264" appearing in the foregoing financial statement, may be divided into three categories, viz.:

| | | |
|--|---------|----------|
| (a) <i>Due to War</i> :— | | |
| (1) Protection of important bridges and other structures against the enemies of the Empire | £16,339 | |
| (2) Training of additional staff owing to the enlistment of qualified employees with the Expeditionary Forces | 5,500 | |
| (3) Retention of busy-season staff for a longer period than would have been necessary if adequate shipping facilities for the export of grain had been available | 9,000 | |
| (4) Increased price and additional insurance, freights, and exchange in respect of stores and materials, owing to the War | 39,531 | |
| (5) Allowances to bring the minimum remuneration of adult employees to 8s. 6d. per day and of adult clerks to £135 per annum, and corresponding allowances to certain lads and female employees to compensate for increased cost of living occasioned by the War | 41,909 | |
| (6) Premiums upon life assurance policies effected under the Regulations by employees serving with the Expeditionary Forces | 3,890 | |
| | <hr/> | £116,169 |
| (b) <i>Due to Electrification of Suburban Railways</i> :— | | |
| Alterations to rolling-stock and to bridges, &c., in connexion with the Electrification of the Suburban Railways | | 63,013 |
| (c) <i>Relaying with heavier rails</i> :— | | |
| Relaying of lines with heavier rails, in order to release serviceable rails for the construction of new lines .. | 100,000 | |
| Interest on special advances to the Department for the relaying of lines with heavier rails | 13,082 | |
| | <hr/> | 113,082 |
| | | <hr/> |
| | | £292,264 |

These charges are clearly abnormal as regards the ordinary working of the Railways, but as regards Item (C), your Commissioner is not satisfied that this is a proper charge against the working expenses for the year, and this matter is dealt with in a later section.

The interest charges and expenses for the year increased by the sum of £159,300 as compared with similar charges for the previous year. This large increase was due—

- (1) To the additional capital expenditure for the year amounting to £2,294,026; and
- (2) To the fact that on some large sums of money raised in 1914–15 less than a year's interest was paid by the Treasury in that year, and the Railways were debited with the actual amount of interest so paid; while in the year 1915–16, a full year's interest was paid on these sums.

It will be noted that the capital expenditure on Electrification to the end of 1915-16 amounted to £1,442,462, and the interest charge at 4 per cent. amounted for that year to £57,696. This sum, added to the special abnormal charges for the year (£292,264), gives a total of nearly £350,000, which more than equals the deficit for the year already referred to.

The position for the year 1915-16 therefore appears to be that, if the abnormal conditions had not been present, and capital expenditure had remained at a standstill, the revenue for the year would have been sufficient to meet the working expenses and interest charges.

YEAR 1916-17.

Estimates for the year 1916-17, showing the position as compared with the last completed financial year 1915-16, were also put in evidence. A short analysis of the estimate shows increases in working expenses, as compared with the previous year, as set out hereunder :—

| | |
|---|----------|
| War bonus to Staff | £64,000 |
| Increments to Staff | 44,000 |
| Additional cost of coal | 130,000 |
| Additional cost of other materials | 33,100 |
| Maintenance of additional rolling-stock | 14,000 |
| Additional pensions and gratuities | 9,053 |
| Additional contribution to Accident and Fire Insurance Fund | 10,000 |
| Additional interest charges | 95,930 |
| | £400,083 |

The above increases, however, were estimated to be off-set to the extent of £280,924 by increased revenue, and decreased debits to working expenses in respect of the items protection of bridges, alterations to rolling-stock and bridges in connexion with electrification, and other items, leaving an estimated increase in the deficit of £119,159, which, added to the deficit of £337,952 for 1915-16, made an estimated deficit for the year 1916-17 of £457,111.

It will be noticed that the conditions which were regarded as abnormal in 1915-16 are, in the above figures, shown to be asserting themselves to a greater extent, as indicated by the increased war bonus to Staff, and additional costs of coal and other materials; and, also, that the interest charges have again shown a large increase. The debits to working expenses for this year include an item of £100,000 for relaying with heavier rails (corresponding with a similar debit for the year 1915-16), and also include a charge of £135,000 on account of additions and improvements. These items will be dealt with in later paragraphs.

YEAR 1917-18.

Estimates for the year 1917-18 were also put in evidence, showing the financial position as compared with the estimated results for 1916-17. These estimates were based on the assumption that the revenue for 1917-18 would be the same as in 1916-17 (an assumption which your Commissioner considers optimistic), and also on the assumption that the expenses, other than those mentioned below, will be the same in the year 1917-18 as in the previous year.

The additional charges which it was estimated would be borne during the year 1917-18 are as under :—

| | |
|---|----------|
| (1) Still further cost of coal | £50,000 |
| (2) Special maintenance debit deferred from 1916-17 | 100,000 |
| (3) Rough estimate of Staff increases, as result of reclassification (increases to date from 1st April, 1917) | 100,000 |
| (4) Increased interest charges | 80,000 |
| | £330,000 |

Item (2) will be dealt with in a separate section at a later stage, but it will be seen that, as to the other items, the additional expenditure is beyond the control of the Commissioners.

As already explained, these estimates were on the assumption that the revenue for 1917-18 would equal that of 1916-17, and the prospect for the year 1917-18 (with which your Commissioner was more particularly concerned) was as follows:—

| | | | |
|--|----|----|----------------|
| Estimated deficit 1916-17 | .. | .. | £457,111 |
| Additional charges, as indicated above | .. | .. | 330,000 |
| Estimated deficit, 1917-18, | .. | .. | <u>787,111</u> |

NECESSITY FOR INCREASED FARES AND FREIGHTS.

Having arrived at the conclusion, as already indicated, that the deficit for the year 1915-16 was not brought about by want of economy in working, and also that the influences operating to bring about the increase in the deficit to approximately £457,000 for the year 1916-17, and to approximately £750,000 for the year 1917-18, could not be counteracted to any material extent by any alterations or economies in the present methods of working, it was necessary to consider whether these unfavorable influences could be regarded as transitory, or whether, on the other hand, they were of such a character as to adversely affect the finances of the Railways for any considerable time.

As will have been gathered from the details set out in previous paragraphs, the causes of the further retrogression, as compared with the year 1915-16, are chiefly—

- (a) Increase in wages to staff;
- (b) Increased cost of coal and other materials;
- (c) Increased interest charges.

On consideration, none of these increases could be regarded with any certainty as transitory; and, as to (c), it was established that, even if capital expenditure were to remain stationary, the conversion of loans at a higher rate of interest would increase the interest charges during the near future.

The conversion arrangements, according to the evidence submitted, have already been made for 1917-18 at the rate of 5 per cent.; and, assuming that the same rate will prevail for the three following years, the increases in interest charges on account of conversion of loans (as compared with the year 1915-16) will be—

| | | | | |
|---------|----|----|----|---------|
| 1917-18 | .. | .. | .. | £22,500 |
| 1918-19 | .. | .. | .. | 67,500 |
| 1919-20 | .. | .. | .. | 75,000 |
| 1920-21 | .. | .. | .. | 91,000 |

From the foregoing considerations, it became apparent that increased revenue was necessary to place the Railway finances on a satisfactory basis. The business of the Railways is simply to provide transport, and if the cost of production unavoidably increases, the business must be carried on either at a reduced profit or at a loss, unless the difference is made good by increased revenue obtained by higher fares and freights.

Figures are available showing the increased cost of production in recent years. The following is a statement put in evidence as to the higher cost in 1915-16 as compared with 1905-6:—

| | |
|--|---------------|
| Since the year 1905-6— | £ |
| (a) Wages and conditions of employment of the staff have been justifiably and justly improved to an extent which involved an increase in the working cost of the Department beyond what it otherwise would have been in 1915-16, by | .. 617,442 |
| (b) The average price per ton for coal increased from 10s. 10d. to 15s. 1d. in 1915-16, and this adversely influenced the working costs of the latter year by | .. 111,622 |
| (c) The price of other materials and stores also increased, and, at the very lowest, the working expenses for the year 1915-16 were inflated through this cause, by | <u>93,000</u> |
| So that, apart altogether from the higher amount which the Department had to bear in the year 1915-16, for—(1) interest charges and expenses; (2) pensions and gratuities; (3) increased working expenses charges associated with large capital works; and (4) special and abnormal charges, the working expenses of that year were prejudicially affected by the foregoing factors, as compared with the conditions of 1905-6, to the extent of | .. 822,064 |

It will be noted that the above statement deals with the increased cost of working down to the period 1915-16 only; but, as has already been indicated in preceding paragraphs, the increases in wages and in prices of materials, far from showing any sign of abatement, have become intensified from 1915-16 to the present time.

Further, it was established that, allowing for the increase in fares and freights dating from 1st October, 1915, the revenue for the year 1915-16 was less by £225,000 than if the fares and freights prevailing in 1905-6 had been in operation.

The actual retrogression in the financial results of 1915-16, as compared with 1905-6, is set out hereunder :—

| | | | | | |
|----------------------|----|----|----|----|----------|
| Surplus 1905-6 | .. | .. | .. | .. | £99,328 |
| Deficit 1915-16 | .. | .. | .. | .. | 337,952 |
| | | | | | <hr/> |
| Actual retrogression | .. | .. | .. | .. | £437,280 |
| | | | | | <hr/> |

The retrogression, if calculated on the basis of the increase in rates of pay and prices of material and the decrease in fares and freights, would have been—

| | |
|--|---------------------|
| Due to increased rates of pay and prices of material | £822,064 |
| Due to decreased rates and fares | 225,000 |
| | <hr/> |
| Total | £1,047,064 |
| | <hr/> |

It will be evident that the difference between the above two totals represents an actual improvement of £609,000 on the operations conducted in 1915-16, as compared with those of 1905-6, when the conditions are equated as above.

This improvement is accounted for by the greater volume of traffic handled, the greater tractive power of engines enabling an increase in the tonnage of trains and a relative decrease in train miles, and by the improved train operation already referred to.

The figures used in the above comparisons were verified, and, having in view all other considerations previously dealt with, the only conclusion possible was that, if the finances of the Railways as a business concern were to be placed on a satisfactory basis, a considerable increase in fares and freights was necessary; and, accordingly, the Interim Report already referred to was submitted.

Later estimates were put in after the submission of the Interim Report, showing that the deficit for 1916-17, owing to an increase in revenue due to the transport to the seaboard of a large quantity of wheat during the last two months of the financial year, would be reduced to £350,615.

This later estimate does not appreciably affect the anticipated deficit for 1917-18, as the net revenue for that year will suffer a corresponding decrease due to the carry over of wheat from 1916-17 being materially reduced.

RE-LAYING WITH HEAVIER RAILS TO RELEASE RAILS SUITABLE FOR NEW LINES.

Attention has been given to the considerable debits made to working expenses in recent years under the heading "Re-laying with heavier rails to provide serviceable rails for new lines to be constructed." The debit for the year 1915-16 was £100,000, which, with relative interest charges, amounted to £113,082, and corresponding debits are proposed to the working expenses of following years.

These charges have arisen by reason of a policy adopted by the Commissioners in the year 1907-8 of re-laying with 80-lb. rails a number of lines originally laid with 60-lb. and 66-lb. rails, in order to release these light rails for the construction of new lines, and to provide materials for sidings on existing lines; and, also, with the object of strengthening certain lines on which traffic was developing, by substituting 80-lb. rails capable of carrying more powerful engines. Serviceable light rails were thus made available for new railways at a price much lower than that at which new 60-lb. rails could have been purchased, and the capital cost, and consequent interest charges, were thereby reduced.

The policy adopted was a sound one, but it is evident that this re-laying, carried out with the objects mentioned above, has had the effect of burdening the present to an undue extent by relieving future years of the cost of re-laying which must have been incurred in those years if the policy above-mentioned had not been pursued.

The net debits to working expenses and capital entailed by this policy are as follows :—

| Year. | Net Debit to Working Expenses. | Net Debit to Capital. |
|-----------------|-----------------------------------|--------------------------|
| | £ | £ |
| 1907-08 | 16,707 | 4,127 |
| 1908-09 | 58,532 | 14,715 |
| 1909-10 | 50,195 | 13,318 |
| 1910-11 | 136,714 | 22,956 |
| 1911-12 | 124,136 | 10,694 |
| 1912-13 | 89,608 | 23,609 |
| 1913-14 | 139,136 | 46,254 |
| 1914-15 | 190,705 | 51,160 |
| 1915-16 | 74,872 | 36,758 |
| 1916-17 | 3,794 | 2,000 |
| | 884,399 | 225,591 |

The debit to working expenses represents, in the case where a 60-lb. rail was replaced by an 80-lb. rail, 60/80 of the cost of the 80-lb. rails, plus the cost of new sleepers necessary in the re-laying, plus the labour costs involved in the operation; while a deduction is made of the amount received from the sale of the 60-lb. serviceable rails and fastenings released.

The capital charge is based on the difference between the weight of the original rail and the rail substituted, *i.e.*, 20/80 of the cost of the 80-lb. rail.

Of the amount of £884,399 set out above as the total debit to working expenses, the charges for the first three years were borne in their respective years, and of the debits for the years 1910-11 and 1911-12, £74,697 was also borne by the working expenses of those years—*i.e.*, a total of £200,131 was debited to the working expenses in the five years mentioned, leaving a balance of £684,268 to be otherwise accounted for.

The burden of these charges to working expenses became too great after the year 1911-12, and by statutory provision special advances, totalling £750,000, were made from time to time for the purpose of providing the funds necessary, such advances bearing interest and being repayable over a period of twelve years.

Acts Nos. 2268, 2432, 2550, and 2585, providing the special advances, prescribed the instalments by which they were to be repaid; but Act No. 2501 varied the instalments repayable each year, and the following table represents the position as so varied :—

Year ending 30th June—

| | | |
|----------------|---------|----------|
| 1911 | £50,000 | |
| 1912 | 50,000 | |
| 1913 | 50,000 | |
| 1915 | 75,000 | |
| 1916 | 100,000 | |
| 1917 | 100,000 | |
| | | £425,000 |
| * 1918 | 100,000 | |
| 1919 | 100,000 | |
| 1920 | 50,000 | |
| 1921 | 50,000 | |
| 1922 | 25,000 | |
| | | 325,000 |
| | | £750,000 |

Of the sum of £750,000 provided, as indicated above, £684,268 has been expended, and there remains a balance unexpended of, roughly, £65,000. As will be seen by the table the sum of £425,000 has already been repaid by instalments up to and including the year 1916-17; so there remains to be met a balance of £325,000.

Your Commissioner is of opinion that the special re-laying policy adopted should, for some years, result in considerable saving in the annual cost of renewal of track ; and, this being so, it is not unsound finance to spread the liquidation of the balance, £325,000, over a further period of ten years, as shown below :—

| Financial Year. | Repayment of Advance. | Interest. | Total. |
|-----------------|-----------------------|-----------|---------|
| | £ | £ | £ |
| 1917-18.. .. . | 32,500 | 11,875 | 44,375 |
| 1918-19.. .. . | 32,500 | 10,738 | 43,238 |
| 1919-20.. .. . | 32,500 | 9,600 | 42,100 |
| 1920-21.. .. . | 32,500 | 8,463 | 40,963 |
| 1921-22.. .. . | 32,500 | 7,325 | 39,825 |
| 1922-23.. .. . | 32,500 | 6,188 | 38,688 |
| 1923-24.. .. . | 32,500 | 5,050 | 37,550 |
| 1924-25.. .. . | 32,500 | 3,900 | 36,400 |
| 1925-26.. .. . | 32,500 | 2,600 | 35,100 |
| 1926-27.. .. . | 32,500 | 1,300 | 33,800 |
| | 325,000 | 67,039 | 392,039 |

It is recognised that such action will result in the total charge for interest being increased from £22,439, as provided for under Act No. 2501, to £67,039 under the above proposal ; but this result is unavoidable if the annual charge is to be reduced.

The debit to the year 1917-18 under Act No. 2501 would be £111,339, so that, by spreading the balance as suggested above, the debit would be £44,375, or a reduction of £66,964.

SPECIAL CHARGES AGAINST REVENUE ON ACCOUNT OF CAPITAL WORKS.

Reference has already been made to the subject of charges to working expenses on account of capital works, and their effect on the finances of the Railways for the years 1915-16, 1916-17, and 1917-18.

The charges referred to arise by reason of the fact that, in carrying out additions and improvements such as regrading, duplication of lines, and electrification, works originally charged to capital are displaced ; and, to insure that the improvements, to the extent to which they represent the displaced original works are not again charged to capital, an estimate is made as to the present cost of constructing the displaced works, and this cost is properly debited to working expenses. For example, if, in the course of regrading, it were necessary to demolish an existing station, the present cost of which would be £1,000, and to build a new one at a cost of £1,500, the capital cost of the whole work would be added to by £500 only—the balance of £1,000, representing the displaced station, being a charge to working expenses.

The Railways Commissioners have displayed a laudable desire to carry in each financial year as large a proportion as possible of such special charges against working expenses, and the result has been a considerable increase under this heading, as compared with like charges in years when no large programme of improvements was in operation. This is indicated in the following table :—

STATEMENT SHOWING SPECIAL WAY AND WORKS CHARGES AGAINST REVENUE FROM 1905-6 TO 1915-16 ON ACCOUNT OF CAPITAL WORKS (INCLUDING AND EXCLUDING ELECTRIFICATION RESPECTIVELY).

| Year ending 30th June. | Including Electrification. | Excluding Electrification. |
|------------------------|----------------------------|----------------------------|
| | £ | £ |
| 1906 | 41,000 | 41,000 |
| 1907 | 76,122 | 76,122 |
| 1908 | 86,692 | 86,692 |
| 1909 | 121,203 | 121,203 |
| 1910 | 122,223 | 122,223 |
| 1911 | 113,679 | 113,679 |
| 1912 | 112,764 | 112,764 |
| 1913 | 103,682 | 103,501 |
| 1914 | 147,626 | 146,750 |
| 1915 | 205,508 | 185,564 |
| 1916 | 166,253 | 151,279 |
| Total | 1,296,752 | 1,260,777 |

The total charge against working expenses on account of capital works for the year 1916-17 was, approximately, £285,000, the principal items being as shown hereunder:—

| | | |
|---|---------|---------|
| Regrading of the line between Hawthorn and East Camberwell | £15,000 | |
| Renewal and duplication of the Flinders-street viaduct | 50,000 | |
| Provision of new shipping shed at Montague .. | 21,000 | |
| Installation of power signalling on suburban lines .. | 72,000 | |
| Additions and improvements to, and strengthening of, bridges | 30,000 | |
| Alterations to bridges, tracks, signals, &c., in connexion with electrification | 25,000 | |
| | | 213,000 |
| Other smaller items | | 72,000 |
| | | 285,000 |

It is obvious that such a large burden, due to extensive capital works in progress, but not chargeable to capital account, has the effect of unduly inflating the working expenses of the year, and Parliament has recognised this fact by the passage of Act No. 2885, permitting the charges not exceeding £300,000, incurred in the year 1916-17, to be spread over three years, as follows:—In 1916-17, £100,000; and the balance in equal proportions in each of the two subsequent years. Provision is made for the temporary issue out of the Public Account of necessary funds to meet the amounts deferred.

By statements put in evidence, it is shown that the amounts proposed to be borne under the provisions of the above Act are as follow:—

| | |
|-----------------|----------|
| 1916-17 | £100,000 |
| 1917-18 | 75,000 |
| 1918-19 | 75,000 |

The estimated total charges to working expenses in 1917-18 on account of capital works to be carried out in that year are £140,000, and the Commissioners propose that this sum be adjusted so that the year 1917-18 will bear £60,000 and the two succeeding years £40,000 each. On this basis, the debit to working expenses for 1917-18 on account of capital works carried out in 1916-17 and in 1917-18, will be as follows:—

| | |
|-------------------------------|----------|
| Deferred from 1916-17 | £75,000 |
| Proportion of 1917-18 | 60,000 |
| | £135,000 |

Your Commissioner is of opinion that this method of liquidating these special charges imposes too heavy a burden upon the revenue of one year. The improvements to which these special charges are due are for the benefit of prospective, as well as present users of the railways, and the future may fairly be called upon to bear a share of the burden.

As already shown, the total amount in suspense for the current year is made up as follows:—

| | |
|----------------------|----------|
| From 1916-17 | £150,000 |
| For 1917-18 | 140,000 |
| | £290,000 |

and if this amount were spread over a period of ten years, the charge for the current year would be £29,000 instead of £135,000, or a reduction of £106,000.

It is in evidence that a similar practice is in operation on the New South Wales railways at the present time, certain charges on account of large additions and improvements being deferred until the financial position will permit of the charges being met.

UNPRODUCTIVE CAPITAL.

One of the causes contributing to the loss on the Railways during the last three years is the capital expenditure on unproductive works. The electrification of suburban railways has resulted not only in increased interest charges, but also in heavy charges to working expenses on account of alterations to bridges and rolling-stock. This aspect, however, has been previously touched upon, but attention may be directed to the fact that the capital expenditure on electrification to the end of 1916-17 amounts to £2,285,000, and the interest charge on account of this expenditure for the year 1916-17, to £85,700.

It was expected to operate electrically the Broadmeadows to Sandringham lines about the middle of 1915, but the proposed opening was postponed to the end of 1915. As a matter of fact, at the present time no part of the electrification scheme is in operation, and consequently the interest charges have had to be borne for a much longer period than was anticipated, without any counterbalancing revenue.

Your Commissioner is of opinion that, as the electrification of suburban railways was entered upon as a matter of State policy, the Railway finances should be relieved of the annual interest charges upon the capital expended until, at any rate, an appreciable part of the work is in actual operation and revenue producing.

With regard to the construction of new lines, the present practice is for interest to be debited to the Railway accounts directly the loan money is made available, although the works upon which the capital is expended are unproductive as regards revenue for a considerable period. In the ordinary course, there appears to be no reason why interest charges on such unproductive capital should not, during the construction of the works, be charged to capital; but from the evidence of Mr. Kernot, it is clear that a ruling of the State Attorney-General some years ago prohibited this course; and it appears desirable that some other method of dealing with these interest charges should be found, if the finances of the Railways are not to be unduly overloaded by having to pay interest on capital as yet unproductive.

A further point to be noted is the annual charge made against the Commissioners for interest on lines closed for traffic, and on surveys for lines not constructed. The total capital expenditure on these items is as follows:—

| | | | |
|-----------------------------------|----|----|----------------|
| Lines closed for traffic | .. | .. | £392,741 |
| Surveys for lines not constructed | .. | .. | 406,356 |
| | | | ————— £799,097 |

and the annual interest charges on these items at 4 per cent. amounts to £31,964.

As the Railways Commissioners receive no revenue whatever from the money expended, it is difficult to understand why the Department should be required to bear the interest on this amount. It should be borne in mind, however, that this charge has been borne over a long series of years, and therefore has had no effect on any comparison of the present Railway finances as compared with previous periods.

TRAMWAY COMPETITION.

Another factor contributing to the loss on the Railways during recent years is the competition brought about by the operation of electric tramways in the suburban area.

The subject is dealt with at page 17 of the Annual Report for the year 1915-16, and an approximate annual loss of £60,945 is shown as a result of the competition.

There appears to be nothing to add to the statement of the position as contained in the report referred to, further than to state that your Commissioner is of opinion that, in the interest of the State as a whole, it is undesirable that sanction be given in future to the construction of electric tramways which will unduly compete with the suburban Railway system, especially having in view the electrification of the suburban lines now in progress.

STATE RAILWAYS AS A DEVELOPMENTAL AGENCY.

For many years, as has already been indicated, Railways were constructed in Victoria with a view to development of the rural districts rather than as profit-making or even paying propositions.

With the advent of a new Administration in 1903-4, however, a change of policy appears to have been adopted, as while the construction of new lines was much reduced, the traffic on existing lines was largely developed, and considerable net profits were shown over the ensuing period of eight years.

Before this period it was recognised that certain lines constructed would not, for a considerable time after their opening, pay their way. This is indicated by the introduction in 1893 by Act No. 1288 of what were known as "Local Rates," by which special fares and freights were charged on new lines until they paid their way, as if the new line were separate from the rest of the Railway system. This made the higher rates per mile chargeable on the general system for short haulage apply to the new lines, and they did not receive the benefit of the reduced rates for the long through mileages which would otherwise have applied.

A further means of preventing loss, either to the Railways or the State by the construction of new lines, was included in various Acts, authorizing new railways from 1900 onwards, providing for guarantees to recoup the Department any loss incurred in the working of a new line for a period of ten years, such loss, if incurred, to be made good by the Railway Construction Trust for the particular line, or by the Shire Council by means of a "Deficiency Rate" to be levied by the Trust or Council on the land-owners of the district benefited.

A further provision to safeguard the Commissioners against losses on new lines was provided by Section 14 of the *Railways Act 1896*. This provision is now contained in Section 102 of the *Railways Act 1915*, and is as follows:—

"In the following cases (that is to say)—

- (a) where Parliament makes any alteration in the law which occasions any increase of expenditure by the Commissioners or any decrease of the railways revenue; or
- (b) where Parliament or the Governor in Council directs the Commissioners to carry out any system or matter of policy which occasions or results in any increase of expenditure by the Commissioners or any decrease of the railways revenue; or
- (c) where Parliament authorizes the construction of any new line of railway which when vested in the Commissioners does not produce sufficient revenue to cover the interest on its cost of construction and the expense of its maintenance,

the annual amount of the increase of expenditure or decrease of revenue or of the loss resulting from such new line of railway shall be from time to time notified in writing by the Commissioners to the Auditor-General, and if certified by him shall be provided by Parliament in the annual Appropriation Act and paid to the Commissioners."

It is apparent that during the period 1911-12 to the present time the policy of making the Railway system as a whole pay its way, regardless of the development of the country, has not been followed, and it appears that Parliament, by the vigorous policy of railway construction authorized during the five years to 1915-16, has aimed at a greater development of production in rural districts by means of the construction of railways.

This is also indicated by the abolition in 1914 of the "Local Rates" and by the abolition in 1912 of the "Deficiency Rates" provided by various Acts. The abolition of local rates entailed a loss to the Railway Department of approximately £15,000 per annum, and the Commissioners' attitude on the question can best be gathered from the following extract from a memorandum to the Minister dealing with the subject at the time when the repeal of the local rate provision was under consideration:—

"It is also claimed that from a broad aspect the "local" rates should be abolished, on the grounds that the Railways are obviously constructed as an auxiliary in the development of the country for the ultimate good of the State, and that the Government should be prepared to accept an immediate loss as the price of the benefits that will subsequently accrue from the stimulation of the settlement, the consequent opening up of the land, and the increase of production."

Your Commissioner is in agreement with the principle advocated in the foregoing extract, but it will be noted that, although "loss" to the "Government" is mentioned, the loss has been included in the Railway Accounts.

The evidence of Mr. Norman, Chairman of the Railways Commissioners, is to the effect that no application has been made to the Government under section 102 of the Act to cover any of the losses indicated above, for the reason that it was unnecessary, seeing that the deficits on Railway working were made good from Consolidated Revenue.

It may be mentioned that, owing to the abolition of local rates, it has been unnecessary to keep separate accounts for a number of recently constructed lines, and, except in the case of some twelve lines, such separate accounts have not, for reasons of economy, been kept since 1915. Separate accounts are also kept for each new line opened for traffic, but only for the first year of operation.

Owing to the lapse of years, and to the fact that the accounts of all railways built since 1896 (and before) have not been kept separately, it is difficult to ascertain which railways really show a loss, and which have reached the paying stage. If the provisions of Section 102 are to be resorted to by the Commissioners to meet the losses on non-paying lines constructed since 1896, separate records would need to be kept. The keeping of separate accounts for all non-paying lines would entail some expense—estimated for the head-quarters' staff only at about £2,000 per annum and, in addition, would involve a large amount of clerical work at the stations in connexion with the apportionment of revenue on outwards traffic carried over other lines, the cost of which would be considerable. In view of the fact that the information would only enable a book entry from public account to railway account to be made, the cost and trouble would hardly be justified.

CONSTRUCTION OF RAILWAYS AND ROADS.

The question of present and future railway construction has been considered, and it is in evidence that, at the present time, about £12,000 per month is being spent on the construction of new lines. Of these, two are approaching completion, while on other lines the work could be suspended without large loss. Your Commissioner is of opinion that the extent of the present Victorian Railway System is more than sufficient for present settlement, that in many cases the increase in production which might have been expected to follow on the construction of lines, has not been fully realized, and that further extensions of the system should, for the present, cease.

The traffic on a large percentage of the Victorian Railway System is undoubtedly sparse, and this is referred to in a following paragraph.

For the success of the Railways, good roads for the conveyance of produce to the system are necessary, and this aspect has been considered. The extent of the operations of the Country Roads Board has been ascertained, and it is evident that good work has been done by the Board. It should, however, be borne in mind that the construction of good main roads parallel to railway lines will have a tendency to cause competition with, and loss of revenue to, the Railway system; and your Commissioner is of opinion that, if the funds made available to the Roads Board were expended chiefly in the construction and improvement of roads giving access to the Railway system, the State and the Railways would benefit.

COMPARISON WITH NEW SOUTH WALES RAILWAYS.

Comparisons with New South Wales have been made from time to time with regard to fares and freights, and cheaper working. It cannot be too strongly emphasized that New South Wales has advantages which Victoria does not share.

First amongst these, from the aspect of profitable working, is the greater density of traffic in New South Wales as compared with Victoria. This is shown in the following table:—

| | Victoria. | New South Wales. | Increase. |
|---|-----------|------------------|-----------|
| Average mileage operated, 1915-16 | 3,955 | 4,188 | 6 |
| Total gross ton miles of traffic, in millions | 3,186 | 5,134 | 61 |
| Gross ton miles of traffic per mile open, in millions | ·805 | 1·225 | 52 |

The table is self-explanatory, but, roughly summarized, it may be stated that, with an additional mileage of only 6 per cent., the New South Wales system has an additional gross traffic per mile of line open of 52 per cent.

Secondly, the average length of haul of traffic in New South Wales is much greater than in Victoria, as shown hereunder :—

| | Average Haulage— | |
|---|------------------|------------------|
| | Victoria. | New South Wales. |
| | Miles. | Miles. |
| Hay, straw, and chaff | 50 | 254·00 |
| Wheat, flour, &c. | 160 | 228·00 |
| Wool | 125 | 291·00 |
| Coal, coke, minerals, and crude ores .. | 80 | 33·65 |
| All other traffic | 65 | 91·35 |

In addition, New South Wales has the advantage of excellent supplies of coal, which not only provide, in normal times, a constant and heavy traffic—compensating for the shorter haul shown above—but also furnish comparatively cheap coal for locomotive purposes. The average cost per ton of coal for the year 1915–16 was as follows :—

| | |
|-------------------------|-----------------|
| New South Wales | 9s. 9d. per ton |
| Victoria | 15s. 1d. „ |

and the comparison for later periods must be further to the disadvantage of Victoria, as, in 1916–17, owing to the scarcity of shipping, it was necessary to convey overland in New South Wales a portion of the coal supply for the Victorian Railways.

The Victorian Railways are also at a disadvantage as regards general configuration of the system, having a much larger number of branch lines with sparse traffic, which do not admit of such economical working as main lines.

Your Commissioner is of opinion that, comparing generally the conditions of the two States, the results on the Victorian system do not suffer by comparison.

RAILWAY FUNDS ACT 1907 (No. 2133).

Reference has already been made to the funds set up by Parliament in 1907, during the Administration which commenced with the year 1903–4.

The funds established by the Act were—

- (a) The Railway Interest Reserve Fund ;
- (b) The Railway Additions and Improvements Fund ;

into each of which it was provided that one-half of the surplus Railway revenue for any year should be paid until the balances to the credit thereof should amount to £300,000 and £200,000 respectively. The moneys at the credit of the Interest Reserve Fund were to be used only for the purpose of paying interest on the Railway Loan Funds to the extent that the net revenue for any year should be insufficient to pay such interest, and the moneys at credit of the Additions and Improvements Fund were to be used only to pay for additions and improvements on the existing railways, and for equipment and rolling-stock. Whenever by payments out of either of the funds the balance was reduced below the limit above-mentioned, payments into the funds from surplus revenue were to be resumed until the limit in each case was again reached.

The Act became operative on 1st July, 1908 ; that is, its provisions were applicable to the Railway surpluses of the year 1908–9, and of subsequent years. The Railway surplus for the year 1908–9 was £235,044, which, in accordance with the provisions of Act No. 2133, should have been allocated equally to the two funds above-mentioned. In that year, however, there was, in the finances of the other services of the State, a deficit which practically equalled the Railway surplus, and the Government of the day determined that the deficit in the other services should be liquidated by means of the Railway surplus. Accordingly, an Act was passed in 1909 (No. 2207) which provided that, if in any year there should be a deficit in the finances of the State, excluding Railways, the Railway surplus revenue (if any) to the extent required to make good such deficit should be used for that purpose, instead of being paid into the funds. It was provided, however, that interest at the rate of 3½ per cent. per annum should be paid on any amounts thus diverted from the funds ; and, in accordance with this provision, the

Railway Interest Account was credited with the following sums in respect of moneys which should have been credited to the funds, but which were used to liquidate deficits in other services, viz. :—

| | | | | | | |
|--------------|----|----|----|----|----|---------|
| Year 1909-10 | .. | .. | .. | .. | .. | £8,052 |
| Year 1910-11 | .. | .. | .. | .. | .. | 12,156 |
| Year 1911-12 | .. | .. | .. | .. | .. | 15,689 |
| | | | | | | £35,897 |

The Railway surpluses for the years 1908-9 to 1911-12 (inclusive) were :—

| | | | | | | |
|--------------|----|----|----|----|----|----------|
| Year 1908-9 | .. | .. | .. | .. | .. | £235,044 |
| Year 1909-10 | .. | .. | .. | .. | .. | 155,097 |
| Year 1910-11 | .. | .. | .. | .. | .. | 282,975 |
| Year 1911-12 | .. | .. | .. | .. | .. | 265,791 |
| | | | | | | £938,907 |

but up to the end of the year 1911-12 only £72,420 had been paid into the funds.

In December 1912, a further Act (No. 2423) was passed, which repealed the Railway Funds Act, abolished the funds, and allocated the balance of £72,420 at the credit thereof to the following purposes :—

| | | | | | | |
|--|----|----|----|----|----|---------|
| Railway Rolling-stock Replacement Fund | .. | .. | .. | .. | .. | £50,000 |
| Building of Agricultural High Schools | .. | .. | .. | .. | .. | 8,500 |
| Building of High Schools and Elementary High Schools | .. | .. | .. | .. | .. | 13,920 |

It is hardly necessary to point out that the action taken had a serious effect on the Railway finances of the subsequent years, and although the funds, if contributed to on the basis originally fixed, would not have been sufficient to extinguish the deficits for the years 1914-15 and 1915-16, they would have materially relieved the deficits for those years.

The abolition of the funds by Parliament in 1912 is a further indication that the policy "that the Railways should be made to pay their way," which it is said was adopted in the year 1903-4, has been departed from during the period 1911-12 to the present time.

Your Commissioner is of opinion that, if—as opposed to the policy by which the Railways are utilized as developmental agencies, which appears to have been reverted to during the last six years—the policy of making the Railways pay their way is again decided upon, the funds above-mentioned should be re-established by Parliament, and future surpluses applied to the purposes mentioned in Act No. 2133.

LOCOMOTIVE WORKSHOPS.

In connexion with the construction and repair of locomotives, carriages, and waggons, considerable attention has been paid to the policy of the Department, especially with regard to the workshops at Newport, Ballarat, and Bendigo.

The lay-out adopted at Newport at the time of the erection of the shops in 1888, although quite common in England at that time, is one which, owing to its dead-end character, is unsuitable in many ways, and is no longer followed in the Old Country.

As regards machine tools, the equipment is fairly up-to-date, but the overhead cranes, both as regards travelling and lifting—worked on the endless rope system—are very slow in operation. The machinery is driven by steam power, but, when the power-house in connexion with the electrification scheme is completely equipped, electric drive will be rapidly substituted, as a number of motors have already been supplied and the necessary arrangements made.

It is in evidence that a scheme has been prepared for the construction of new locomotive shops on land adjacent to the present buildings, where a suitable lay-out of the double-ended type can be provided. Some preliminary work has already been done, but owing to the financial position operations are in abeyance. When this scheme is carried out, it is proposed to use the existing Newport Shops for the construction and repair of carriages and waggons; and, after making due allowance for an increase in rolling-stock likely to be necessary on account of expanding business, the accommodation will not be too commodious.

When visiting Ballarat and Bendigo, your Commissioner inspected the new Locomotive Workshops recently erected at both places, and found that the workshop at Ballarat is now in partial operation. The erection of these workshops appears to have been dictated by Government policy for the purpose of promoting decentralization, and the evidence of Mr. Norman is to the effect that the Commissioners did not raise any objection to the proposal.

From a purely Railway point of view, the erection of such workshops, involving an estimated capital expenditure for construction and equipment of £256,000, was undesirable; the more so, as the expenditure already incurred at these two places will not obviate a considerable further expenditure which must be involved in the near future in the erection of a new Locomotive Shop in the neighbourhood of Newport.

The erection of two workshops in the country has been costly, by reason of the fact that provision is made for six overhead cranes in each of these shops at a cost, for the twelve, of £23,717; and it is in evidence that had one shop double the length been provided at either place, the number of cranes in one of the shops would have been amply sufficient, and a saving of nearly £12,000 made.

Inquiry has been made as to alleged "slowing-down," with special reference to the Newport Workshops, but nothing definite in support of the allegation has been forthcoming. The best method of providing against such a tendency is to be found in a system of payment by results which, as regards supernumerary employees, is already in operation at Newport.

Your Commissioner can see no reason why, in many of the operations (particularly those involving repetition work) a system of payment by results should not be extended to include also permanent employees. The evidence of Mr. Shannon, Chief Mechanical Engineer, is to the effect that this would probably bring about industrial unrest, but, in the light of your Commissioner's experience in Great Britain, America, and Canada, where payment by results is generally adopted in railway workshops and other large factories, there appears to be no reason why the system should not be given a fair trial in Victoria, and a genuine effort made to bring into operation a system which would benefit both the employer and the employed.

ECONOMIES IN WORKING.

(a) HEAVIER ENGINES.

Probably the most effective way by which economies in working can be secured, especially as regards goods and mineral traffic, is to increase train loads by the adoption of more powerful engines. From the evidence of Mr. Norman, Chairman of Commissioners, and of Mr. Shannon, it is clear that this matter has been under consideration since the year 1901; but, although designs have been made, nothing approaching a really heavy engine for goods and mineral traffic in Victoria has yet been made available. A sample engine of the "consolidation" type is in course of construction at Newport, but is not expected to be in operation before the end of the current year.

The adoption of such an engine has been entirely controlled by the strength of the bridges on the various lines, and although much has been done in this direction as regards the main North-Eastern, Northern, Melbourne to Geelong, Geelong to Ballarat, and Ballarat to Serviceton lines, further expenditure must be incurred, especially on the line to Wonthaggi, to obtain the full benefit of a more powerful engine on the principal sections of the Victorian system.

It is quite recognised that only a limited number of such engines can be economically employed, but your Commissioner is satisfied, from the evidence of Mr. E. B. Jones and Mr. Shannon, that 50 of such engines can be provided with advantage.

A "consolidation" type of engine, having a tractive power of 36,138 lbs., will enable the load on a 1-in-50 gradient to be increased from 351 tons for an A2 class engine to 540 tons, with no increase in the cost as regards the train crew. It is not overlooked that the consumption of coal per train mile will be increased, but, when the additional load is taken into account, the consumption per gross ton mile will be less.

It is in evidence that an annual saving in operating cost of from £500 to £600 per engine may be expected, and, with 50 such engines, the total saving will be not less than £25,000 per annum. Unfortunately, owing to war conditions, it is impossible to obtain the requisite materials for these engines, and this economy cannot at present be made operative.

(b) SUPER-HEAT ENGINES.

The total consumption of coal for locomotive purposes during 1915-16 was 551,560 tons, and for 1916-17 it is estimated at nearly 600,000 tons.

The supply of coal from the State Mine at Wonthaggi averages at the present time about 300,000 tons per annum; and, to make up the balance, coal has to be imported from New South Wales. Further, the calorific value of the Wonthaggi coal is not equal to that of the imported coal; and, to do an equal amount of work, more of the State coal has to be consumed.

It is in evidence that the cost of coal, including handling, for the year ending June, 1917, was 21s. 1d. per ton. In this connexion, the adoption of superheated steam, as contrasted with saturated steam, for the working of locomotives is of paramount importance.

The Victorian Railways are somewhat behindhand in this respect, although the present Railways Commissioners are fully seized of the importance of the matter; and, it is only fair to say that, had the war not occurred, some hundred engines of the A2 and DD types would have been provided with superheat boilers. Owing, however, to the difficulties of obtaining materials, only some fourteen engines so equipped are actually in work at the present time.

As giving some idea of the saving to be effected by the use of super-heat engines Mr. Shannon's evidence is instructive, and shows that, assuming all the engines in stock at the present time of the A2 and DD types to have been fitted with super-heaters, the net saving in actual consumption of coal and water on the normal working of these engines would have amounted to £25,000 for the year 1916-17.

CONCESSIONS.

Your Commissioner is of opinion that the concessions to traders on all-line tickets set out in the Rates Book of the Commissioners, should be abolished.

Similar concessions were in force for a number of years in all the States of the Commonwealth, but, excepting in Victoria, the concessions were recently withdrawn.

The estimated increase in revenue by the abolition would be, approximately, £4,000.

ORGANISATION, STAFF, ETC.

Your Commissioner has considered the organization of the different branches of the Department, and, while the system of supervision in the Way and Works Branch differs in some respects from that prevailing in other countries, it appears to be suitable to the conditions of the Victorian system.

The allegation of over-manning of the Department has been looked into, and evidence obtained comparing the present with previous periods, but your Commissioner is of opinion that, keeping in view the extension of the system; and the expansion in the traffic dealt with, the allegation of general over-manning is not borne out by evidence. It is certainly not indicated in the percentage of working expenses to gross revenue, this figure for 1915-16 being 64·94 per cent.—or, if special and abnormal charges for the year are included, 70·07 per cent.; the result in either case being lower than that obtained for the same year in any other State.

A wise policy has been adopted by the Commissioners in keeping up the maintenance of permanent way and structures; and, in new works, of making provision for future expansion.

Interlocking between points and signals has been carried out to a considerable extent, and, although some of the subsidiary lines are not interlocked, appliances have been provided to ensure safe working.

The proposed installation of automatic and semi-automatic signalling on the suburban system should not only tend to economy in the future by the partial elimination of labour costs, but should also have the effect of considerably increasing the carrying capacity of the lines so dealt with.

During the inquiry it has been evident that but few of the Railway officers have had opportunities of gaining recent experience, as regards railway operation, in other countries, and your Commissioner is of opinion that the Department would be greatly benefited if such opportunities were systematically afforded to such suitable officers as are likely to occupy responsible positions in the Rolling Stock, Way and Works and Traffic Branches.

In view of the increase in wages, special attention should be given to the use of mechanical appliances for saving labour, particularly in America and Canada, where the conditions as regards cost of labour are similar to those in Australia.

RAILWAY RATES AS AFFECTING COUNTRY INDUSTRIES.

Questions have been raised as to the railway rates applying to the raw materials and finished products of country industries, and the concessions now in force.

A comprehensive statement of these concessions has been put in evidence, and indicates generally that a sympathetic policy has been adopted by the Commissioners. It is obvious that any policy which increases the number of people employed inland will benefit the railway revenue, but, at the same time, it must be recognised that where the raw materials for an inland industry have to be transported from the seaboard, and the manufactured article conveyed back to the seaboard, either for use or export the concessions necessary to place the country manufacturer on an equality with his city competitor may be so great as to make the railway operation unprofitable. The question is one not only of Railway, but of State policy; and, if the concessions which the Commissioners can grant are not sufficient to enable the industry to be carried on profitably in the country, it is for the State to consider what further action is required, and, if necessary, to provide the cost of further concessions.

RAILWAY RATES AS AFFECTING PRODUCTION.

Evidence was tendered by Mr. W. H. Renwick, representing The Free Trade and Land Values League, as to the policy favoured by the League with regard to the stimulation of production in country districts.

The policy, shortly stated, is one by which considerable reductions are proposed in the railway rates operating against the country producer, such reductions being made good by a tax on the land values of the State.

Your Commissioner, however, is of opinion that, while the subject is one of interest and importance, it falls rather under the heading of State policy than of Railway management, and is not within the scope of Your Excellency's Commission.

DIFFERENTIAL RATES FOR COUNTRY EMPLOYEES.

During the course of the inquiry evidence was tendered as to the effect likely to be produced on country industries by the system prevailing in the Railway Department at the present time of paying employees a flat rate, whether the employee be located in town or country. The evidence was directed more particularly to the skilled workmen likely to be employed in the Railway Workshops lately erected at Bendigo and Ballarat.

It was established that, in a number of Awards of the Arbitration Court and in Determinations of Wages Boards, the principle of differential rates for country employees (based on the greater purchasing power of the sovereign in country towns) has been recognised, and lower rates for country employees fixed accordingly; and it was argued that, if the artisans in the Railway service employed in the country are to be paid rates equal to those prevailing in Melbourne, dissension will be caused amongst the men in private employment doing similar work, who are paid under the differential system; that the country employer will be forced to pay the higher rates to keep his men, and that an abnormal wages condition will be brought about in the country, tending to force the manufacturer to move his business to Melbourne—an effect which must react on Railway revenue.

It was also pointed out that the system of differential rates, if applied to the artisans employed in the country workshops, would benefit the Department by reducing the cost of labour.

The proposed policy is not favoured by the Railways Commissioners, for the reasons that, even with the flat rate as applied at present, there is a preference for employment in Melbourne, notwithstanding the higher cost of living, on account of the facilities afforded there for the education and employment of families; and that artisans selected for transfer to the country would object to being singled out for differential treatment, seeing that flat rates obtain at present in all Branches of the Service.

While recognising that the difficulties are considerable, your Commissioner is of opinion that they are not insuperable, and that the principle, if established as regards artisans, would benefit the Railways, and also assist in keeping industries in the country.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS.

Summarizing, briefly, the result of this inquiry, your Commissioner finds—

- (1) That, having in view the abnormal conditions of the last three years, which conditions are still in force, the Victorian Railways are administered with due regard to economy, efficiency, and the public convenience.
- (2) That the deficits in the Railway accounts have been largely brought about by influences beyond the control of the Railways Commissioners.
- (3) That matters of State policy, in many instances approved by Parliament, have had considerable effect in bringing about the present position of the Railway finances.

It is therefore necessary to consider whether—

- (a) The Railways are in future to be conducted entirely as a business undertaking; or
- (b) The Railways, while managed on business lines, are to be used as a State instrument for the development of the country.

As regards loan money, it is impossible, under the present Railways Act, to eliminate Government control; and, as regards new lines, the State will probably always dictate the policy.

Under these circumstances, your Commissioner has come to the conclusion that business management should be associated with compensation to the Railways Commissioners for losses occasioned by State policy, as provided in section 102, *Railways Act 1915*.

As regards losses on new lines, as already shown, the cost of keeping a separate account for each new line would not be justified, seeing that only a transfer from "Public Account" to "Railway Account" is involved, but a sum of money (determined from time to time) to cover such losses should be credited to the Railway Accounts of each year.

On the basis indicated above, your Commissioner has the honour to make the following further recommendations, viz. :—

- (1) That the construction of new railways be suspended, and even on those lines in course of construction at the present time, the expenditure should be reduced to the lowest possible limits.
- (2) That interest on capital expended upon new lines be not charged against the Railways until the lines are open for traffic.
- (3) That the provisions of section 102 of the *Railways Act 1915* be put into operation with respect to losses on new lines, and a sum (determined upon from time to time) credited from Public Account to the Railway Account of each year.
- (4) That the Railway Accounts be relieved, under section 102, of the interest charges upon the electrification of suburban railways until an appreciable part of the work is in actual operation.
- (5) That interest on cost of surveys for lines proposed but not constructed and interest on capital cost of lines now closed be not charged against the Railway Account.
- (6) That the charges to Working Expenses on account of relaying with heavier rails be spread over a further period of ten years.
- (7) That the charges to Working Expenses on account of capital works be spread over a further period of ten years.
- (8) That the construction of the "Consolidation" type of locomotive be proceeded with as rapidly as the financial position and the difficulty in obtaining materials will permit.

- (9) That all locomotives of the "Consolidation," A2, and DD types be built to use superheated steam.
- (10) That the system of payment by results, as regards artisans, be extended in the workshops at Newport, and introduced in the Ballarat and Bendigo workshops.
- (11) That differential rates of pay, based upon the lower cost of living in the country, be applied to the artisans employed in the Ballarat and Bendigo Workshops.
- (12) That the concessions to traders on all-lines tickets, set out in the Railway Rates Book, be abolished.
- (13) That opportunities be given more frequently to suitable officers to visit other countries for the purpose of widening their outlook and obtaining experience as to the latest methods adopted in connexion with Railway operation.
- (14) That, as soon as the financial position will permit, the special funds established under the *Railway Funds Act 1907* be re-established, and future surpluses applied to the purposes mentioned in the Act.

This Report cannot be concluded without a recognition on the part of your Commissioner of the help rendered by those gentlemen who, in response to an invitation, attended to give evidence.

Large demands have been made upon the time and patience of the Railways Commissioners, and your Commissioner desires to place on record that every request has been readily and promptly met.

Valuable assistance has also been rendered by the Secretary to the Commission, Mr. T. G. Jones, of the Crown Law Department, not only during the preparation of this Report, but throughout the inquiry.

All of which I have the honour to submit for Your Excellency's consideration.

Witness my hand and seal this twentieth day of July, 1917.

(L.S.)

T. R. JOHNSON, Commissioner.

T. G. JONES, Secretary.