

STATISTICAL AND SOCIAL INQUIRY SOCIETY OF IRELAND.

IRISH FREE STATE RAILWAY ACCOUNTS.

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(Read before Society on Thursday, the 30th April, 1936.)

In the Irish Free State Government Publication entitled "Returns of Railway Companies," the Railway undertakings which are situated wholly or partly within the Free State are dealt with under the following three main headings:—

1. Great Southern Railways, which is the only undertaking wholly situated in the Irish Free State.

2. Great Northern Railway

3 Other Railways.

The "Other Railways" comprise —

County Donegal Railways,
including the:

Strabane and Letterkenny Railway,
Dundalk, Newry and Greenore Railway;
Londonderry and Lough Swilly Railway,
including the:

Letterkenny Railway;
Letterkenny and Burtonport Extension Railway;
Carndonagh Extension Railway.

Sligo, Leitrim and Northern Counties Railway.

I propose in this short paper, which has been rather hurriedly prepared, to confine myself to the Financial Accounts of the Great Southern Railways and the Great Northern Railway for the years 1929, 1934 and 1935.

I have chosen the year 1929 in each case because that was the last year in which:

(a) The Great Southern Railways paid a dividend of 1 per cent. on its Ordinary Stock of £7,767,123, which has since been reduced under the Railways Act, 1933, to £777,927; and

(b) The Great Northern Railways paid a dividend of 3 per cent. on its Ordinary Stock, which still remains unaltered in the sum of £4,050,689.

It seems to me that the comparison of the years 1934 and 1935 with each other and also with the year 1929 should afford some guidance as to the trend of events in the Irish Railway world, but I wish to make it quite clear that my examination has been based only upon the certified Statements which are available to any Shareholder and that I have not applied for or obtained any information which is not to be found in these Statements. Should this method of procedure result in my making comments and drawing conclusions which the respective Managements cannot accept, then I think I may fairly contend that, notwithstanding the amount of detail which is supplied, the Accounts require further elucidation or explanation.

I have not examined, and cannot accordingly comment upon, the numerous statistical returns which accompany the Financial Accounts. Those who wish to follow up this aspect of the matter will find it dealt with in the Government Publication to which I have already referred. The Report for the year 1934 is the latest available and it may be purchased direct from the Government Publications Sale Office, 5 Nassau Street, Dublin, C 2, or through any Bookseller. (P. No. 1796, price, 5/-.)

The conditions under which the Great Southern Railways and the Great Northern Railway operate vary so much that no useful purpose could be served by treating them as comparable entities. I must accordingly treat them separately and I propose to take first the Great Northern Railway.

GREAT NORTHERN RAILWAY.

The Directors' Report for the year 1929 states that the Company had commenced early in the year to operate road motor services in pursuance of the powers conferred by the Irish Free State "Railways (Road Motor Services)" and the Northern Ireland "Railway (Road Vehicles)" Acts, 1927.

In subsequent Reports the attention of the Shareholders was directed to the effect of the depressed state of trade upon the Company's receipts and to the onerous, and in many cases uneconomic, conditions under which the Company was required to operate.

A serious note of warning was sounded in the Report for the year 1932, when the intensity of road competition was emphasised and it was stated that although some improvement in respect of road passenger traffic had resulted from the legislation passed by the Free State during the year the competition of road motor lorries carrying goods both in the Free State and in Northern Ireland had seriously affected the receipts.

In the year 1933 the Company suffered severely as a result of the withdrawal of labour by the wages staff and the serious curtailment of the Company's services during a period of ten weeks. The Report for this year stated that in these circum-

stances a substantial amount of traffic which was ordinarily carried by the railway found other means of conveyance and was only gradually being won back to the Company's services. The report also stated that the legislation which had been enacted in the Irish Free State with the object of co-ordinating transport had already benefited the Company and as a result of strong representations to the Government of Northern Ireland it was hoped that beneficial results would also be secured in that area.

The Report for the year 1934 stated that:—

“ The road transport legislation enacted in the Irish Free State in 1933 has largely succeeded in its object of reducing the uneconomic road passenger competition in the area served by the Company, and steps are now being taken to acquire the licences of a number of road lorry undertakings with a view to further co-ordination of road and rail services and the elimination of wasteful duplication.

There was no diminution during the year of unrestricted and uneconomic road services in Northern Ireland, but the Government there invited Sir Felix Pole to report as to the policy he would recommend for dealing with the transport problem, which is admitted to be urgent. The report was issued in June last, and the Government have decided to give legislative effect to his main proposals.”

In their Report for the year 1935 the Directors stated:—

“ The Road and Railway Transport Act (Northern Ireland), 1935, received the Royal Assent on 16th July, and on 1st October last the Road Transport Board took over, in accordance with the provisions of the Act, the Company's fleet of buses and lorries in Northern Ireland. The pooling arrangement provided for under the Act takes effect as from January 1st, 1936.

In pursuance of the provisions of the Irish Free State Road Transport Act, 1933, the Company have acquired a large number of merchandise carrying licences and lorries in the areas served by the railway, and negotiations in connection with the terms of purchase of many of these licences are still proceeding.”

The difficulties to which reference is made above should be borne in mind when reading the following tables in which I first show the main features of the Railway, Road Transport and Hotels and Catering Accounts of which the balances are carried into a revenue summary, which is designed to show the balance (if any) available out of the year's revenue for the payment of dividends after providing for Interest on the Debenture Stock

Year Ended 31st December	1929	1934	1935
RAILWAY			
Receipts, less expenses of collection and delivery	£ 1,561,588	£ 1,011,860	£ 1,079,541
Deduct expenditure as follows			
Maintenance and renewal of Way and Works			
Salaries, Wages, Materials, etc	214,127	131,701	139,443
Depreciation	11,246	22,424	17,631
Total	225,373	154,125	157,074
Maintenance and renewal of Rolling Stock			
Salaries, Wages, Materials, etc.	184,579	112,972	145,237
Depreciation	49,211	37,807	24,416
Total	233,790	150,779	169,653
Locomotive Running Expenses	303,243	221,938	221,914
Traffic Expenses	374,881	289,434	290,924
Head Office Expenses, including Salaries of Secretary, General Manager, Accountant, and Clerks, Office Expenses, Audit Fees, etc	31,634	26,218	27,448
Superannuation and Benevolent Funds, Pensions, etc	23,626	23,810	23,800
Directors' Fees	4,400	3,960	3,734
Law Charges	3,101	3,406	3,020
Compensation (Accidents and Losses)	4,966	4,649	4,005
	1,205,014	878,319	901,572
Rates	40,751	48,742	50,125
National Insurance	9,404	8,896	10,133
Joint Lines	24,439	20,192	18,642
Miscellaneous (including Debtor balance in 1929 on Mileage Demurrage and wagon hire, less Running Powers Creditor balance)	10,550	9,349	9,912
Total Railway Working Expenditure	1,290,158	965,498	990,384
Surplus carried to Summary	271,430	46,362	89,157
ROAD TRANSPORT			
Receipts	51,330	191,032	185,998
Expenses (net)	44,826	171,736	166,664
Depreciation	6,109	27,613	10,896
Total Deductions	50,935	199,349	177,560
Surplus carried to Summary	395	(deficiency) 8,317	8,438
HOTELS AND CATERING			
Receipts	49,772	45,019	47,263
Expenses	44,838	41,063	42,368
Depreciation	1,367	1,277	1,304
Total Deductions	46,205	42,340	43,672
Surplus carried to Summary	3,567	2,679	3,591

REVENUE SUMMARY.

Year Ended 31st December	1929	1934	1935
	£	£	£
Surplus on Railway Account	271,430	46,362	89,157
Surplus on Road Transport Account		(Deficiency)	
	395	8,317	8,438
Surplus on Hotels and Catering Account	3,567	2,679	3,591
Totals	275,392	40,724	101,186
Add :			
Rents and other receipts	16,458	14,118	14,710
General Interest	51,749	21,440	24,236
Total Net Receipts	343,599	76,282	140,132
Deduct :			
Interest, Rentals and other fixed charges, apart from Interest on Debenture Stock	28,951	20,792	21,152
Interest on Debenture Stock	93,673	93,673	93,673
Total Deductions	122,624	114,465	114,825
Balance available out of year's Revenue for payment of Dividends	220,975	(Deficiency) 38,183	25,307

The foregoing tables show that:—

(1) As compared with 1929 the railway receipts for 1934 show a decrease of £549,728, which is at the rate of 35.2 per cent.

(2) The railway receipts for 1935 disclose an improvement of £67,681, thus reducing the decrease as compared with 1929 to £482,047. This reduced figure is at the rate of 30.87 per cent.

(3) The total railway working expenditure of £965,498 for 1934 represents a reduction of £324,660 as compared with 1929. This is at the rate of 25.16 per cent., whereas the decline in receipts is at the rate of 35.2 per cent., which merely goes to prove that it is difficult, if not impossible, to effect reductions in expenditure which will fully make up for lost Revenue.

(4) The railway working expenditure for 1935 was larger than the corresponding total for 1934 by £24,886 which, deducted from the improvement of £67,681 in receipts, leaves an apparent net improvement of £42,795 in the results of railway working. The reason I qualify the net improvement is that the total charge for depreciation in 1935 is less than the corresponding charge in 1934 by £18,184.

There may, of course, be a good reason for this difference, but no explanation appears on the face of the Accounts.

(5) The surplus of £89,157 on railway working for the year 1935 represents 8.27 per cent. of the railway receipts for that

year as compared with 17.38 per cent. in 1929 and 4.58 per cent. in 1934. It will be observed accordingly that a relatively substantial improvement in the percentage rate of the surplus took place in 1935.

(6) The road transport figures show surprising variations, particularly as regard the item of depreciation, which on receipts of £51,330 in 1929 amounted to £6,109, on receipts of £191,032 in 1934 amounted to £27,613 and on receipts of £185,998 in 1935 amounted to £10,896. The Directors' Reports contain no explanations of these variations, but I think it may be assumed that for some time after the Company began to acquire road transport services it was necessary to write off large sums for depreciation with the object of bringing the equipment up to a certain pre-arranged standard and that the charge for the year 1935 may be taken as representing a normal provision. The heavy depreciation charged in 1934 converted the gross profit on the operations in that year into a deficiency of £8,317, which in 1935 was converted into a surplus of £8,438, representing a total improvement of £16,755. The surplus of £8,438 in 1935 works out at 4.54 per cent. on the receipts of £185,998, which compares with a surplus at the rate of 8.27 per cent. on railway working. It will be observed accordingly that owing to the greater relative cost of operating the road services it will take a much larger volume of road transport receipts to make good the deficiency in railway receipts.

(7) The receipts from hotels and catering for 1935, which were better by £2,244 than those for 1934, were only £2,509 behind the 1929 figures, but the surplus of £3,591 in 1935 represents 7.60 per cent. of the receipts as compared with 5.95 per cent. in 1934 and 7.17 per cent. in 1929.

(8) With the exception of a slight increase in the item of interest, rental and other fixed charges, apart from debenture interest, the revenue summary shows more or less substantial improvements all along the line in 1935 as compared with 1934, but the balance available out of the year's revenue for the payment of dividends compares with £220,975 for 1929 and accordingly discloses the formidable decrease of £195,668. As compared with 1934, however, this balance of £25,307 represents an improvement of £63,490 which, in all the circumstances, must be considered a notable achievement.

It may be convenient at this point to show how the available balances were dealt with in the years 1929, 1934 and 1935.

In 1929 the available balance was	£	220,975
To which was added a transfer from the Compensation paid under the Irish Railways (Settlement of Claims) Act, 1921, of		15,000
While the carry-forward from 1928 was reduced by		284
		<hr/>
Making an available total of		£236,259
which was applied as follows:—		
4 per cent. on Con. Guaranteed Stock	£34,771	
4 per cent. on Con. Preference Stock	79,967	
3 per cent. on Ordinary Stock	121,521	
		<hr/>
		236,259

For 1934 the balance of the Compensation Account was transferred	£ 7,500
While Credit balances—taken from miscellaneous accounts—were released to the extent of	65,454

Making in all	£72,954
From which there was deducted the Deficiency of	38,183

Leaving an available sum of	£34,771
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Which was applied in the payment of 4 per cent. on the Con. Guaranteed Stock. Nothing was, of course, paid on the Con. Preference Stock or the Ordinary Stock

For 1935 the available balance of	25,307
was increased by a further release of Credit balances—taken from Miscellaneous Accounts—to the extent of	9,464

Making available the sum of	£34,771
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Which was applied in paying 4 per cent. on the Con. Guaranteed Stock. As in 1934 no dividends were paid on the Con. Preference or Ordinary Stocks.

It may, I think, fairly be assumed that the Company will continue to benefit from the road transport legislation of the Irish Free State and that it will also derive considerable benefit from the pooling arrangement which came into operation on the 1st January, 1936, in Northern Ireland, but it is a long cry from a surplus of £25,307 to the surplus of £236,259 which is required to pay 4 per cent. on the Con. Guaranteed Stock, 4 per cent. on the Con. Preference Stock and 3 per cent. on the Ordinary Stock. It is quite possible accordingly that the Directors may be forced sooner or later to submit proposals for a radical reconstruction of the Company's Share Capital.

I do not propose in this paper to enter into an examination of the merits or otherwise of the form in which Railway Accounts are presented, but I would like to say in passing that I think it might make for intelligent discussion at the Ordinary General Meetings if the Report to the Shareholders included the Chairman's speech.

The main difference between a railway company's balance sheet and that of a commercial undertaking lies in the treatment of loan and share capital and capital expenditure. In the balance sheet of a commercial undertaking loan and share capital is shown on the liabilities side and the capital expenditure on the property and assets side, but for the purpose of the railway company's balance sheet these figures are brought together in a Statement described as "Receipts and Expenditure on Capital Account" and the difference only is carried into the balance sheet.

In the case of the Great Northern Railway Company the excess of capital expenditure over capital receipts having more than exhausted the Company's borrowing powers, the total capital expenditure to 31st December, 1935, is dealt with as follows in the accounts for the year 1935 :—

Total Capital Expenditure, including cost of acquiring Road Transport Services, amounted to	£ 10,374,300
While the amount received in respect of Share and Loan Capital, forfeited and merged Shares, etc., and Premiums less Discounts on the issue of Shares and Stock amounted to	9,559,448

Leaving an excess of Capital Expenditure of	£814,852
which is shown in the Balance Sheet of 31st December, 1935, under the following headings	
Balance at Debit of Capital Account (which is covered by the Company's available borrowing powers)	£493,481
Cost of acquiring Road Motor Services, apart from the value of Working Stock	104,844
Capital Expenditure Suspense Account	216,527
	<u>£814,852</u>

When the necessity arises and a suitable opportunity offers the Company will, no doubt, raise additional loan capital to the extent of the first-mentioned item, but it cannot do so as regards the other two items unless and until it has obtained additional borrowing powers.

The main features of the remainder of the balance sheet may be briefly summarised as follows:—

	£
Cash at Bankers and in hand	7,608
Investments in Government Securities	621,746
Outstanding Traffic Accounts	38,141
Amount due by Railway Companies and Committees	13,313
Amount due by Railway Clearing Houses	10,072
Amount due by Minister for Posts and Telegraphs, and Postmaster-General	9,940
Accounts receivable	49,116
Miscellaneous Accounts	49,282
	<u>£799,218</u>
Total Liquid Assets (apart from Stocks)	
Deduct :	
Amount due to Bankers (secured)	£37,947
Unpaid Interest and Dividends	12,782
Interest and Dividends payable or accruing and provided for	36,298
Amount due to Railway Companies and Committees	758
Savings' Bank	3,447
Trustees of Pension Fund Account	144,971
Accounts payable	83,283
Liabilities accrued	37,496
Miscellaneous Accounts (including Sundry Free Credit Balances)	79,989
Final Dividend on 4 per cent Guaranteed Preference Stock for 1935	17,385
	<u>454,356</u>
Excess of Liquid Assets over Liabilities	£344,862
Add :	
Stock of Stores and Materials	122,956
	<u>£467,818</u>
Total Surplus	
The foregoing surplus is made up as follows:—	
Wages Staff Pensions Reserve	£92,500
Fire Insurance Fund	78,516
General Reserve Fund	25,000
Depreciation Funds	£1,086,654
Deduct excess of Capital Expenditure as shown above	814,852
	<u>271,802</u>
	<u>£467,818</u>

It would appear accordingly that notwithstanding the difficult times through which the Company has passed its financial position is still perfectly sound.

The Directors' Report for 1929 draws attention to a serious decrease in gross receipts which, however, was more than off-set by a decrease in expenditure which it was stated had been achieved "by unremitting attention to the policy of effecting every economy consistent with efficiency."

In their Report for 1930 the Directors point out that, notwithstanding a further decrease in expenditure, a still greater reduction in gross receipts had rendered the financial position worse to the extent of £102,894.

With the usual somewhat formal Report for the year 1931 the Directors issued a circular to the Shareholders in which they dealt rather effectively with criticisms of their administration of the Company's affairs. In this circular they indicate the steps which they had taken within their powers to deal with the growth of road competition.

At a special Meeting of Shareholders which was held on 9th August, 1932 the Chairman made a statement as to the effect upon the Company of the Railways Act, 1924, and explained the factors which operated to prevent the Company earning the standard net revenue of £1,169,899 per annum which was fixed by the Railway Tribunal. In this statement the Chairman also pointed out that "wages which are 140 per cent. over pre-War level are very much higher than comparative wages paid elsewhere, even without taking into account the considerably less number of hours per day worked by Railwaymen" and emphasised the effect on the Company's receipts of unfair and unregulated methods of road transport in the Free State. In addition to this special Meeting the Directors issued a long and informative Statement with the Report for the year 1932 and entered into detail as regards the steps which they had taken to combat road competition.

The year 1933 was made memorable in the Company's history by the sweeping Capital reconstruction which was imposed upon the Company by the Irish Free State Legislature without direct reference to the Debentureholders and Shareholders. It may be convenient at this point to indicate the extent of this reconstruction which became operative as from 1st July, 1933. The following Statement shows the effect upon the main Stocks on which interest or dividends were payable:—

	Amount before Reconstruction	Amount after Reconstruction
	£	£
4% Debenture Stock	8,323,797	7,076,972
4% Guaranteed Preference Stock	3,885,374	1,943,167
4% Preference Stock	5,068,464	1,776,224
Ordinary Stock	7,767,123	777,927
	£25,044,758	£11,574,290
		£
The total reduction under these four main headings is ..		13,470,468
To which must be added sundry other adjustments amounting in all to ..		1,415,027
Making total reductions under the Railways Act, 1933, of ..		14,885,495
While a transfer was made to the Depreciation Funds of ..		895,136
Representing a Total of ..		£15,780,631
which was written off Capital expenditure		

I hope I have correctly interpreted the figures which I must confess it is not easy to follow.

The 1934 Report states that "The Road Concerns of the Irish Omnibus Company, Ltd., and Messrs. John Wallis & Sons, Ltd., which had been controlled by the Great Southern Railways Company, were merged in the Company as from the 1st January, 1934. In pursuance of the powers granted by the Road Transport Act, 1933, the Company is acquiring Road Transport concerns operating in the area served by its Railway System. During the year 1934 a number of such undertakings was acquired and negotiations are in progress for future purchases of competing Road Concerns."

In their Report for 1935 the Directors informed the Shareholders that the Company had availed itself of its powers under the Road Transport Act, 1933, to acquire the concerns of many of the principal Road Hauliers who were operating services in competition with the Railway and that during the year the Merchandise Licences of 223 Competitors had been taken over

In considering the following Tables, which have been prepared on the same lines as in the case of the Great Northern Railway, allowance should of course be made for the difficulties to which reference is made in the Directors' Reports:—

Year ended 31st December,	1929	1934	1935
RAILWAY	£	£	£
<i>Receipts</i> , less expenses of collection and delivery	3,986,034	3,033,166	3,180,705
<i>Deduct</i>			
<i>Expenditure as follows</i>			
Maintenance and renewal of Way and Works:			
Salaries, Wages, Materials, etc.	620,178	463,431	484,606
Depreciation	43,971	—	—
Total	£664,149	£463,431	£484,606
Maintenance and renewal of Rolling Stock.			
Salaries, Wages, Materials, etc.	518,293	502,921	517,642
Depreciation	Cr. 9,834	—	—
TOTAL	508,459	502,921	517,642
Locomotive Running Expenses	767,048	682,078	698,332
Traffic Expenses	860,026	677,878	694,200
Head Office, including Salaries of Secretary, General Manager, Accountant and Clerks, Office Expenses, Audit Fees, etc . .	91,612	80,347	83,067
Superannuation and Benevolent Funds, Pensions, etc	107,609	138,292	131,536
Directors' Fees	9,962	7,099	6,508
Law Charges	6,138	7,424	6,693
Compensation (Accidents and Losses)	25,326	21,871	20,195
Rates and Tithe Rent Charges	94,092	108,585	109,802
National Insurance	20,696	19,176	22,483
Miscellaneous, including Dr Balance on Mileage, Demurrage and Wagon Hire	11,919	10,744	11,634

Year ended 31st December.	1929	1934	1935
	£	£	£
Total Railway Working Expenditure ..	3,167,036	2,719,846	2,786,698
Surplus carried to Summary ..	818,998	313,320	394,007
ROAD TRANSPORT :			
Receipts	9,147	704,779	830,679
Expenses (Net)	19,044	556,891	676,255
Depreciation	—	67,494	67,717
Total Deductions	19,044	624,385	743,972
Surplus carried to Summary	(Deficiency) 9,897	80,394	86,707
CANAL :			
Receipts	4,765	3,782	3,712
Expenses	11,277	7,809	8,058
Deficiency carried to Summary	6,512	4,027	4,346
DOCKS, HARBOURS AND WHARVES :			
Receipts	15,669	15,461	15,029
Expenses	18,833	13,024	12,973
Surplus carried to Summary	(Deficiency) 3,164	2,437	2,056
HOTELS AND CATERING :			
Receipts	123,844	100,372	110,833
Expenses	105,907	92,481	101,464
Depreciation	—	—	—
Total Deductions	105,907	92,481	101,464
Surplus carried to Summary	17,937	7,891	9,369

REVENUE SUMMARY

Year ended 31st December,	1929	1934	1935
	£	£	£
Surplus on Railway Account	818,998	313,320	394,007
Surplus on Road Transport Account	(Deficiency) 9,897	80,394	86,707
Deficiency on Canal Account	6,512	4,027	4,346
Surplus on Docks Harbours and Wharves Account	(Deficiency) 3,164	2,437	2,056
Surplus on Hotels and Catering Account	17,937	7,891	9,369
Totals	817,362	400,015	487,793
<i>Add</i>			
Rents and other Receipts	28,917	32,027	44,472
General Interest	33,012	27,532	13,502
Amount receivable under Section 63 (1) of the Railways Act, 1924	48,688	47,288	—
Total Net Receipts	927,979	506,862	545,767

Year ended 31st December	1929	1934	1935
<i>Deduct</i>			
Interest, Rentals and other fixed charges, apart from Interest on Debenture Stock	81,790	75,691	77,605
Interest on Debenture Stock	332,952	282,079	283,079
Total Deductions	414,742	358,770	360,684
Balance available out of year's Revenue for payment of Dividends . .	513,237	148,092	185,083

It will be seen that :—

(1) The Railway Receipts for the year 1934 disclose a decrease as compared with the year 1929 of £952,868 which is at the rate of 23.90 per cent. of the 1929 Receipts.

(2) The Railway Receipts for 1935 show an improvement of £147,539 as compared with 1934 with the result that the decline in 1935 as compared with 1929 was reduced to £805,329 which is at the rate of 20.20 per cent. of the 1929 Receipts.

(3) The total Railway Working Expenditure for 1934 represents a decrease of £447,190 as compared with 1929 but it must be noted that £34,137 of this decrease is explained by the fact that no Depreciation is charged in the 1934 Accounts whereas the net charge for Depreciation in the 1929 Accounts was £34,137.

I assume that in view of the drastic writing down of Assets which followed the Capital reconstruction in 1933 under the Railways Act of that year the Directors felt themselves absolved for the time being from making any further provision for writing down Assets by way of Depreciation.

(4) So far as Depreciation is concerned, the 1934 and 1935 Accounts are alike in the respect that no provision was made, so that as between these two years the total Railway Working Expenditure may be compared without the qualification which is made in (3) above. For 1935 there was an increase of £66,852 which must, of course, be deducted from the increased Receipts of £147,539 so that the net improvement amounts to £80,687.

(5) The Surplus of £394,007 in Railway Working for the year 1935, when no provision was made for Depreciation, represents 12.39 per cent. of the Receipts for that year as compared with 20.55 per cent. for 1929, when provision was made for Depreciation to the extent of £34,137, and 10.33 per cent. for 1934 when no provision was made for Depreciation.

(6) The Road Transport figures provide some interesting contrasts and suggest that the cost of handling this business must be carefully watched. The increase in Receipts for 1934 as compared with 1929 amounted to £695,632, while the 1935 Receipts exceeded 1929 by £821,532 and 1934 by £125,900. In 1929 the Expenses, excluding Depreciation for which no provision was made, exceeded the Receipts by £9,897. For 1934 the Surplus of £80,394 represents 11.41 per cent. of the Receipts but in 1935 the Surplus of £86,707 (after providing for Depreciation on an approved basis which the Directors' note shows was less stringent than in 1934) represents only 10.44 per

cent. of the Receipts. This reduced return compares with 12.39 per cent. earned on the Railway Receipts (before making any provision for Depreciation) but it does not appear to be unreasonable to expect that when the Road Transport business becomes fully developed the return will be better than on the Railway working

(7) I take it that rather exceptional conditions which do not admit of substantial variation apply as regards the Canal and Dock Harbour and Wharf Undertakings and, as I have no knowledge of these conditions, I make no comment upon the relative Accounts which on balance do not appreciably affect the results of the entire Undertaking.

(8) The receipts from Hotels and Catering for the year 1935 show a decrease of £13,011 as compared with 1929, but the substantial increase of £10,461 as compared with 1934. No charge for Depreciation is made in any of the Accounts under review. The surplus of £9,369 for 1935 is at the rate of 8.45 per cent. of the receipts for that year, which compares with 14.48 per cent for 1929 and 7.86 per cent. for 1934

(9) The Revenue Summary figures for 1935 really mark a greater improvement than would be gathered from a simple examination of the Totals because the totals for 1929 and 1934 include £48,688 and £47,288 respectively for payments receivable under section 63 (1) of the Railways Act, 1924, which ceased in 1934. On the other hand, the 1929 totals have been arrived at after allowing £34,137 (net) for Depreciation in respect of Way and Works and Rolling Stock for which no corresponding charge appears in the 1934 and 1935 Accounts. With the object of instituting a true comparison I propose accordingly to deduct £14,551 (£48,688—£34,137) from the 1929 totals and £47,288 from the 1934 totals, when the adjusted available balances for the three years under review will stand as follows:—

1929	..	..	..	...	£498,686
1934	...	...	..	..	£100,804
1935	...	...	...	...	£185,083

It will be observed that while the adjusted available balance for 1935 shows a decrease of £313,603 as compared with 1929 it is better than 1934 by the very substantial sum of £84,279. In view of the drastic Capital Reconstruction which was carried through in 1933 the magnitude of the decrease as compared with 1929 has not, of course, the same pressing significance as if the 1929 Capital had remained unaltered but it may well prove to be the case that in the course of time such further improvements will take place in the earning power of the Company as would justify a reconsideration of that Capital Reconstruction

I propose now to show how the available balances were dealt with.

The balance of £513,237 for 1929 was applied as follows:—

4 per cent on the (unreduced) Guaranteed Preference Stock	£	155,415
4 per cent on the (unreduced) Preference Stock		202,739
1 per cent on the (unreduced) Ordinary Stock		77,671
		<hr/>
Making in all paid in Dividends		435,825
While there was added to the amount brought in from 1928		
the sum of		77,412
		<hr/>
		£513,237
		<hr/>

For the year 1934 the amount brought forward from 1933 was reduced by £7,323 which was added to the available balance of £148,092 making available the sum of £155,415, which was applied in paying the arrears of dividend on the 4 per cent. (unreduced) Guaranteed Preference Stock for the year 1932.

The available balance of £185,083 for 1935 was increased to £194,298 by reducing the amount brought forward from 1934 to the extent of £9,215 and the sum of £194,298 so arrived at was applied in paying the arrears of dividend on the (unreduced) 4 per cent. Guaranteed Preference Stock for the half year to 30th June, 1933, and on the reduced stock for 1½ years to 31st December, 1934. This leaves the dividend on the (reduced) 4 per cent. Guaranteed Preference Stock for the year 1935 amounting to £77,727 in arrear, but in view of the strength of the Company's position to which I shall allude in a moment there does not seem to be any good reason why these arrears should not be paid out of the balance of £191,760 which is still available in respect of the Compensation paid under the Irish Railways (Settlement of Claims) Act, 1921.

It is interesting to note that the available balance of £185,083 for the year 1935 would have permitted the payment of the following dividends:—

	£
4 per cent on £1,943,167 4 per cent. Guaranteed Preference Stock	77,727
4 per cent on £1,776,224 (Unguaranteed) Preference Stock	71,049
4 per cent on £777,927 Ordinary Stock	31,117
	£179,893

An examination of the Company's Balance Sheet of 31st December, 1935, discloses a strong financial position which will be improved by the successful placing of the recent issue of £400,000 Debenture Stock.

The first item on the Property and Assets side of the Balance Sheet is a balance of £635,775 at the debit of Capital Account which has been arrived at as follows:—

	£
Total Capital Expenditure to 31st December, 1935	30,515,166
<i>Deduct.</i>	
Adjustments under Railways Act, 1933, and transfers to Depreciation Funds amounting in all to	15,942,813
Leaving a balance of	14,572,353
Of which the written down value of Share and Loan Capital together with Premiums less Discounts on the issue of Shares and Stock and Treasury Grants represents	13,936,578
Leaving a balance at debit of Capital Account of	635,775

In my reference to the Directors' Report for the year 1933 I show that the total amount written-off Capital Expenditure at that point was £15,780,631, while the amount mentioned above is £15,942,813 and the 1934 Accounts describe this addition of £162,182 as Capital Expenditure incurred prior to 31st December, 1933, and taken over under the merger of Road Transport Undertakings in 1934 and now transferred.

The other items in the Balance Sheet may be summarised as follows:—

	£
Cash at Bankers end in hand	255,419
Investments in Consols and Government Securities	748,326
Investments in Stocks and Shares held by the Company	73,865
Outstanding Traffic Accounts	146,915
Amount due by Railway Companies and Committees	1,949
Amount due by Railway Clearing Houses	15,882
Amount due by Minister for Posts and Telegraphs	33,657
Accounts Receivable	63,687
Miscellaneous Accounts	213,861
Temporary Advance to Fishguard and Rosslare Railways and Harbours Company	8,910
Total Liquid Assets (apart from Stocks)	1,562,471

Deduct :

Unpaid Interest and Dividends	£15,106	
Interest and Dividends payable or accruing and provided for	151,643	
Amount due to Railway Companies and Committees	17,876	
Superannuation and other Provident Funds	191,412	
Accounts payable	296,500	
Liabilities accrued	70,457	
Miscellaneous Accounts	95,802	
Arrears of Dividend on 4 per cent. Guaranteed Preference Stock payable to 31st December, 1934	194,298	
		<u>1,033,094</u>
Excess of Liquid Assets over Liabilities (excluding secured Bankers' Claim)		529,377

Add

Stock of Stores and Materials	356,735	
		<u>886,112</u>

Deduct

Excess of Bankers' Claim over recent issue of Debenture Stock	300,000	
Total Surplus		<u><u>586,112</u></u>

The foregoing Surplus is made up as follows :

	£
Balance of Compensation under Irish Railways (Settlement of Claims) Act, 1921	191,769
Depreciation Fund (other Businesses)	138,340
Contingency Account	254,230
General Reserve Fund	235,021
Balance forward after deducting provision for payment of arrears of Dividend on 4 per cent. Guaranteed Preference Stock to 31st December, 1934	29,670
	<u>£849,035</u>

Deduct :

Excess of Balance at Debit of Capital Account over Balance of Bankers' Secured Loan after allowing for the recent issue of Debenture Stock	£235,775	
Special Expenditure in connection with Drumm Battery carried in suspense pending settlement	27,148	
		<u>262,923</u>
		<u><u>£586,112</u></u>

It is satisfactory to find that the Company has emerged from a series of very difficult trading periods with a perfectly sound financial position.

DISCUSSION.

Mr. Shanahan said he had great pleasure in moving a hearty vote of thanks to Mr. Mackie for his excellent résumé of the position of the leading railway companies of Ireland. Mr. Mackie restricted his inquiry to the financial statements, he did not go into historical matters nor draw any conclusions, but placed before them figures which could not be questioned. There could be little to object to in the statement he had prepared.

The present position of the railways was little short of disastrous, and it was an open question whether there would be anything in the nature of an improvement in the near future. The causes leading to this state of affairs—road competition and reduction in trade—were well known, and there was some evidence that these conditions were improving. The Minister for Industry and Commerce had stated recently that, since 1932, 700 new factories and workshops had been started, and 532 of them were prospective industries. In the North, improvement in the shipbuilding and linen industries would be beneficial to the railways there.

In the past, Irish railways had been the subject of many inquiries and attempts had been made by successive Governments to improve their position. The Scotter Commission, which reported 25 years ago, recommended that an authority should be instituted to unite the Irish railways and work them as a system under certain provisions as to purchase terms and the regulation of non-dividend-paying and non-profit-making lines. The Minority Report of the Commission stated that the main difficulty of the railway system of Ireland was its subdivision among a number of independent companies, and that that number should be rapidly reduced and management concentrated in the hands of a single company, within not more than four years—the amalgamation to be effected by voluntary agreements, assisted by necessary legislation or financial help. Both Reports invited assistance from the State. That was an element always present in the history of the development of transport in Ireland, and in the past a good deal of money had been spent by the British Treasury towards the improvement and development of transport in Ireland.

The legislation brought into force in Northern and Southern Ireland in recent years differed materially. In the North, as a result of the report of Sir Felix Pole on the transport problem, three distinct state-controlled authorities had been set up: a Road Transport Board to acquire by agreement or compulsion omnibus and motor lorry services; a general committee representative of the Road Transport Board and the railway companies whose systems operate wholly or partly in Northern Ireland, for the pooling of receipts, the fixing of fares and time-tables, etc., and a Tribunal whose function was to review the

reasonableness or otherwise of the decisions taken by the first two bodies. It was too early to comment on the results of this legislation. The closing of branch lines in Northern Ireland, was, however, an unhealthy sign.

In the Irish Free State, practically the policy advocated by the Minority Report of the Scotter Commission had been adopted. There was the Amalgamation Act of 1924, and also the Act of 1933 which reduced the value of stock to the alarming extent indicated in Mr. Mackie's paper. In the Free State there was also the closing of branch lines. The reduction of the stock was probably the most extraordinary transaction of its kind in the history of mercantile concerns.

Mr. Hartnell Smith, seconding the vote of thanks, said that Mr. Mackie had given concisely a great deal of information in a form most easy to understand. The first comment he would make was perhaps in the nature of a quibble. On page 83, Mr Mackie had stated that he had chosen the year 1929 because that was the last year in which the Great Southern Railway paid a dividend of 1 per cent. on its Ordinary Stock, and the Great Northern Railway paid a dividend of 3 per cent. on its Ordinary Stock. Actually, the Great Southern Railways had paid 1 per cent. in the year 1930 and $\frac{1}{2}$ per cent. in 1931.

With regard to the tables analysing the accounts, Mr. Mackie asked if he had interpreted correctly the reduction of capital.

In the accounts of the Great Southern Railways for 1933 there was a special table put in to explain what was almost impossible to understand otherwise. Mr. Mackie had set out the stocks on which dividends were payable before the reorganisation, against the stocks on which dividends were payable now. There was a difference between these stocks and the amount of stocks issued from time to time, in the past. From time to time in amalgamations, stocks issued by the old companies were exchanged for stock in the amalgamating company, and in this amalgamation it was found necessary to deal with stocks at different rates of interest, and that was levelled up by nominal deductions. The figure of £1,415,027 represented the clearing up of these nominal additions and deductions.

Mr. Mackie had said that he intended to put a note to his paper to explain that depreciation in railways is not the same as in commercial concerns. Owing to the nature of the railway assets, and the long life of some of them, *e g*, rolling-stock and engines, it was not the custom of railway companies to write off its assets like a business concern, but to fully maintain their efficiency at the cost of revenue each year. Before the War, the expenditure for maintenance and renewals each year was fairly level.

When the War came it was not possible to carry out the work, owing to lack of materials and labour. The Government took control of the Railway and the companies were allowed to charge up a standard figure for maintenance, and then for the first time depreciation was provided which was understood to be the difference between the work that the railway companies had been able to carry out, and the average amount for the past number of years. In the case of Road Transport, the Railway Companies had a fleet of vehicles with a life varying

between 5 and 10 years, and here they were on a depreciation basis like any commercial concern. Depreciation in connection with road services was not given in 1929 because in that year the Great Southern Railways Company was not operating road services, and the figures that were given were in the nature of a guarantee to certain carrying companies.

Professor Shields said that in this country the railways and road services had an important influence on the social and economic life of the country. From their inception the railways had been subjected to a greater measure of State control and administrative restrictions than any other undertaking, on account of the monopoly powers they had enjoyed until the advent of the road services, and their influence on economic and social welfare.

Speaking only of the railway companies of the Irish Free State, there had been in recent years very important enactments which had a decisive bearing on the development of the Great Southern Railways Company. There was first the Amalgamation Act, passed in 1924, by which 26 railway undertakings had been either absorbed or amalgamated, and which encumbered the railway company with a number of inefficient undertakings. Then there was the Railways Act of 1927 which permitted the railway company to use road transport services, subject to certain restrictions. If this Act had been passed at the time of the amalgamation of the railways, the present financial strength of the Company would have been considerably increased. Then, under the Railways Act of 1933 the entire debenture and shareholders' capital, amounting to £26,000,000, was reconstructed and was reduced by 52 per cent. The Road Transport Act of 1933 tended to give the railway company a monopoly in road services, as a public carrier, within its area.

Four important facts should be taken into consideration in dealing with the railways: the influence of mechanical road transport; the general depression that set in from 1922 onwards; the world depression following the 1929 crash, which led eventually to the steep decline in the prices of livestock and agricultural produce; and the unfortunate dispute between the Government of this country and Great Britain.

He considered that any examination of the figures should take into account the relative values of stores and materials in hand, and he thought that one of the great achievements of the Great Southern Railways Company had been the large reduction in the value of stores and stocks on hands between January, 1925, and the end of December, 1935. At the end of 1924, the value of stocks and stores of the amalgamated and absorbed companies was £851,000; and at the end of 1935 they only amounted to £357,000. Any business man would realise the importance of this reduction of nearly half a million pounds, as bearing on the liquid cash position of the company, and the locking-up of capital that could be used for productive purposes or investment.

The total expenditure of the Great Southern Railways for 1925 was £3.90 million and for 1935 was £2 78 million—a reduction of £1.12 million, while the total receipts for 1925 were £4.29 million, and for 1935 £3 18 million—a decline of £1.11 million. It was a notable

achievement of the Directors of the Company to make up so successfully by economies the enormous reduction in their revenues.

Using 1925 as a base year with index 100, there was a continuous decline in ordinary passenger receipts from 1925 to 1933, with an index of 52.7, owing largely to excessive motor competition, though there might also be a decrease in the numbers of persons actually travelling and a slight rise in 1934 and 1935, when the index was 55.4.

There were certain interesting calculations to be made in considering receipts from goods traffic. With an index number of 100 for 1925, the index numbers for 1927-1930 inclusive—leaving out the abnormal year 1926, on account of the British coal strike and the general strike—were above that of 1925. In 1931 there was a slight decline of 7 per cent., after which, in 1932, there was a steep reduction to 74.6 and then in 1933 to 71. The last two years showed a slight improvement, and the final index was 82.7.

He thought that the motor transport accounts should be set out like those of an ordinary commercial undertaking and not included with those of the railways, except in the final figures.

On the question of the consideration of the reconstruction of the capital, the capital of the debenture holders, who were secured creditors, should not have been reduced, also some special consideration should be given to present holders who held the same stocks before July, 1933; and there should be, as a result, "A" and "B" stocks.

Professor O'Brien said that the flotation of capital 100 years ago for the construction of the Irish railways was far in excess of anything that was taking place to-day, and was a striking illustration of the confidence of the people of that day in the future of the country. The Irish railways, in fact, were an example of how the work of the world was done under capitalism, and what a good thing capitalism was when it was left alone. Such a flotation would be impossible to-day, without Government guarantees, and in the future any loss on such undertakings, owing to the growth of new types of competition, would fall on the taxpayer. Repudiation would be out of the question, and the taxpayer would eventually have to pay for many projects of the kind. In making investments of this kind at present, therefore, we were adding to the future dead weight of the debt of the country, if some of them had the history of the Irish railway companies; and the taxpayer of 100 years hence might be presented with some serious problems.

It had been well to restore some kind of reality to the figures of the capital of the railway companies, but many people regarded the writing down of the debentures as quite inexcusable.

The President agreed that railways had played a primary part in the history of our economic system. Professor O'Brien had called attention to a very striking consideration in relation to them, of which, of course, the basis was given in Mr. Mackie's paper, and the statement of the very large and drastic writing down of capital found necessary. For this reason, one of the most interesting points in his paper was the reference to the recent successful placing of £400,000

of debenture stock This might be an indication of the incurable optimism of the capitalist. He would like to know what the effect of the transaction had been upon Mr. Mackie's figures. The summary at the top of page 97 showed that the Company held £225,000 cash and investments of about three-quarters of a million. Were they to understand that any of these amounts had resulted from the flotation of debentures?

The receipts of the railways had been for the past five or six years reasonably stable, and that fact was of some interest from a wider economic standpoint, and in comparison with the difference that was found when the changes that had come about in the agricultural and industrial output—particularly the agricultural output—of the country were considered Whereas heavy falls had taken place in the value of the goods actually carried, the element of railway freight had apparently succeeded in escaping from the effect of the depression In 1929, goods train ton figures averaged 20.3 miles per month; they went down in subsequent years to 16.7 in 1933, recovering to 19.8 in 1934 and to 21 in 1935.

With regard to the changes indicated in the surplus of receipts and expenditure, he wondered whether it would be proper to have regard to possible changes in capital expenditure over the same periods. These might not be appreciable in the case of the railway undertaking proper, but in the sub-divisions, for example the hotel division; he wondered whether the capital was the same, or approximately the same, at the two dates compared. Professor Shields had drawn attention to the fact that the capital invested had probably increased considerably in the case of the road transport

Mr. Mackie, replying, said: "I find it necessary to make a correction as regards my references to Depreciation in numbered paragraph 4 on page 87, and numbered paragraph 6 on page 88 I understand that the words used in the Accounts, viz., 'Transfer to Railway Depreciation Funds (net)' or 'Transfer to Renewal Account' mean that if the actual expenditure in the year fell short of the proper provision for depreciation the shortage was brought in as an additional charge.

In other words, there should be no qualifications as regards the adequacy of the depreciation charges in respect of Railway Working or Road Transport."

CORRECTIONS.

Page 83: *8th and 9th last lines should read*: "I have chosen the year 1929 because in that year. . ."

Page 83: *3rd last line; for* "Railways" *read* "Railway."

Page 91: *Top of page insert heading*, "GREAT SOUTHERN RAILWAYS."

Page 94: *Table; for* "282,079" *read* "283,079."