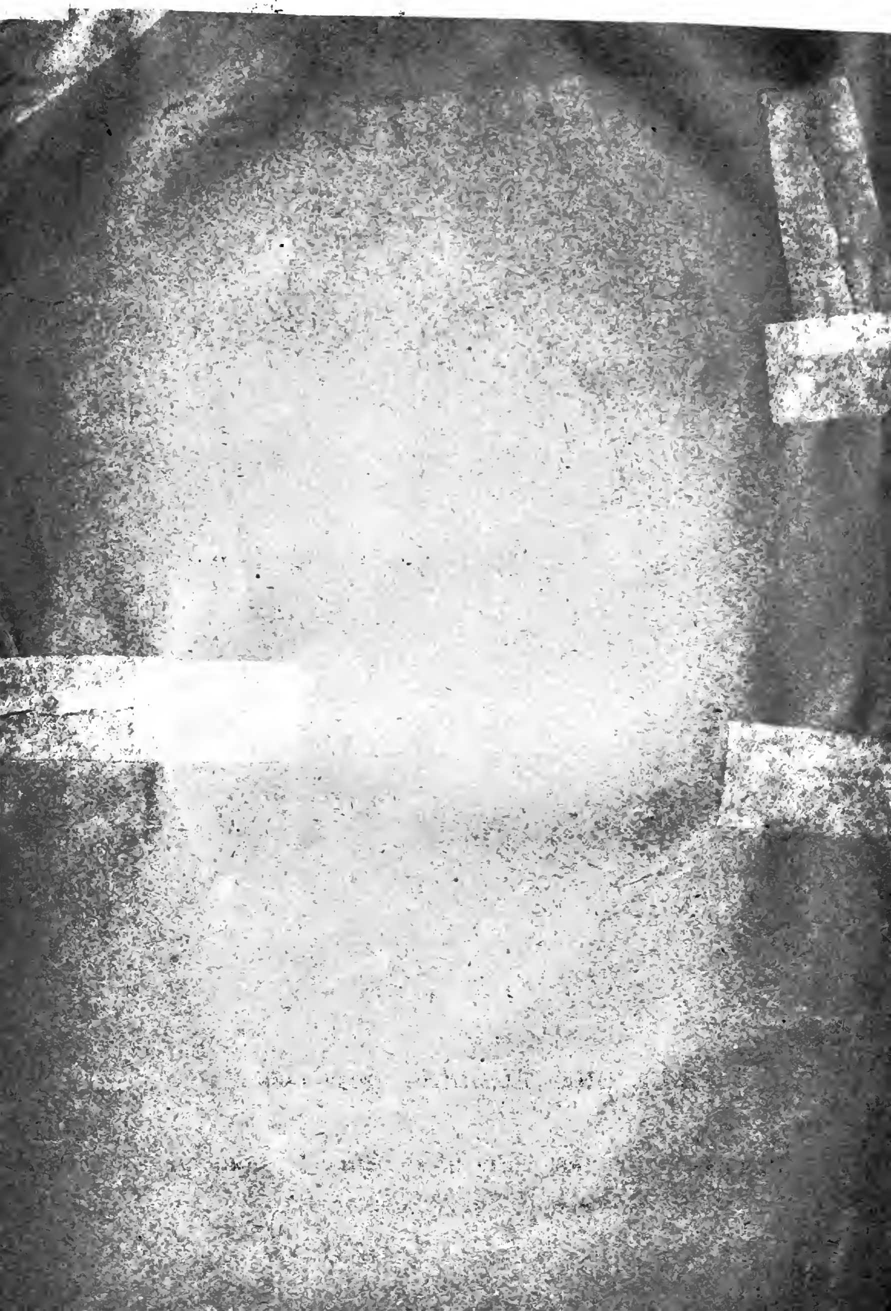
RAILWAY CAPITAL EXPENDITURE.

Mr Author

Reprinted from the "Financial Times."

PRICE ONE SHILLING (POST FREE).

PUBLISHED BY THE "FINANCIAL TIMES," LIMITED,
52, COLEMAN STREET, LONDON, E.C.



RAILWAY CAPITAL EXPENDITURE.

Reprinted from the "Financial Times."

PRICE ONE SHILLING (POST FREE).

PUBLISHED BY THE "FINANCIAL TIMES,' LIMITED,
52, COLEMAN STREET, LONDON, E.C.

11

LONDON
CLEMENT'S PRINTING WORKS
CLEMENT'S INN PASSAGE.

CONTENTS.

INTRODUCTION.

THIS Pamphlet, dealing with the all-important question of Capital Expenditure of our principal Railways, consists of Articles reprinted, by the kind permission of the Proprietors, from THE FINANCIAL TIMES of July and August last. The steady growth of Capital, and the concurrently decreasing rate of yield thereon, are matters which have not received that attention from Railway Shareholders which their importance would warrant. As illustrative of the importance of this subject, the following figures, taken from the Board of Trade Railway Returns, showing the amount of Railway Capital and the yield thereon for 1860, 1870, 1880, 1890, and 1892, will be found interesting :—

	Total Capital Paid up. £	Proportion of Net Receipts to Total Paid-up Capital. Per Cent.
1860	348,130,127	4·19
1870	529,908,673	4·41
1880	728,316,848	4·38
1890	897,472,026	4·10
1892	944,357,320	3·85

The mileage, which in 1860 was 10,433, is now 20,235, an increase of nearly 100 per cent, whilst, as shown above, the Paid-up Capital has increased over 170 per cent. Since 1880, though the Capital has increased by over 216 millions, the increase in miles of line open for traffic is only 2,400. Fortunately there is no reason to doubt the honest administration of the Companies; but on the other hand, there is positive danger in the indifference displayed by Railway Shareholders in connection with this important matter. The system of book-keeping and the care exercised in all charges to Capital, are valuable safeguards which have hitherto afforded security to the Shareholders. Nevertheless, there is evidence of a marked tendency, arising from the increasing demands made upon them, for the Companies to increase the amount of unproductive Capital, already large enough, and thereby to increase the difficulty in the future of maintaining an adequate yield thereon. In other words, Expenditure which is undoubtedly a fair charge to Capital *per se*, but which, it is anticipated, is not likely to produce its full quota of revenue, is charged to Capital Account. The dead weight of this unproductive Expenditure hangs like a millstone round the necks of the Companies, and it is the increase in this description of Capital which should be arrested, or its inroads into the net revenue available for the Ordinary Shareholders will produce results in the future which will be far from pleasant to contemplate.

Whilst the Companies have to meet, on the one hand, the increasing burden of Capital charges, both productive and unproductive, they have, on the other hand, to contend against persistent attempts to curtail their revenue by requiring more work for smaller remuneration, such as they are at the present time experiencing; and further, they have to withstand the increased cost of working which greater efficiency and the demands of labour entail. Truly this is burning the candle at both ends, and, if continued to any extent, will put the Ordinary Shareholders in a sorry plight. Before the interests of the latter are very seriously affected, they may arise to the importance of the matters referred to, but it is already time they were up and doing.

The following table is an illustration of the stupendous amounts of Capital expended during recent years by our principal Railway Companies :—

CAPITAL EXPENDED DURING 10 YEARS, 1882 TO 1892.

COMPANY.	Amount. £
Caledonian	4,808,838
Furness	229,852
Glasgow and South-Western	3,695,874
Great Eastern	8,197,167
Great Northern	6,432,543
Great North of Scotland	863,740
Great Western	10,906,548
Highland	1,469,176
Lancashire and Yorkshire	11,602,369
London and North-Western	13,253,474
London and South-Western	9,497,463
London, Brighton and South Coast	1,897,609
London, Chatham and Dover	2,880,099
Manchester, Sheffield and Lincoln	6,691,664
Metropolitan	1,068,850
Do. District	1,001,741
Midland	18,620,705
North British	8,331,468
North-Eastern	5,724,325
North Stafford	287,087
South-Eastern	2,535,872
Total	119,996,464

Thus it is seen that in ten years 21 companies have expended the enormous total of 120 millions sterling. This amount, too, excludes all nominal additions, and represents, therefore, an Expenditure of hard cash. The importance of this huge disbursement on Capital Account can scarcely be exaggerated. To pay 4 per cent. on this sum requires over £4,750,000, whilst, it is worthy of notice, the whole increase in net revenue of *all* the Railways in the United Kingdom in the same period (1882—1892) was only £3,170,000.

It is the main object of the statistics and comments thereon which appear in this pamphlet, to examine and explain the results on the revenue and Dividends of the various Companies of this Capital Expenditure during the ten years, 1882 to 1892 The task is a difficult one for many reasons, not the least being the different methods of accounting adopted by the various Companies. As far as possible, however, like is compared with like, and all the figures given represent approximately the same items in the accounts of each Company.

THE WRITER OF THE ARTICLES.

October, 1893.

I.—CAPITAL EXPENDITURE OF HEAVY LINES.

Year after year millions upon millions of capital are expended by our great railway companies in improving their existing property or in the extension and consolidation of their systems. The exigencies of modern commercial transit necessitate in the case of most of our railways an open capital account. The demands made upon the companies by freighters and passengers alike for new and improved facilities and greater dispatch, entail upon the companies the expenditure of large sums to bring their rolling-stock, permanent way, &c., to the greatest perfection which modern railroading has devised. Hitherto the customers of the companies have been wont to obtain from them all they have asked, and often without giving in return any additional remuneration to the latter for the increased cost. Shareholders are asked year after year to sanction further issues of millions of capital, which instead of yielding any return itself, much less increasing the return on the capital already existing, is eating away such profit as the shareholder already enjoyed. Whether this state of things will continue is very doubtful, and from the point of view of the railway shareholders, the sooner it terminates the better. Railway credit now stands higher than it has ever done, and deservedly so, and the Debenture Stocks of our leading companies return investors only a fractionally higher yield than "Consols." Hitherto their sound financial policy and honest management, as well as their stability, have warranted all the confidence reposed in our Home Railways, but nevertheless, it behoves shareholders to keep a watchful eye on all capital expended. Anything approaching to a serious waste of capital by our Railway Companies would amount to nothing less than a national calamity, and shareholders and directors alike must not drop into a state of lethargy, but jealously guard the measure of credit now enjoyed by their companies.

With the view of assisting in the examination of the results of the recent capital expenditure of Home Railway Companies, we have compiled statistics showing the capital expended by the Heavy lines for ten years from December 31st, 1882, to December 31st, 1892, with the effect of that expenditure on gross receipts and net revenue, &c., and in subsequent chapters other companies are dealt with in a similar manner. The subjoined statement (No. I.) shows the actual increase in capital expended during the ten years 1882-1892, and the percentage of the increase on the capital expended at the end of 1882:—

I.—Capital Account.

Company.	Capital Expenditure to Dec. 31st, 1882.	Capital Expenditure to Dec. 31st, 1892.	Increase.	
			Amount.	Per Cent.
	£	£	£	
Great Western	69,323,587	80.230,135	10,906,548	15·7
London & North-Western	89,984,586	103,238,060	13,253,474	14·7
Midland	71,275,400	89,896,105	18,620,705	26·1
North-Eastern	57,822,434	63,546,759	5.724,325	9·9

The most striking feature of the above table is the enormous amounts expended by these four companies, which aggregate in the 10 years over £48,500,000, or, say, an average of £5,000,000 per annum. The largest increase, amounting to 26·1 per cent., is shown in the case of the Midland. The amounts expended by the Great Western and North-Western are proportionately very similar, the percentage of their increases being 15·7 and 14·7 respectively. The North-Eastern, with an increase of nearly 10 per cent., has spent the least during the ten years of any of the Heavy lines. The increase in miles of railway constructed and owned by each of the four companies during the period has been as follows:—

Company.	Miles Constructed. 1882.	Miles Constructed. 1892.	Increase.
Great Western	1.544¼	1,912¾	368½
London & North-Western	1.498½	1.632	163½
Midland	1,160½	1,286½	126
North-Eastern..........	1,485	1,554¼	69¼

The increase in the Great Western is very large, but of the 368½ miles shown above, fully 220 consist of single line, and probably the balance is mainly made up of outlying small systems which have been absorbed by this company. The Midland increase of only 126 miles as the result of an expenditure of £18,500,000 does not seem commensurate, and this fact points to the conclusion that the major portion of this vast sum has been spent on improving and enlarging the existing lines, an inference which is further substantiated by the extraordinary development of traffic to which we refer below. As bearing on the capital expenditure of the immediate future, the following figures taken from thelast reports of the four companies under consideration, will be found valuable. Of course, they are only estimates of work for which Parliamentary powers are obtained, or which have been agreed to be executed as soon as a favourable opportunity arises. The second column is valuable as showing what is required to bring the existing system up to the latest requirements, an expenditure which, though indirectly beneficial to the Company, is nevertheless of itself comparatively unproductive.

II.—Estimate of Further Capital Required.

Company.	Estimate of all Further Capital Expenditure at Dec. 31st, 1892.	Estimate of Further Capital Expenditure on Lines open for Traffic at Dec. 31st, 1892.
	£	£
Great Western	1,956,483	433,003
London and North-Western	4,081,270	1,786,957
Midland	3,353,722	*1,240,723
North-Eastern	831,951	398,445

* Includes working stock.

It will be seen that both the London and North-Western and the Midland contemplate a considerable further expenditure in the near future. As regards the North-Eastern estimate of only £832,000, this amount, it should be stated, does not include the amount which will be required for the purchase of the Hull Docks, which only received Parliamentary sanction after the above estimate was made. The subjoined statement shows the increase in both gross revenue and net revenue from traffic during the period extending from December 31st, 1882, to 1892 for the four " Heavy " lines :—

III.—Revenue Account.

Company.	Gross Revenue, 1882.	Gross Revenue, 1892.	Increase in 10 Years.	
			Amount.	Per Cent.
	£	£	£	
Great Western	7,780,897	9,029,850	1,248,953	16·1
London and North-Western	10,265,788	11,725,010	1,459,222	14·2
Midland	7,141,821	9,171,153	2,029,332	28·4
North-Eastern	6,729,306 Est. for strike	6,672,416 500,000	443,110	6·6

III.—Revenue Account.—*Con.*

Company.	Net Revenue, 1882.	Net Revenue, 1892.	Increase in 10 Years.	
			Amount.	Per Cent.
Great Western	3,931,921	4,170,185	238,264	6·1
London and North-Western .	5,049,817	5,177,663	127,846	2·5
Midland	3,397,465	4,089,614	692,149	20·4
North-Eastern	3,330,039 Est. for strike	2,717,611 250,000	– 362,428	–10·9

Dealing first with gross revenue, and comparing the proportionate increases with those shown in statement I., they appear to be on the whole satisfactory, especially having regard to the fact that 1892 was by no means a good year for railways. The Midland especially is good, an increase of 26·1 per cent. in capital expended having resulted in an increase in gross receipts in even greater proportion, namely, 28·4. On the other hand, though very good results are shown in 1892, that Company is likely to show a much larger falling off both in gross and in net revenue than any of the other Heavy lines. In the above statement allowance has been made for the coal strike in the case of the North-Eastern Company. Even thus, however, the North-Eastern results are not so good comparatively as those of the other Companies, and this is, of course, due to the great depression at present existing in the iron industry, which in 1882 was in a prosperous condition. The mineral receipts, for example, amounted in 1882 to £2,556,516 and in 1892 to only £2,089,829, a decrease of £466,687, which of itself would yield nearly sufficient net revenue to enable the Company to pay one per cent. additional dividend.

Turning to the net revenue results, we find that on the whole they are very unsatisfactory, exception being made perhaps of the Midland as being fairly good. The reason for the bad results shown in this direction is to be found in the large increase in working expenses which has taken place since 1882. The amounts of the increases in working expenses since 1882 are as follows:—

		£
Great Western		1,010,689
London and North-Western		1,331,376
Midland		1,337,183
North-Eastern		555,538
	Estimate for strike...	250,000

The following table (No. IV.) summarises the results of the capital expenditure of the 10 years on the basis of the net revenue earned in 1892. For the purpose of comparison, it is assumed that all the capital should earn on the average 4 per cent., though as a matter of fact the companies here dealt with can now raise a portion of their capital at 3 to 3¼ per cent. According to the Board of Trade Railway Return, the average yield on the whole capital of railways in the United Kingdom for 1892 was 3·85, so that a 4 per cent. basis is quite a fair one. The last column shows the loss on the capital expended on the assumed basis of a 4 per cent. return, that is, the difference between the additional net revenue earned in 1882 compared with 1892, and 4 per cent. on the capital expended:—

IV.—Results of Capital Expenditure.

Company.	Capital Expenditure in 10 Years.	Increase in Net Revenue in 10 Years.	4 per Cent on Capital Expenditure	Annual Gain or Loss on Capital Expenditure.
	£	£	£	£
Great Western	10,906,548	238,264	436,262	— 197,998
London & North-West.	13,253,474	127,846	530,138	— 402,292
Midland	18,620,705	692,149	744,828	— 52,697
North-Eastern	5,724,325	— 362,428	228,973	— 591,401

The small loss of only £52,000 in the case of the Midland is satisfactory. The large loss of the North-Eastern has been already accounted for by the large increase in working expenses, and the falling off of receipts from mineral, &c., traffic. Our next table (No. V.) shows the result to ordinary shareholders of the capital expenditure of the past ten years on the basis of a four per cent. return. The difference between the results as shown below and the actual decline in dividends is due, of course, to the fact that considerable amounts have been derived from premiums on issues of stock. and issues of Debenture and Preference stocks at rates varying between 3 and $3\frac{1}{2}$ per cent., and thus Ordinary shareholders have to thank the good credit they enjoy for the fact that their dividends have not fallen lower.

V.—Results to Ordinary Shareholders.

Company.	Annual Loss, as shown in Table IV.	Per Cent. of Loss on Ordinary Capital, December, 1892.	Dividend Paid.		Actual Loss.
			1882	1892.	
	£	£ s. d.			£ s. d.
Great Western	197,998	0 17 10	$6\frac{1}{4}$	$5\frac{7}{8}$	−0 7 6
London and North-Westrn	402,292	1 0 4	$7\frac{1}{2}$	$6\frac{1}{2}$	−1 0 0
Midland	52,697	0 3 2	$5\frac{7}{8}$	6	+0 2 6
North-Eastern	591,401	2 6 4	$8\frac{1}{8}$	$4\frac{7}{8}$ *1	−2 5 0

* Estimated loss through strike.

The losses are general, except in the case of the Midland, where a small gain is shown, which, however, has now been wiped out. A most noticeable feature of the above table is the fact that the North-Western loss of 1 per cent. shown in the second column has not been alleviated by any saving in interest or by premiums received. This is the more remarkable, as during many years past this Company has enjoyed a higher credit than any other English Company. The explanation is to be found in the fact that this Company, in raising the $13\frac{1}{4}$ millions shown above, has issued more than seven millions of ordinary capital since 1882, against only £400,000 Preference Stock and no Guaranteed Stock, the balance being represented by Debenture Stock issued. Altogether, the results are not so satisfactory as might have been expected; but, on the other hand, a reduction of working expenses to a normal ratio, and the development of the full earning power of the capital recently expended, will go far to recover a good deal of lost ground, and enable them in the future to exhibit more brilliant results. When this happy state of affairs will return depends altogether on the course of trade, the immediate prospects of which are, unfortunately, not too encouraging.

II.—SOUTHERN RAILWAYS' CAPITAL.

In the first chapter we dealt with the "Heavy" lines, and in this chapter we shall deal with the capital expenditure of the Southern group of companies. For the purpose of comparison, it is found most convenient to group the different companies in this manner, according to the special conditions attaching to each group. Thus, while the "Heavy" lines are those which are pre-eminently dependent on merchandise and mineral traffic, the companies comprised in the Southern group are mainly dependent on passenger traffic. This being the case, it is not surprising to find that the results of the period 1882 to 1892, taken as a whole, are much more satisfactory in the case of the Southern Companies than we found them to be with the "Heavy" lines. The explanation of this can be traced to two important facts. First, passenger traffic is only indirectly, and therefore more slowly, affected by trade conditions, and in consequence the receipts for 1892 were generally more satisfactory than in the case of the goods-carrying companies; and, second, an increase in passenger traffic does not necessitate a proportionate increase in working expenses, as is generally the case with goods and mineral traffic. This last railway dictum is well illustrated by the fact that in two cases the Southern Companies show greater increases per cent. in net revenue than in gross receipts, whilst in the case of all the "Heavy" lines the proportionate increases in net receipts are very much smaller than in gross revenue, though both groups were in 1892 subject to abnormally high working expenses. Our first table (No. I.) shows the increase in capital expended during the ten years from December 31st, 1882, to 1892:—

I.—CAPITAL ACCOUNT.

COMPANY.	Capital Expenditure to Dec. 31st, 1882.	Capital Expenditure to Dec. 31st, 1892.	Increase.	
			Amount.	Per Cent.
	£	£	£	
London and South-Western ..	24,371,521	33,868,984	9,497,463	38·9
London, Brighton & S. Coast	22,764,360	24,661,969	1,897,609	8·3
London, Chatham and Dover	24,262,409	27,660,047	dis 517,539 } 2,880,099 }	11·8
South-Eastern	21,922,491	24,458,363	2,535,872	11·6

In the above table nominal additions through conversions have been excluded in the case of the South-Western; and in the case of the Chatham, though the actual increase is £3,397,638, more than £500,000 is represented by discount on issues of stock, so that the amount expended in hard cash is only £2,880,099, as shown above. The expenditure of nearly £9,500,000 by the South-Western is very large, and the proportionate increase of 38·9 is the largest of any company during the period under review. In considering the effect of this expenditure upon the revenue of the Company, it should be borne in mind that £1,192,000 of the nine and a-half millions shown above was spent by the Company last year in acquiring the Southampton Docks, an expenditure which has not yet had time to reflect itself to a full extent on the revenue. The Brighton expenditure of barely £1,900,000 is certainly small, but, of course, the capital account of this Company has been for some years past practically closed, at least so far as is deemed possible for a large railway company. The proportionate increases of the Chatham and South-Eastern approximate very closely, though the Chatham is really much larger than it appears, owing to the inflated amount of capital existing in 1882, the year with which comparison is made. Each of these two companies has, with the proceeds of the capital shown above, managed to invade the province of the other, with dire consequences to both, though it must be admitted, if the revenue results which we give below form a fair criterion, that the Chatham has come off best in the conflict. Our next table gives the estimate of further expenditure in the case of the four Companies.

II.—ESTIMATE OF FURTHER CAPITAL REQUIRED.

COMPANY.	Estimate of all Further Capital Expenditure Dec. 31st, 1892.	Estimate of Further Capital Expenditure on Lines open for Traffic Dec. 31st, 1892.
	£	£
London and South-Western......	1,320,000	535,000
London, Brighton & South Coast	559,744	559,744
London, Chatham and Dover ...	108,650	25,000
South-Eastern	1,566,097	1,044,766

It will be seen that the South-Eastern requires a considerable sum to bring the system up to perfection, and inasmuch as the amount shown in the second column has stood at about a million for some years past, and has not been reduced by the expenditure which in the meantime has been incurred, we are afraid it is rather a low estimate. The modest estimate of the Chatham does not by any means imply that that system is already perfect, but is rather to be accounted for by the embargo laid by Parliament on further capital being raised by this Company, as a result of its financial position. The following table (No. III.) shows the increase in gross receipts and net revenue for the ten years :—

III.—Revenue Account.

Company.	Gross Revenue, 1882.	Gross Revenue, 1892.	Increase.	
			Amount.	Per Cent.
	£	£	£	
London and South-Western..	3,005,710	3,613,140	607,430	20·2
London, Brighton & S. Coast	2,099,289	2,542,990	443,701	21·1
London, Chatham, and Dover	1,225,298	1,470,034	244,736	20·0
South-Eastern	2,165,270	2,358,686	193,416	8·9

Company.	Net Revenue, 1882.	Net Revenue, 1892.	Increase.	
			Amount.	Per Cent.
	£	£	£	
London and South-Western..	1,245,932	1,598,140	352,208	28·3
London, Brighton & S. Coast	1,057,742	1,306,893	249,151	23·5
London, Chatham, and Dover	578,636	644,225	65,589	11·4
South-Eastern	1,113,221	1,091,711	— 21,510	— 1·9

The increases in gross revenue are, on the whole, very satisfactory, especially in the cases of the Brighton and the Chatham. The increase in capital, we see by table No. I., was in the Brighton and the Chatham 8·3 and 11·8 per cent. respectively, and this has produced an increase in gross revenue of 21·1 and 20·0 per cent. respectively. The apparently moderate increase of 20·2 in the gross revenue of the South-Western, compared with an increase of 38·9 per cent. in capital expended, is due to the fact to which we have already alluded, namely, that sufficient time has not elapsed to allow the new capital to produce its ful quota of revenue, and under ordinary circumstances a further important expansion of revenue may be looked for in the near future, and this will doubtless further improve considerably the net revenue figures shown above. The important appreciation during the last few months in the values of the Ordinary stocks of the South-Western may in a large measure be attributed to the general belief that this will be the case, and certainly there is every reason to expect it. As it stands, the increase of 28·3 per cent. in net revenue in ten years is quite phenomenal, the nearest approaches to it among the larger companies being a corresponding increase in the case of the Midland of 20·4 per cent., and 23·5 per cent. in the case of the Brighton, though the two smaller Scotch companies, the Highland and Great North of Scotland, show larger increases, due to special conditions. The expansion of the Brighton net revenue is itself very satisfactory, as it is accompanied by an increase of only 8·3 per cent. in capital. The net revenue results of the Chatham and South-Eastern Companies form a marked contrast to the Brighton and South-Western, and afford a sufficiently plain commentary on the policy pursued by the two former companies. One deduction in particular may be drawn from the figures given above, and that is, that any improvement in the position of either the Chatham or the South-Eastern Companies should be derived more from a reduction in expenses than an expansion of earnings. The next table deals with the results of the capital expenditure on the basis of a 4 per cent. return.

IV.—Results of Capital Expenditure.

Company.	Capital Expenditure in 10 Years. Table I.	Increase in Net Revenue 10 Years.	4 per Cent. on Capital Expenditure.	Annual Gain or Loss on Capital Expenditure.
	£	£	£	£
London & South-Western.........	9,497,463	352,208	379,898	— 27,690
London, Brighton & South-Coast	1,897,609	249,151	75,904	+ 173,247
London, Chatham and Dover ..	2,880,099	65,589	115,204	— 49,615
South-Eastern	2,535,872	— 21,510	101,434	— 122,944

The South-Western, it will be seen above, shows a small loss, and under the circumstances it is not surprising. The loss of £123,000 by the South-Eastern is, however, quite another matter, and is very unsatisfactory. The gain of £173,000 by the Brighton, on the other hand, is nothing less than brilliant, and is an achievement which has produced very satisfactory results to the ordinary shareholders. The next table shows the results to ordinary shareholders :—

V.—RESULTS TO ORDINARY SHAREHOLDERS.

COMPANY.	Annual Gain or Loss Table IV.	Per Cent. on Ordinary Capital.	Dividend Paid.		Actual Gain or Loss.
			1882.	1892.	
	£	£ s. d.			£ s. d.
London & Sth.-Western	— 27,690	— 0 4 9	$5\frac{3}{4}$	6	+ 0 5 0
Lon.,Brighton,& S. Coast	+ 173,247	+ 2 3 1	$4\frac{3}{8}$	$6\frac{1}{2}$	+ 2 2 6
London, Chatm. & Dover	— 49,615	— 0 14 10	*$4\frac{1}{4}$	*$3\frac{19}{20}$	— 0 6 0
South-Eastern	— 122,944	— 1 4 4	$5\frac{1}{4}$	4	— 1 5 0

* On Arbitration Preference Stock.

The apparent loss on a 4 per cent. basis of 4s. 9d. in the case of the South-Western has been turned into a gain of 5s., by reason of its ability to borrow at a lower rate than 4 per cent. on the average. The gain and loss shown respectively in the case of the Brighton and South-Eastern come remarkably near to the actual results indicated in the last column. The Chatham loss shown above, of 14s. 10d., does not fall so heavily in 1892, because the balance brought into the current year is reduced by £30,000, and the full dividend paid for the second half of last year. The advantage which the Chatham derived from issuing £860,000 in Second Preference and Ordinary stocks earning no dividend, and which, after deducting discount, realised about £350,000, has apparently been counteracted by the poor credit of this Company. The net results of the passenger lines appear to be far and away superior to those of the goods lines, and the contrast, already great, will probably be even greater in 1893 than it was in 1892.

III.—CAPITAL OF METROPOLITAN LINES.

We have already dealt with the capital expenditure and its results in the case of the "Heavy" and "Southern" groups of Companies. Our third group comprises the Metropolitan Companies, and in this group we also include the Great Northern and Great Eastern. Though the two latter Companies are, of course, not strictly Metropolitan, yet each of them possesses a very large share of Metropolitan local traffic. This applies to the Great Eastern especially, as this Company has now developed an enormous suburban traffic in the North and East of London, and its central terminus, Liverpool Street, is now used by a greater number of passengers daily than any other station in London. Much of this enormous traffic has sprung up under the fostering influences of cheap fares and frequent trains, during the period of ten years covered by our statistics—namely, 1882 to 1892. The increase in gross revenue of this Company is larger than that of any other important railway during the ten years, though, as explained below, the increase in net revenue has not kept pace with the growth in gross receipts. To this feature must mainly be attributed the fact that the dividend of this Company, instead of showing any decline in common with its neighbours, actually shows a small increase in 1892 compared with 1882. Had it not been for the altogether unprecedented increase in working expenses in the same period, the result, of course, would have been a great deal better; but, nevertheless, the shareholders are to be congratulated on the results obtained, and also on the maintenance in the first half of this year of the rate paid in 1892, particularly as so many of the other large Companies showed a decline in its rate of distribution compared with 1892. Subjoined is our table (No. I) showing the increase of capital expenditure and the percentage thereof to the capital as at December 31st, 1882:—

I.—Capital Account.

Company.	Capital Expenditure to Dec. 31st, 1882.	Capital Expenditure to Dec. 31st, 1892.	Increase.	
			Amount.	Per Cent.
	£	£	£	
Great Eastern*	35,062,401	43,259,568	8,197,167	23·4
Great Northern	33,688,595	40,121,138	6,432,543	19·1
Metropolitan	10,369,045	11,437,895	1,068,850	10·3
Do. District	6,692,308	7,694,049	1,001,741	14·9

* Excluding Discount and nominal Additions to Capital.

Both the Great Northern and Great Eastern expenditure have been considerable, but there has also been a large increase in the mileage constructed by each of these Companies. The Great Eastern increase in mileage during the ten years was 167, and the Great Northern 93. In the Great Eastern figure are included, however, several small systems absorbed since 1882, most of which were previously worked by the Great Eastern, and which, from the dilapidated state of their finances, the Great Eastern Company was able to acquire very cheaply. For example, the Tendring Hundred line, which cost over £400,000, is now included in the capital account of the Great Eastern at £206,000, and the Felixstowe Railway, which cost over £260,000, stands at £222,000. The Metropolitian mileage has more than doubled in the period under review, but the small expenditure in respect thereof is, of course, due to the smaller comparative cost per mile of the provincial extensions of this Company. The Metropolitan District increase in respect of a similar expenditure was only two miles. Each mile of this Company's system stands in its capital account at over £530,000, a fact which illustrates the tremendous cost of construction,—and the large turnover required to meet capital requirements alone. Our next table shows the estimate of future expenditure at December 31st, 1892:—

II.—Estimate of Further Capital Required.

Company.	Estimate of All Further Capital Expenditure, December 31st, 1892.	Estimate of Further Capital Expenditure on Lines Open for Traffic December 31st, 1892.
	£	£
Great Eastern	269,519	207,519
Great Northern	*2,473,305	1,956,200
Metropolitan.....................	28,500	13,500
Do. District	20,967	5,717

* £1,368,000 Expenditure Deferred.

Though the Great Eastern proposed expenditure as shown above is inconsiderable, in the report for the first half of the current year, the estimate of all expenditure is increased to £1,230,000. The Great Northern estimate is large, and, following as it does upon large disbursements on capital account during recent half-years, with consequent large issues of Ordinary capital, keeps the Ordinary stock at its present low price. A great deal of capital has been spent by this Company recently in widening and improving its existing lines. The Great Northern Company is, perhaps, subjected to keener competition than any other important line. With the Midland and North-Western on the one side, and the Great Eastern on the other, it is only by straining its resources that it is enabled to hold its own. As is well known, its proportion of working expenses to receipts is about 5 er cent. higher than is the case with other important

British Companies, and this is mainly due to the keen competition which it experiences. Our next table shows the gross and net revenue for 1882 and 1892 :—

III.—REVENUE ACCOUNT.

COMPANY.	Gross Revenue, 1882.	Gross Revenue, 1892.	Increase.	
			Amount.	Per Cent.
	£	£	£	
Great Eastern	3,337,000	4,365,030	1,028,030	30·8
Great Northern..................	*3,713,018	4,465,320	752,302	20·3
Metropolitan	592,346	715,867	123,521	20·9
Do. District	365,884	425,610	58,726	16·0

COMPANY.	Net Revenue, 1882.	Net Revenue, 1892.	Increase.	
			Amount.	Per Cent.
	£	£	£	
Great Eastern	1,540,754	1,842,776	302,022	19·6
Great Northern	1,598,251	1,788,890	190,639	12·0
Metropolitan	Rly. Rev., 368,015	411,974	43,959	11·1
	Estate Rv., 65,297	69,324	4,027	
Do. District	196,811	232,753	35,942	18·3

*£200,000 added for Joint Lines first half 1882, as net only given in accounts.

Comparing the percentage increases shown in the gross revenue with the percentage increases in capital (table I.) we see that they are uniformly satisfactory. The Metropolitan is especially so, an increase of 10·3 in capital resulting in an increase of 20·9 in gross receipts. We have sub-divided the net revenue of this Company according as it belongs to the Surplus Lands stock or the Ordinary stock. The dividend now paid on the former stock was, until 1886, included in the dividend on the Ordinary capital. In that year £50 per cent. of Surplus Lands stock was issued to holders of Ordinary stock, and holders of this now receive the Estate Revenue, which, for comparison, we have shown separately. Following our previous plan, we show in our next table the resulting gain or loss from the ten years' capital expenditure on the basis of a 4 per cent. return.

IV.—Results of Capital Expenditure.

Company.	Capital Expenditure in 10 Years. Table I.	Increase in Net Revenue 10 Years. Table III.	4 per Cent. on Capital Expenditure.	Annual Gain or Loss on Capital Expenditure.
	£	£	£	£
Great Eastern	8,197,167	302,022	327,886	— 25,864
Great Northern	6,432,543	190,639	257,302	— 66,663
Metropolitan	1,068,850	47,986	42,754	+ 5,232
Do. District..	1,001,741	35,942	40,069	— 4,127

The results above are not very striking. The Great Northern loss is considerable, however, though, as the next table will show, the effect on the Ordinary dividend is much more adverse than the above figures would indicate. Owing to special conditions, which we explain below, the Metropolitan and the District are in a similar position, whilst the Great Eastern has been able to mitigate the unfavourable effect produced on its net revenue by recent capital expenditure. Our next table (No. V.) shows the effect on the Ordinary stock of the above figures and the actual results :—

V.—Results to Ordinary Shareholders.

Company.	Annual Gain or Loss. Table IV.	Per Cent. on Ordinary Stock.	Dividend Paid.		Actual Gain or Loss.
			1882.	1892.	
		£ s. d.			£ s. d.
Great Eastern	— 25,864	— 0 4 1	2	$2\frac{1}{8}$	+ 0 2 6
Great Northern	— 66,663	— 0 9 0	5	$4\frac{1}{8}$	— 0 17 6
Metropolitan	+ 5,232	+ 0 2 0	5	$3\frac{1}{4}$ *$1\frac{5}{16}$	— 0 8 9
Do. District ...	— 4,127	— 0 3 9	$\frac{3}{16}$ Ord	3 Pref.	— 2% on Pref. and $\frac{3}{16}$ on Ord

* Dividend on £50 Surplus Land Stock, 1892.

The discrepancies between the results on the basis of a yield of 4 per cent. and actual results are large in each case, except that of the Great Eastern, and are, moreover, of an adverse character. The gain shown by the Great Eastern, of 2s. 6d., in spite of an apparent loss of 4s. 1d., points to the fact that the Company has, on the average, been able to borrow at about $3\frac{1}{2}$ per cent. The difference in the case of the Great Northern is the result of an enormous increase in the Ordinary stock in the ten years. This increase amounts to £4,737,985, and, furthermore, at the half-yearly meeting in February last £2,000,000 Ordinary stock was created. It should be stated, however, that over £1,900,000 of the above increase in Ordinary Stock was due to the conversion into that stock of the 1878 and 1881 Preference issues. However, the increase in the Ordinary stock bearing a higher rate than 4 per cent. has been enough to reduce the dividend by 17s. 6d. and, together with an increase of £20,000 in guaranteed rent, accounts for the difference shown in our table. The loss of 8s. 9d. in the Metropolitan dividend is equal to £22,000, and in addition we must add the sum of £5,000 shown in the first column; together equal to £27,000. This sum is accounted for by the fact that £383,000 of stock was in issue in 1882 bearing no dividend, and this, at present rate paid, represents £17,000, the difference of £10,000 being accounted for by the circumstance that the debit balance on capital account was reduced in 1892 compared with 1882 to the extent of £240,000. The loss of dividend in the case of the District Preference stock is mainly owing to £541,152 of Guaranteed stock having been issued in the year 1882 with dividend postponed, whilst curiously enough, the loss of £4,127 shown in the first column of above table is just equal to $\frac{3}{16}$, the rate of dividend paid on the Ordinary in 1882 and the last dividend it received.

IV.—PROVINCIAL RAILWAYS' CAPITAL.

In this chapter we propose to deal with four of the more important provincial lines. The Companies included in this group, which we propose to consider, are the Furness, Lancashire and Yorkshire, Manchester, Sheffield and Lincolnshire, and North Staffordshire Companies. For comparative purposes, it should be remembered that, as a rule, these four companies are each subjected to special local influences, and as the district within which their operations extend is in each case comparatively small, the temporary state of the trade on which each Company mainly depends plays an important part in determining the adversity or prosperity of the Company itself. Thus we find that the Furness, which depends to a large extent on mining and iron industries in the West Cumberland district, is now passing through an abnormal period of depression, and shows a decline of $5\frac{1}{2}$ per cent. on the rate of dividend paid on its Ordinary stock compared with 1882, whilst the North Stafford, serving the Potteries, has in the same period increased its dividend considerably. The Lancashire and Yorkshire and Sheffield Companies, though not sharing much in common, were in 1892 both influenced by the depression in the mining and cotton industries, and consequently the results displayed by them compare unfavourably with those of 1882; and, further, both have suffered from increased working expenses. Subjoined is our table (No. I.) showing the increase in capital expended in the ten years 1882-92 :—

I.—Capital Account.

Company.	Capital Expenditure to Dec. 31st, 1882.	Capital Expenditure to Dec. 31st, 1892.	Increase.	
			Amount.	Per Cent.
	£	£	£	
Furness	6,108,284	6,338,136	229,852	3·7
Lancashire and Yorkshire ...	36,265,635	47,868,004	11,602,369	32·0
Manchester, Sheffield & Linc.	25,852,093	31,240,666	5,388,573	20·8
North Stafford	7,838,185	8,125,272	287,087	3·6

The expenditures in the cases of the Lancashire and Yorkshire and Sheffield Companies are large, amounting, as they do, to 32·0 and 20·8 per cent. respectively. The Lancashire and Yorkshire increase includes, however, £1,496,900 of Debenture Stocks, issued to North Union and Preston and Wyre shareholders in lieu of annual payment formerly made, and this amount, therefore, involves no extra charge against this company. The Sheffield figure shown above is the actual increase as given in the capital account of this Company. Owing, however, to a unique form of accounting adopted by this Company, whereby premiums received on stocks and shares, instead of being shown on the credit side of the capital account, are deducted in the half-year in which received from the debit in the capital account in respect of "lines open for traffic," the amount of £5,388,573 is really considerably below the actual sum expended in the ten years. We have taken out the amounts thus deducted from the debit side of the capital account in the ten years under review, and find they aggregate £1,303,091, so that, added to the sum given in our table, the actual expenditure is £6,691,664, or an increase of nearly 26 per cent., and this is the sum with which we shall deal in our subsequent tables. It is difficult to see the reason for treating premiums in this way. The practice followed by every other important Company, with one exception, is to place the balance of premiums received, less discounts, on the credit side of the capital account. The South-Eastern Company is the exception referred to, this Company putting the amount derived from premiums to a reserve fund. The increase in miles constructed by the Lancashire and Yorkshire and Sheffield Companies in the ten years was 34 and 66 respectively. Our next table shows the estimate of further capital expenditure at December 31st, 1892.

II.—ESTIMATE OF FURTHER CAPITAL REQUIRED.

COMPANY.	Estimate of all Further Capital Expenditure, December 31st, 1892.	Estimate of Further Expenditure on Lines Open for Traffic, December 31st, 1892.
	£	£
Furness	20,250	12,510
Lancashire & Yorkshire	2,845 192	1,242,906
Manchester, Sheffield & Lincoln	2,961,156	Not stated.
North Stafford	43,000	43,000

As the Sheffield figure given above does not include the amount required for the London Extension, the Act authorising which did not receive the Royal Assent until this year, the modest figure shown above is now increased to £12,082,320. The raising of this money will be an interesting matter for the Sheffield Ordinary shareholders. In the last report it is stated, "the directors hope to be able to lay a satisfactory scheme before the proprietors for their approval in the course of a short time." Results of the Sheffield in the past do not give much encouragement in the way of inducing investors to subscribe to its new venture. The attempts to make that road the connecting link between the various Watkin railways, including the East London, the South-Eastern, the Metropolitan, and even Sir Edward Watkin's latest protégé, the Neath and Brecon, may satisfy the ambitious propensities of that gentleman, but are only of questionable advantage to the Sheffield shareholders. The proposed London Extension is sure to raise the ire of all the powerful Northern Companies, and if the Sheffield escape scatheless, it will be a surprising matter indeed. In the large estimate of the Lancashire and Yorkshire is included work authorised as far back as 1882. The following table gives the increase in gross and net revenue for the ten years :—

III.—Revenue Account.

Company.	Gross Revenue, 1882.	Gross Revenue, 1892.	Increase or Decrease	
			Amount.	Per Cent.
	£	£	£	
Furness	612,981	463,566	— 149,415	— 24·4
Lancashire and Yorkshire ...	3,765,294	4,414,666	+ 649,372	+ 17·2
Manchester, Sheffield & Linc.	1,906,938	2,350,939	+ 444,001	+ 23·3
North Stafford	666,102	776,245	+ 110,143	+ 16·5

Company.	Net Revenue, 1882.	Net Revenue, 1892.	Increase or Decrease	
			Amount.	Per Cent.
	£	£	£	
Furness	364,576	227,723	— 136,853	— 37·5
Lancashire and Yorkshire ...	1,672,883	1,852,306	+ 179,423	+ 10·7
Manchester, Sheffield & Linc.	969,028	1,099,389	+ 130,361	+ 13·4
North Stafford	324,610	377,692	+ 53,082	+ 16·4

The striking feature of the above is the enormous loss of revenue by the Furness. This loss of revenue is entirely due to the depressed condition of the coal and iron industries, which was aggravated in 1892 by the Durham strike. A comparison of the receipts of the Furness Company for the years 1882 and 1892 shows that the passenger receipts increased by £3,000, the merchandise receipts remaining stationary, whilst the mineral receipts declined over £150,000, thus accounting for the whole loss of revenue. The result is, that whereas the Ordinary stock in 1882 was as high as 163, it is now 71, and its dividend, which in 1871 and 1872 was as high as 10 per cent., and for a long period of years has averaged well over 5 per cent, was in 1892 only $1\frac{1}{2}$ per cent. A revival in the mining industries will bring about a wonderful resuscitation in this Company's dividend, for the system itself is inherently sound. The increase in gross receipts in the case of the North Stafford Company of 16·5 per cent. is very satisfactory, and it is still more satisfactory to find that the net revenue has increased in the same proportion. This Company has practically a monopoly of the Potteries district, and is a close ally of the North-Western Company. It is in a peculiarly strong position, and for some time past its Ordinary stock has been very steady, at about 125. Our next table (No. IV.) shows the results of the capital expenditure in the case of each Company:—

IV.—Results of Capital Expenditure.

Company.	Capital Expenditure in 10 Years. Table I.	Increase in Net Revenue 10 Years. Table III.	4 per Cent. on Capital Expenditure.	Annual Gain or Loss on Capital Expenditure.
	£	£	£	£
Furness	229,852	— 136,853	9,194	— 146,047
Lancashire & Yorks...	11,602,369	179,423	464,094	— 284,671
Man., Sheff. & Lincoln	*6,691,664	130,361	267,666	— 137,305
North Stafford	287,087	53,082	11,483	+ 41,599

* Includes £1,303,091 premiums deducted.

The losses shown in the first three cases are considerable, and our next table (No. V.) will show their effect on the Ordinary dividend of each Company:—

V.—RESULTS TO ORDINARY SHAREHOLDERS.

COMPANY.	Annual Gain or Loss Table IV.	Per Cent. on Ordinary Stock.	Dividend Paid.		Actual Gain or Loss.
			1882.	1892.	
	£	£ s. d.			£ s. d.
Furness	— 146,047	— 5 10 5	7	1½	— 5 10 0
Lancs. and Yorkshire	— 284,671	— 1 14 0	4⅞	3⅝	— 1 5 0
Man., Sheff. & Lincoln	— 137,305	— 2 10 0	2¾	1⅝	— 1 2 6
North Stafford	+ 41,599	+ 1 5 10	3¼	4⅝	+ 1 7 6

The results on the basis of a 4 per cent. return and actual results approximate very closely in the cases of both the Furness and North Stafford Companies. The difference of 9s. in the Lancashire and Yorkshire results represents the amount saved by its ability to borrow under 4 per cent. and the saving in respect of the nominal increase referred to above, namely, the exchange of Debenture Stocks for an annual payment to the North Union and Preston and Wyre Companies. The difference in the case of the Sheffield is larger, and arises from several causes. First of all, the credit to the Net Revenue Account on account of Joint Lines, in which the Sheffield is interested, and on account of which it has raised a considerable portion of the £6,691,000 of capital shown above, has increased since 1882 by about £40,000. Secondly, it saved about £15,000 in 1892 in respect of interest on its 1891 Preference Stock as compared with the full charge thereon, and it is entirely owing to this item that, whereas in 1892 it paid a dividend of ¼ per cent. for the first half, this year it pays nothing. These two items account for 1 per cent. of the £1 7s. 6d. per cent. of difference, and the balance of loss shown (7s. 6d. per cent.) has not fallen on the Ordinary shareholders, as it has been able to raise its capital at a rate slightly under 4 per cent.

V.—CAPITAL EXPENDITURE OF SCOTCH LINES.

This chapter deals with the recent capital expenditure of the five important Scotch railways, and its effect on revenue and dividends. As the circumstances of these Companies differ considerably, the results displayed are necessarily somewhat divergent, but the most cursory examination of the leading features of each Company will explain the variance of its results from those exhibited by its neighbours. Apart from this, however, a most noticeable feature presented by our investigations is the marked distinction between the three larger Scotch Companies, the Caledonian, North British, and Glasgow and South-Western, and the other two, the Highland and Great North of Scotland, in the results obtained during the ten years. Both the latter have, in the decade under consideration, increased their gross revenue to a very large extent, and both have increased their net revenue also very largely, especially the Great North of Scotland. On the other hand, the three larger companies, though showing fair increases in gross receipts, uniformly exhibit but small increases in net revenue in comparison to the increase in their capital, and in consequence, all three show declines in their dividends in 1892 compared with 1882. The reason for this contrast will readily appear. Both the smaller Companies have escaped the large increase in working expenses, which has told so adversely on the larger Companies. The growth in population in the Highlands. and, more important still, the increasing popularity of this district as a tourist resort, have produced a large expansion of revenue of the two Companies serving it, and the due proportion of this, or even more, has been retained as net receipts by reason of their ability to work cheaply. Our following table (No. I) shows the increase in the capital expended in the 10 years from January 31st, 1883, to 1893:—

I.—Capital Account.

Company.	Capital Expenditure to Jan. 31st, 1883.	Capital Expenditure to to Jan. 31st, 1893.	Increase.	
			Amount.	Per Cent.
	£	£	£	
Caledonian	38,138,796	44,677,634	6,538,838	17·2
Glasgow and South-Western	10,469,970	14,165,844	3,695,874	35·3
Great North of Scotland ...	3,841,198	4,704,938	863,740	22·5
Highland*	3,773,395	5,242,571	1,469,176	38·9
North British	32,146,310	51,195,752	19,049,442	59·2

* To February 28th in each year.

In the above table, the figures given are those shown in the capital account of each Company, and, therefore, in consequence of the form of accounting adopted by the Caledonian and North British Companies, the increases shown include nominal additions to capital, while in the case of the other Companies the increases shown above are actual. It is only by examining each half-year's account that the nominal additions can be ascertained, and this we have done, with the result that we find the nominal additions amount to £1,730,000 in the case of the Caledonian, and no less than £10,717,974 in the case of the North British, so that the actual increase in each Company's capital expended in the ten years is £4,808,838 and £8,331,468 respectively, and these amounts we deal with in Table IV. The total amount of "water" now included in the North British figure of £51,195,752, shown above, exceeds £13,000,000, so that every £100 of stock issued by this Company representing actual cash has been supplemented by nearly £35 of stock representing nominal additions. This truly American record has been attained by the conversion of the Ordinary Stock and Convertible Preference Stocks, and consolidation of Lieu and Debenture Stocks, operations which have no doubt benefited the respective holders. Table II. shows the last estimate of further expenditure on capital account.

II.—Estimate of Further Capital Required.

Company.	Estimate of all Further Capital Expenditure, January 31st, 1893.	Estimate of Further Expenditure on Lines Open for Traffic, January 31st, 1893.
	£	£
Caledonian	3,033,852	197,143
Glasgow and South-Western	483,757	258,108
Great North of Scotland	110,000	60,000
Highland	266,000	15,000
North British	2,503,288	2,047,754

It will be seen that the Caledonian and North British are committed to considerable expenditure in the near future. Whilst, however, the Caledonian contemplates extension, the major part of the estimate of the North British is for lines already open, including £1,800,000 for Waverley Station. Our next table shows the growth of gross and net revenue in the ten years.

III.—Revenue Account.

Company.	Gross Revenue, 1882–3.	Gross Revenue, 1892–3.	Increase.	
			Amount.	Per Cent.
	£	£	£	
Caledonian	2,865,484	3,296,004	430,520	15·0
Glasgow and South-Western	1,111,211	1,312,533	201,322	18·1
Great North of Scotland	297,493	386,738	89,245	30·0
Highland	349,081	460,969	111,888	32·0
North British	2,523,675	3,301,390	777,715	30·8

II.—Revenue Account.—*Con.*

Company.	Net Revenue, 1882-3.	Net Revenue, 1892-3.	Increase.	
			Amount.	Per Cent.
	£	£	£	
Caledonian	1,469,570	1,668,750	199,180	13·6
Glasgow and South-Western	567,423	593,167	25,744	4·5
Great North of Scotland......	137,407	198,909	61,502	44·8
Highland	163,179	215,864	52,685	32·3
North British	1,301,245	1,617,073	315,828	24·3

As we pointed out above, the Great North of Scotland and Highland Companies show very much better results than the other three Companies. The Glasgow and South-Western, with an increased capital expenditure of 35·3 per cent., is especially disappointing, as this has only resulted in an increase of 18·1 per cent. in gross and 4·5 per cent. in net revenue. The North British increase of 30·8 per cent. in gross revenue compared with an increase in capital, after allowing for nominal additions, of only 26 per cent., is satisfactory, especially as a great deal of the capital has only been expended quite recently. Some allowance must, however, be made for the fact that in 1892 the sum of £118,688 of net revenue was paid over by the North British as the amount due to the Forth Bridge Company, and this amount included in the figures of our table did not of course, form a deduction in 1882. This sum has been deducted from the increased amount of net revenue dealt with in our next table, and a fair comparison thus established. In regard to the Glasgow and South-Western, it should be stated that in 1892 the Company had to meet an entirely new item of expenditure, amounting to £46,000, for steamers. The subjoined table (No. IV.) shows the results of the ten years' capital expenditure on the basis of a 4 per cent. return :—

IV.—Results of Capital Expenditure.

Company.	Capital Expenditure in 10 Years. Table I.	Increase in Net Revenue 10 Years. Table III.	4 perCent. on Capital Expenditure.	Annual Gain or Loss on Capital Expenditure.
	£	£	£	£
Caledonian	*4,808,838	199,180	192,353	+ 6,827
Glasgow & S. Western	3,695,874	25,744	147,835	—122,091
Gt. North of Scotland	863,740	61,502	34,550	+ 26,952
Highland	1,469,176	52,685	58,767	— 6,082
North British	*8,331,468	† 197,140	333,259	—136,119

* Excluding nominal additions.
† Excluding amount paid Forth Bridge Company.

The figures of the Highland and Caledonian are practically the same on the basis of a return of 4 per cent. as they have actually proved to be. When we come to examine the effect of these figures on the ordinary dividend, the outcome is quite different, however. The Great North of Scotland gain of £26,952 is very satisfactory, and in comparison the Highland result may appear less acceptable than it really is. It should be remembered, however, that the expenditure of the Highland has been more than the Great North of Scotland, and represents a longer extension in the 10 years under consideration, and will therefore tell more effectively in the future. With a capital expenditure of £1,469,000, the Highland has increased its mileage constructed by 135 miles, whilst the Great North of Scotland, with an expenditure of £864,000, has only increased its mileage by 29 miles. As evidence that the Highland result is actually a very satisfactory one, we may point to a comparison between it and the Glasgow and South-Western. The latter Company increased its capital by 35·3 per cent. between 1882 and 1892, and the accompanying increase in net revenue was only 4·5, while in the same period an increase of 38·9 in the capital expended by the Highland Company produced an increase of 32·3 in net revenue. Our next table (No. V.) shows the effect of the capital expenditure on the Ordinary Stock:—

V.—RESULTS TO ORDINARY SHAREHOLDERS.

Company.	Annual Gain or Loss, Table IV.	Per Cent. on Ordinary Stock.	Dividend Paid.		Actual Gain or Loss.
			1882.	1892.	
		£ s. d.			£ s. d.
Caledonian	+ 6,827	+ 0 1 1	$4\frac{1}{2}$	$4\frac{1}{8}$	— 0 7 6
Glasgow & S.-Western	— 122,091	— 2 9 5	$5\frac{1}{2}$	$4\frac{1}{8}$	— 1 7 6
Gt. North of Scotland	+ 26,952	+ 2 18 7	nil.	$3\frac{1}{4}$	+ 3 5 0
Highland	— 6,082	— 0 5 9	$4\frac{1}{4}$	$4\frac{7}{8}$	+ 0 12 6
North British	— 136,119	— 2 0 5	$3\frac{3}{4}$	2 Pref. / $\frac{3}{8}$ Def.	— 12 6

In the case of the Caledonian, an actual loss of 7s. 6d. compared with an apparent gain of 1s. 1d. is accounted for by the fact that £587,000 of Ordinary Stock was in issue in 1882, with dividend postponed, and 1892 a sum of £25,000 was carried to reserve, as against nil in 1882. These two items account for £51,000 out of a total loss of about £60,000, and the balance is represented by the increase of Ordinary capital, amounting to about £1,750,000, carrying a higher rate than 4 per cent. The Glasgow and South-Western has reduced an apparent loss of £2 9s. 5d. to an actual one of £1 7s. 6d. by making good use of its credit. All its capital requirements in the ten years have been met by the issue of Preference and Debenture Stocks, no Ordinary Stock being issued. A gain of £26,900 by the Great North of Scotland, though not large in amount, has raised the Ordinary dividend from nil to $3\frac{1}{4}$. The Ordinary Stock of this Company is very small, representing only about one-sixth of its total capital, and consequently an adverse or favourable feature in the revenue produces an unusually large effect on its dividend. This fact explains the curious vicissitudes its Ordinary dividend has undergone. A gain in the Highland dividend of 12s. 6d., compared with an apparent loss of 5s. 9d., is due partly to £365,000 of Preference Stock being included in 1892, carrying no dividend until this year, and also to it being able to borrow a little under 4 per cent. The large loss shown by the North British on the basis of a 4 per cent. return has been reduced to 12s. 6d. by reason of the dividends on £1,004,000 Convertible Preference Stock 1890, and £1,124,319 Convertible Preference Stock 1892, being postponed until this year. This represents at 4 per cent. about £85,000, the actual loss in dividend representing a further £40,000, together £125,000, equal to 2 per cent. on the original Ordinary Stock, so that apparently the Company has only been able to borrow at 4 per cent. on the average.

VI.—THE RETURN ON RAILWAY CAPITAL.

A few months after the close of each year the Board of Trade issues a return comprising many valuable statistics in relation to the railways of the United Kingdom for the preceding year. According to the last return—that for 1892—the net revenues of all the railways of the United Kingdom for that year represented 3·85 per cent. on the total paid-up capital. The latter includes, however, the nominal additions to capital arising from the conversion and consolidation of Debenture and Preference Stocks and division of Ordinary Stocks. Moreover, it does not give in any way the return on the capital of each individual Company. This is, of course, a matter of the utmost importance to the holders of the stocks in the various Companies, especially in view of the influences at present at work, which attach additional interest to these and similar considerations. The Regulation of Railways Act of 1868, so far as it applies to railway accounts, has maintained, in many directions, that uniformity in the published accounts which was its main object. None of the accounts of the Companies, however, show so much variation as the all-important capital account. This diversity of treatment of various items common to most of the Companies is, no doubt, due to the various developments since 1868, which have been treated by each Company according to its own version of what was the correct method. The want in the capital account of that uniformity which, thanks to the Act of 1868, is so characteristic of railway half-yearly accounts, as a whole, is to be regretted, but, in order to make fair comparisons, the figures given in the following tables have been put as far as possible on the same basis, with the aid of the materials supplied by the published accounts of the Companies. The return of 3·85 per cent. shown in the publication referred to above is, as stated, on the total paid-up capital of the Companies, and besides including nominal additions, amounting to considerably over £50,000,000, includes a further similar amount of stock which received no dividend. The table subjoined gives the following particulars in reference to ten of the principal English Companies.

I. Amount of capital, including nominal additions and premiums, received on stocks, less discounts.

II. Amount of nominal additions.

III. The actual amount received and expended by the Companies on capital account, including premiums, &c.

The figures shown in the last column of the table are, in fact as accurately as the accounts of the Companies will enable us to define them, the actual amounts paid by the original shareholders without reference to the changes in market values which have since taken place. The amount of the capital is taken as at 30th June, 1892, this representing approximately the mean capital for the year for the purpose of calculating the return thereon for the year 1892.

Company.	Capital Expenditure to June 30th, 1892.	Amount of Nominal Additions.	Actual Capital Expenditure at June 30th, 1892.
	£	£	£
Great Eastern	47,013,251	4,157,946	42,855,305
Great Northern	47,503,469	7,969,071	39,534,398
Great Western	79,970,853	...	79,970,853
Lancashire and Yorkshire	49,660,663	2,100,588	47,560,075
London and North-Western	112,028,986	9,372,132	102,656,854
London and South-Western	33,926,108	1,444,911	32,481,197
Midland	98,374,495	10,073,283	88,301,212
Manchester, Sheffield & Linc.	30,503,069	...	30,503,069
North-Eastern	63,173,532	399,200	62,774,332
South-Eastern	24,314,690	...	24,314,690

The large amounts of the nominal additions shown above are worthy of notice. The nominal increase in the capital of the Great Northern of nearly £8,000,000, equal to over 20 per cent. of the actual capital, is proportionately much larger than in the case of any other Company. Over £6,000,000 of this amount s due to the conversion of the Ordinary Stock and the consolidation of the Debenture Stocks into one 3 per Cent. Stock, both of which operations were authorised by the Great Northern Company's Capital Act of 1890. The Midland increase of over £10,000,000 is due to the consolidation of the Debenture, Preference, and Guaranteed Stocks. These two Companies, the Great Northern and the Midland, are the only two English Companies that have at present converted their Debenture Stocks into a 3 per Cent. Stock. The North British have, however, recently converted theirs into 3 per Cent., and the London and North-Western and London and South-Western Companies in their Bills, which have received the Royal Assent, have now powers to convert their Debenture Stocks also. The Great Western Company, which is the only one of our great Railway Companies which has any large amount of its capital represented by 5 per Cent. Stocks, has not yet adopted any conversion scheme. It is somewhat remarkable that altogether more than half of this Company's capital is at the present time in the shape of Debenture, Preference, and Guaranteed Stocks, carrying 5 per cent. interest. There is much to be said in favour of the conversion of the Debenture and Preference stocks, so that the nominal rate of interest borne by them approximates in some degree to the return on the market price. As matters now stand, if a 4 per Cent. Preference or Debenture Stock is issued by, for example, the London and North-Western Company, for which 130 to 135 per cent. would be realised, 30 to 35 of this is treated as premium. It would certainly be more convenient, both for themselves and for the public, that the Company should in a case like this have power to issue a 3 per Cent. Stock, and there is not much doubt that this course would be the more economical one for the Company, for it is a market axiom that a stock below or about par commands a relatively higher price than a stock standing at a large premium. On the other hand, something may be said against the adoption of a conversion scheme; for instance, it may be urged with considerable reason that it is not at all certain that in the future the Debenture and Preferential Stocks of our railways will in all conceivable circumstances continue to command as good prices as they have recently.

The following statement gives the net revenue for 1892 including credits on net revenue account, of the ten Companies referred to, with the percentage proportion of the same to the actual capital expenditure given above :—

COMPANY.	Net Revenue for Year 1892.	Per Cent. of Net Revenue to Actual Capital Expenditure.
	£	£
Great Eastern	1,882,723	4·39
Great Northern	1,815,941	4·58
Great Western	4,215,420	5·27
Lancashire and Yorkshire	1,860,036	3·91
London and North-Western	5,355,397	5·22
London and South-Western	1,610,168	4·96
Midland	4,274,025	4·84
Manchester, Sheffield & Lincoln.	1,251,696	4·10
North-Eastern	2,723,854	4·34
South-Eastern	1,116,844	4·59
Total	26,106,104	4·74

In regard to the North-Eastern, it should be remembered that the Company incurred a loss of revenue in the first half of the year 1892 amounting to nearly £500,000, in consequence of the Durham coal strike. This represents about £240,000 net revenue. Allowing for this exceptional loss the return would have been 4·72 per cent., instead of 4·34 per cent., as shown above. The results, it will be seen, show considerable variation. The extreme difference is nearly $1\frac{1}{2}$ per cent., varying from 3·91 in the case of the Lancashire and Yorkshire, to 5·27 in the case of the Great Western. Altogether the net result, showing, as it does, a return of 4·74 per cent. over the whole capital of the ten principal Companies, representing considerably more than half of the whole railway capital of the United Kingdom, appears to be fairly satisfactory. It should be borne in mind, however that the Companies here given are the most prosperous in the country, and further, that by far the largest proportion of the existing shareholders have paid much higher prices than those received by the Companies, and that on the basis of present market values the return on the whole of the above Companies is little over 3 per cent. Many investors are only content with the low present rate of yield as they anticipate a better return in the future. It is needless to add that if the expenditure of capital continues at its present pace the hopes entertained of larger dividends in the future will not be realised.