

Vacancies among the trustees shall be filled from a panel of eight named by the remaining trustees.

204. One of the trustees should be named as chairman at the date of his appointment with tenure of office seven years. The terms of the remaining trustees should, in order to prevent them expiring on the same date with each other, or on the same date as that of the chairman, be for differing periods of less than seven years, to be fixed in each case in the Order in Council making the appointment. All trustees should be eligible for re-election. All should be persons of proved business skill and capacity; the chairman in particular should have financial, administrative, and executive ability of a high order. On the points of integrity and ability involved in these qualifications, there should be no possibility of doubt in the case of any appointee. The chairman should give his whole time to the duties of his office. All trustees should be paid adequately, the chairman in particular should receive a salary commensurate with the high responsibility with which he is charged, and the special qualifications he must be assumed to possess.

A majority of the trustees should govern its decisions, subject to this qualification that the chairman must be a member of any majority.

III. BUDGET REQUIREMENTS OF SYSTEM

205. The annual budget of the railway should be under the control of the trustees. Amounts required for income deficits, including interest on railway obligations, for capital and for refunding, should first be submitted to the Treasury Board for its approval and presentation to Parliament by the Minister of Finance.

206. Since the debt of the System in the hands of the public is now very large and more than the railway can carry from its earnings even under improved conditions, sums which are required to meet deficits should be voted by Parliament annually and not raised by the issue of railway securities as has been done in recent years. This recommendation does not apply to capital for improvements and betterments nor to amounts required for refunding.

IV. ANNUAL REPORT TO PARLIAMENT

207. A report to Parliament by the trustees should be made annually, and should set forth in a summary way the results of operations and the amounts expended on capital account, brought into comparison with the appropriations made by Parliament, so that the exact position shall be placed before Parliament. There should also be provision against utilizing appropriations for capital account to cover deficits in operation, or for interest, without the express authority of Parliament.

V. AUDIT

208. A continuous audit of the accounts of the System should be made by independent auditors appointed by Parliament from a list or panel drawn up by the trustees and they should make a report to Parliament, calling attention to any matters which in their opinion call for remark. In view of the report of the auditors no examination of the detailed accounts of the System should be necessary by a parliamentary committee. For the purpose of supplying necessary information to Parliament the attendance of the trustees might be necessary. In the interests of discipline and to prevent prejudice to the relations that should prevail between trustees and the staff, we earnestly recommend that the officials of the company in charge of operations should not be asked to appear for examination.

134. The locomotive fuel bill of the two systems dropped from \$58,242,655 in 1923 to \$29,433,816 in 1931, both companies reducing these expenditures by one-half. The reduction in the price of coal has been but slight, but the drop in tonnage has been considerable. The proportion that fuel bears to the general cost of railway operation is shown in the following statement:—

Operating Ratios	Canadian National		Canadian Pacific	
	1923	1931	1923	1931
	per cent	per cent	per cent	per cent
Fuel for locomotives.....	13.12	8.55	12.09	8.69
Other operating expenses.....	78.66	91.16	68.91	71.62
Total.....	91.78	99.71	81.00	80.31

It will be noted that while the Canadian National fuel ratio dropped from 13.12 per cent to 8.55 per cent, the ratio of other operating expenses increased from 78.66 per cent to 91.16 per cent, not only effecting the saving in fuel but increasing the ratio of total operating expenses to revenues by 7.93 per cent.

135. In seeking a "yard stick" by which to measure operating results of the Canadian National Railways it has been customary to take Canadian Pacific Railway performance. This, however, must not be regarded as an absolute criterion. Operating costs are bound to be affected by differences in size of the properties, the purpose as well as the type and standard of construction, the general physical condition, the differences in character and volume of traffic, average haul of freight, and train and car loadings. However, if the level of expenses of the Canadian Pacific is to be accepted as measurably determining what the relative operating charges of the National lines should be, the information placed before us by the experts who have been engaged in correlating the statistical data of the two systems indicates that the operating costs of the Canadian National System are in certain particulars much higher than they should be. This would appear to be the case in the item of supervisory expenses, also in station and yard services. The Canadian National costs were greater than the Canadian Pacific by 63.5 per cent for superintendence, 38.2 per cent for station service, and 69.7 per cent for yard service, while the train mileage of the National lines was only 22.8 per cent, and the car mileage 34.9 per cent greater than that of the Canadian Pacific.

136. The immense expenditures of the Canadian National for the improvement of its property, the larger additions to its rolling stock, the advantages of increased tractive power, and the more generous expenditure upon the upkeep of its property, should have made possible a great improvement in operating performance. Whether the improvement actually secured has been commensurate with the expenditure involved is a moot question.

IX. OPERATING RATIOS

137. The operating ratio of a railway (being the proportion of operating expenses to operating revenues) is generally regarded as indicative of the efficiency of operation and management of an enterprise. Under comparable conditions an increase in this ratio would indicate a falling off in the efficiency of the railway; a decrease in the ratio would suggest greater efficiency.

138. In comparing the performance of two railway systems on the basis of operating ratios, it is necessary, before drawing conclusions, to make allowance for factors that may adversely affect results in the case of one or the other, and to ascertain as far as possible that the figures that enter into the calculation

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