

SECRETARY'S NOTES RE MR. R. DUNCAN'S REPORT

UPON CARS, dated 22nd August 1916.

As pointed out at Conference with Counsel, I think that the method of valuation outlined by Mr. Duncan in the paragraph commencing "Another, and I think better way" is unsound and could be upset under cross-examination.

He estimates the present value of cars to be scrapped at the end of ten years as follows:-

Bogies at £57.7/- with a residual value of £20.

Standard at £43/-/- do. £15.

Dummies at £28.13/- do. £10.

This method ignores the "use" value of the car during the ten years..

Mr. Duncan assumes that a probable purchaser, anticipating ten years use upon the existing cable tramways, would only pay £57 for the use of a Bogie Car during that period; the car having a residual value of £20.

I think it must be admitted that as long as the cable system is continued (say 10 years) a Bogie Car is worth the interest at least, upon about £350 (its present structural cost). It therefore follows that the probable purchaser would willingly rent the car for say £17.10/- per annum, and would in addition, as the Company has done, maintain and repair the car.

If therefore, he bought the car for £57 as valued by Mr. Duncan, he would save £70 rent in the four first years and have the use of the car rent free for the last six years, and a residual value of £20, equivalent to a profit of £138.

If this method of reasoning is to be used, the present value would, I think, be the sum which, if borrowed by the purchaser at 5% interest and reduced by £17.10/- per annum (in lieu of rent) would reduce the amount borrowed to £20 at the end of the tenth year.

The sum he could thus afford to pay out of borrowed money would be about £150 as worked out in schedule attached.

PRESENT VALUE OF BOGIE CAR HAVING A

RESIDUAL VALUE OF £20 AT THE END OF 10 YEARS.

It is assumed that the purchaser borrows £150 at 5% interest and reduces his indebtedness by an annual payment of £17.10/- (the estimated rental value of the Bogie Car).

<u>At end of</u>	<u>Annual payment by Purchaser.</u>		<u>Amount still due.</u>
	<u>For Interest</u>	<u>Reduction of Principal</u>	
1st year	£7.5	£10	140
2nd "	7.	10.5	129.5
3rd "	6.47	11.03	118.47
4th "	5.92	11.58	106.89
5th "	5.34	12.16	94.73
6th "	4.73	12.77	81.96
7th "	4.09	13.41	68.55
8th "	3.42	14.08	54.47
9th "	2.72	14.78	39.69
10th "	1.98	15.52	24.17

This would reduce the amount borrowed to about £24. 3. 4 (residual value).

He could therefore afford to pay about £150.

ON THE BASIS OF A FIVE YEAR'S LIFE,

he could afford to pay £90.

<u>At end of</u>	<u>Annual payment by Purchaser.</u>		<u>Amount still due.</u>
	<u>For Interest.</u>	<u>Reduction of Principal.</u>	
1st year.	4.5	13.	77.
2nd "	3.85	13.65	63.35
3rd "	3.16	14.34	49.01
4th "	2.45	15.05	33.96
5th "	1.69	15.81	18.15

This would reduce the amount borrowed to £18.3/- residual value..

W.D.
26/9/14