Taking the system as a whole and in general terms the economies of recent years have brought operating-costs down to what the Board regards as a minimum. It follows, therefore, that while the net improvement which has been recorded in the returns during the last four years has been contributed to substantially by the review of expenditure, a point has now been reached when the prospects for future improvement must depend upon efforts devoted to the further building-up of the Board's revenue.

Capital and Interest Return.

The Railway capital at 31st March, 1935, stood at £54,089,190. The interest-charges for the past year amounted to £2,330,886, which represents an excess of £1,243,395 over the net earnings of the service. It will therefore be seen that the New Zealand Railways system, by a net payment last year of £1,087,491 into the Government account, earned a little less than one-half of the interest due. The substantial deficiency has to be found by the general taxpayer.

It is merely stating the obvious to say that all additional patronage extended to the railways means a decrease in the burden of interest to be found by the general body of taxpayers. This aspect is freely conceded, and meets with general recognition by taxpayers when they think and act collectively. Its recognition is not so apparent, however, when considered from the point of view of the course of action followed by the individual when making a choice from the alternative transport systems at his disposal, whether for goods or produce or for personal travel.

Renewals, Depreciation, and Equalization Accounts.

During the year the sum of £204,730 was charged against revenue for renewals, and the amount expended from this fund for track renewals was £147,552. The credit balance in the Renewals Fund at 31st March, 1935, was £729,004.

The sum of £556,357 was charged against revenue on account of depreciation.

The position with regard to the Equalization Funds is as under:—

—	Credit Balance brought forward from 1934.	Contributions, 1934–35.	Expenditure, 1934–35.	Credit Balance at 31st March, 1935.
	£	£	£	£
Slips, Floods, and Accidents Fund	89,573	19,764	13,165	96,172
Workers' compensation	26,997	38,069	28,198	36,868
Insurance	73,997	14,387	5,495	82,889
	190,567	72,220	46,858	215,929

RETURNS AND RATES.—The steady improvement in the railway position as disclosed in the figures herewith has been a feature of the Board's operations during the last four years. This result has been maintained notwithstanding the severe competitive conditions which the Board has been called upon to meet. This competition is chiefly aimed at and attracts the more remunerative lines of railway traffic. This condition, which threatened the stability of the Railway Service as the principal transportation system throughout the Dominion, caused the Board considerable concern. It cast upon it the responsibility of counteracting this threatened danger of attrition and the consequent loss of the best of railway traffic. In meeting this condition the Board, with due regard to the entire range of its business, has been compelled to institute over a considerable volume of goods traffic "special rates" which have enabled the Board to hold a large volume of business which otherwise would have been lost to the Railway Service. Since the commencement of Railway operation in New Zealand freight charges have been made under what are known as "classified rates" which are based upon the principle of requiring various classes of goods to pay charges which they can bear. Thus we have "A" class goods (being the highest-rated goods), "B" class, and so on. This policy in the past has given to the railway-system of the Dominion the benefit of reasonably payable rates for its highest-rated traffic with the obvious result that with many low-rated lines (such as fertilizers and coal) freight-rates are relatively inadequate and unprofitable for such individual lines of traffic. Nevertheless the country has enjoyed benefits from these low freights, which are still in operation under the "classified" principle. It will be recognized at once that the benefits derived by the farming community and by the industries alone are considerable; they have been a vital factor in the development of the country's agriculture and in the volume of its production of primary products. In that development the railway-system has thus played a large part. If the conditions which the Board has been called upon to meet, particularly in parallel road competition, are to be accentuated, then it is doubtful if the "classified rates" as now operative with the benefits of low cost of transportation of heavy goods (fertilizers, &c.) under the lower rating of the present railway tariff can be maintained without a seriously diminishing revenue. That is the threatened condition which, if further experienced, the Board will be forced to meet. The only practical chief alternative to the well-proved and useful system of "classified rates" appears to be a general tariff under which many lines of goods would be carried at much lower charges than those which are now enforced and which, on the other hand, would mean the raising of the rates on many lower-rated essential goods. It would therefore follow that the very low railway charges on many lines (essential to agriculture and to industry generally) would under such necessity be raised, and in numerous cases would add to the cost of primary production and of other industries.