

years, and that of the destroyers and submarines at fifteen years ; but the amount to be calculated on this basis would vary according to the rate of interest prevailing in each country. It has not, therefore, been included.

The total first cost, accordingly, of building and arming a fleet unit apart from auxiliaries would be—

						£
1	"Indomitable" (new)	...	...	...	...	2,000,000
3	"Bristols"	...	...	...	...	1,050,000
6	destroyers (river class)	...	...	...	...	480,000
3	submarines (C class)	...	...	...	...	165,000
						<hr/> £3,695,000

and the total annual cost of maintenance would be—

1	"Indomitable"	...	...	...	...	52,000
3	"Bristols"	...	...	...	...	49,500
6	destroyers (river class)	...	...	...	...	64,200
3	Submarines (C class)	...	...	...	...	6,900
						<hr/> £172,600 <hr/>

10. The above figures do not include the cost of *personnel*, which should be added to the annual charge for maintenance. The active-service pay of 2,000 officers and men and their victualling and other like expenses, would amount approximately to £156,000 a year, calculated on the rates payable in the Royal Navy only.

It will be noticed that, as in the case of the *materiel* of the fleet unit, the estimated cost of the *personnel* required to man the ships does not comprise the whole cost. There would be other charges to be provided for, such as the pay of persons employed in subsidiary services, those undergoing training, sick, in reserve, &c.

In the course of the discussion Mr. McKenna said that, at Imperial rates, the total annual cost of such a fleet unit would be about £600,000. Sir F. W. Borden, speaking for Canada, said that in the case of that Dominion it could not be less than £800,000. After going into careful calculations, I stated that in the case of New Zealand it would be, at the very least, £700,000. Putting it at that—and I am quite satisfied the estimate is a very moderate one—it is manifest that such an annual expenditure is quite beyond our resources, and must be so for many years to come.

The proposals made by me involve a total yearly expenditure of £250,000, made up thus:—

					£
"Dreadnought"	(interest and sinking fund for each				
	of 18 years)	....	....	....	150,000
Contribution to Admiralty	to cover difference be-				
	tween Imperial and local rates of pay, &c.	....			100,000
					<hr/> £250,000 <hr/>

Deducting from this the £100,000 which we are at present paying as our contribution to the cost of the Australasian Squadron, and which is to be dropped when the new scheme is adopted, the net result will be a yearly increase of £150,000 on the amount we at present pay.

Recognising, as we all do, our duty to take upon us a reasonable share in the general burden of Imperial defence, I feel satisfied that neither Parliament nor the country will consider such an expenditure to be excessive. Proposals on the subject will be submitted at an early date for your consideration.

INTERNAL DEFENCE.

The time has now arrived when a definite course must be taken with a view of placing the home defence of the Dominion upon a more satisfactory footing. To carry this out the defence systems must undergo a complete reorganization, and I propose to submit legislation this session to substantially increase the efficiency for defence purposes of the scheme now in operation. This reorganization will, as far as the local conditions permit, be on the lines approved at the Imperial Defence Conference. These are designed to provide an active trained force for any emergency, consisting of coast and garrison defence. Mobile forces of all arms will be so arranged that should the Dominion