

December, 1864, amounts to the sum of £153,547 12s. 3d. (Appendix E.), from which has to be deducted the sum of £26,000 for each year, or a total of £78,000, leaving a balance to be deducted from the Capitation Charges, within the same period, of £75,547 12s. 3d., which balance, owing to the different times at which the Imperial Treasury account and the account for Native purposes are made up, has obliged me to make the deductions against the various items composing the charge preferred within the period in question. It was subsequently proposed to substitute for this agreement, on its termination, an arrangement by which the Colony should pay £40 for every infantry soldier, and £45 for every artilleryman, above 1,000 and less than 5,000; but the New Zealand Government steadily and firmly declined compliance with this demand, and urged the immediate withdrawal of the troops if the demand were persisted in; there cannot, therefore, be any claim from the close of the year 1864.

19. With reference to the claim on account of the *New Zealand Fencibles*, amounting, exclusive of interest, to the sum of £68,029 5s. 9d., and extending from the 31st of March, 1848, to the 31st of March, 1859, it appears that strong objections have always been made to it by the Government of New Zealand, on the ground that the Military Pensioners, composing the Fencible force, were organized at a time "when the Imperial Government was solely responsible for the peace of the country, and the cost of its defence was entirely borne by Great Britain."

20. In 1846 the Lieutenant-Governor urged that a force of 2500 men should be stationed in New Zealand; but, as Her Majesty's Government could not supply the whole of this force, it was determined by them to raise for service in New Zealand a corps of 500 men to be designated the "Royal New Zealand Fencibles." In 1851 owing, it is said, to the success of the experiment, the corps was completed to its full strength, as the beneficial results of the scheme had been fully realized, both in the opinion of the Secretary of War and the Governor-in-Chief of New Zealand. The results as regards the Empire were,—

(1). A deduction in the Military establishment of the Colony to the extent of, at least, 500 men, which in the words of your Excellency, in your Despatch of February 8, 1851, "will effect an annual saving of military expenditure for the whole of New Zealand, which cannot be estimated at less than £30,000, so that in two years, from this source alone, a saving will be effected by Great Britain, which will more than repay the whole cost of the plan; and this saving will be greatly increased in a few years by the still further reduction in the military force, which it will be practicable by degrees to carry out."

(2). By enabling "a large reduction to be made in the naval force serving in New Zealand," and

(3). By largely adding to the Colonial revenue; such addition having hitherto had the effect of considerably reducing the parliamentary grant in aid of local revenues.

21. It may further be observed that, though the Imperial Government had, at intervals, asserted its claim to payment, it has not been disposed to press it unduly. Sir F. Rogers, in writing to Mr. G. A. Hamilton on the 17th June, 1863, on the subject of an adjustment of accounts, which Mr. Ward had been entrusted to conduct on the part of the Colony, states that "the Duke of Newcastle is also of opinion that it might be advisable to meet the present claims of the New Zealand Government rather by the remission of certain disputed claims of long standing, which it may be difficult, under existing circumstances, to recover, than by any material reduction of the present claim of the War Office." The disputed claims, here referred to, were for Fencibles, £67,927 5s. 9d., and an Admiralty claim for £45,000 10s. 8d., for the hire of vessels. In Mr. Whitaker's instructions of the 5th January, 1864, to the Honorable Reader Wood, the Colonial Treasurer, on his departure for England, to negotiate a loan, and for other purposes, we find the Attorney-General stating that "it is the opinion of the Government that the offer of the Secretary of State for the Colonies to Mr. Ward was an equitable one, and that it should be accepted." These instructions referred to an offer made by the Duke of Newcastle to "accept a sum of £200,000 in satisfaction of all Imperial claims in respect of naval and military expenditure," up to September 30, 1862, and were endorsed by Sir F. Rogers, in his letter to Mr. Wood of the 26th of May, 1864, in which he informs him that "the Secretary of State is still ready to proceed with it at your request." Unfortunately, some technical difficulties intervened at the time to prevent the completion of the adjustment of accounts.

22. If any additional argument were required to substantiate the position assumed by the Colonial Government it would be found in Sir G. C. Lewis' Despatch of the 12th of September, 1860, wherein it is stated "that so far as regards all periods prior to the 1st of April, 1858, no other demand will be made on the Colony than for the repayment of the sum expended on constructing the barracks at New Plymouth." With the exception of the sum of £75, the whole claim of £68,029 5s. 9d. in Mr. Jones' account for the Fencible Force originated before the 1st of April, 1858.

23. Feeling, then, the full force of your Excellency's observations in the Despatch formerly referred to, that "it is thus evident that as a mere financial operation, even if the whole cost of this experiment were defrayed by Great Britain, still that a very large saving will have been effected by it for the mother country;" feeling, also, that the Imperial Government will not withdraw from an offer once made, and which was responded to on the 23rd of March, 1865, by the transmission to Her Majesty's Treasury of debentures for £500,000, in liquidation of the Imperial claim, and that, too, at a time of severe embarrassment, and remembering the vast sacrifices that the Colony has made in aid of Imperial operations, I feel no hesitation in anticipating the withdrawal of this item from the Treasury account.

24. As the claim for the New Zealand Fencibles may be supposed to be withdrawn, it follows, as a matter of course, that the claim for *Interest* on it would be withdrawn also. I, however, take this opportunity of expressing my opinion on the whole question of the interest charged against the Colony. In Sir F. Rogers' letter to Mr. Wood of the 26th May, 1864, it is mentioned as a part of the arrangement whereby the Duke of Newcastle was prepared to receive £200,000 in satisfaction of all Imperial claims in respect to naval and military expenditure up to the 30th September, 1862, "that all advances from the Treasury chest should be repaid with interest at the rate of 4 per cent." These advances are then stated to be somewhat short of £300,000, evidently excluding the £200,000, which was then under adjustment. I am aware that, on the 25th of April, 1866, Mr. Childers informed Mr. Commissary-General Jones that, "as regards the item of interest, the charge is to be computed at the rate of 4 per cent. per annum from the commencement of the quarter succeeding that in which the