

4. The increase of £24,677 shown in the net traffic receipts is due to three causes: (1) the delayed transfer of £2,211 by the Australian Government, mentioned in paragraph 4 of my report for 1909–10; (2) increase of business; and (3) the receipts from the new source of revenue in the tolls on traffic between Montreal and Bamfield, over the line leased by the Board from the Canadian Pacific Railway Company, under the arrangement described in paragraph 10 of my report of last year.

The increase may be apportioned between the several causes as follows:—

Delayed transfer (<i>i.e.</i> , £2,211 by which receipt of 1909–10 was reduced, and that of 1910–11 increased)	£ 4,422
Increase of business	12,220
Canadian tolls	8,035
	£24,677

The revenue of the year was further augmented by the sum of £2,106 received from the Eastern Extension Telegraph Company on account of the chartering of the Board's repairing-ship "Iris" for a fortnight in July, 1910. Now that the ship's complement is not maintained at its full strength when the vessel is not on active service, the loan of her to another Administration entails considerable extra expenditure in wages and victualling over and above the increased outlay on coal. Nevertheless, the charge that the Board make to the charterers leaves a substantial profit on current account, which is greater or less according to the length of the charter.

In February and March, 1911, the "Iris" was again chartered for a month by the Compagnie Francaise des Cables Telegraphiques for repair of the New Caledonia cable, and the extra expenditure on that occasion fell on the account for 1910–11, although the payment from the company was not received within that year. Thus the extra receipt of £2,106 was fully counter-balanced in the account for the year by increases on the expenditure side of the account.

In the opinion of the Board it is not desirable to treat as current revenue the whole of the extra receipts derived from the chartering of the "Iris" on occasions of this kind. They are in the nature of fortuitous windfalls, and on some occasions may be of substantial amount. Therefore to employ the whole of them as ordinary revenue tends to introduce into our accounts an element that may seriously disturb the comparison between the results of the working of the undertaking in successive years, and to create an undesirable uncertainty and irregularity in the demands that the Board may have to make on the Exchequers of the contributing Governments. For these reasons we propose, subject to the concurrence of the contributing Governments, to balance so much of any extra receipt as represents profit on a charter of the "Iris" by adding in the year affected a corresponding sum to the fixed sum of £30,000 that we now carry annually to Reserve Account. We shall be glad to receive in due course an intimation of their Lordships' views on this suggestion.

5. Expenditure shows an increase of £15,576 for the year. This is almost wholly accounted for by the cost of the new Canadian land-line service, and the extra charges in connection with the hirings of the "Iris" referred to above. But additional charges have also been incurred in respect of the annual increments to salaries, and of sundry requirements incidental to an expanding service.

At the same time the working-expenses, while showing an advance of over £15,000 on those of last year, fell short of the estimate by some £5,000. This was due to the fact that the actual taking-over of the Canadian service was delayed to a later date than the Board had anticipated, and in consequence the charge for the year under that head was less than the provision made in the estimate. It included a sum of more than £5,000 for initial expenses (provision of instruments, passage-money of staff, &c.), which will not recur, so that, notwithstanding that the permanent charges in 1910–11 for rent of wire covered a period of only six months, and those for new establishment a period of from seven to eight months, the estimate of working-expenses for 1911–12 does not exceed the figures of actual expenditure in 1910–11 by more than about £1,600.

6. The preliminary forecast of revenue and expenditure for the year ending 31st March, 1912, prepared on 7th December, 1910, was as follows:—

Traffic revenue	£ 141,000	Renewal Fund	£ 30,000
		Working-expenses	80,975
		Excess	30,025
	£141,000		£141,000

7. It will be seen that the Renewal Fund stood at £264,236 on 31st March, 1911. The balance of cash at that date to the credit of this account was £21,498, and this is now in course of investment. Credit is given to the Renewal Fund for all interest earned by investments on this account, and as the annual interest now amounts to over £8,000, while the appropriation from the revenue for this purpose is now £30,000, the present growth of the fund is at the rate of over £38,000 a year. In addition to this cash reserve there is in hand cable, &c., of the value of £15,945.

Condition of the Cable-station, &c.

8. No interruption of communication occurred on the Board's system during the year. The several sections of the cable, the depots, instruments, and plant generally have been maintained in a high state of efficiency, with the single exception of the electrical condensers. These have