

38046

1938

38046

C0533/490
KENYA

Loan to Nakuru Municipal Board
for works connected with Water Supply.

Previous

1936.

Subsequent

~~1937~~

1939.

297

19/10

309

4/10

Mr Parkin

19/10

Mr Waalen

20/10

Mr Boyer

20/10

Mr Down

2/11

Mr Paschke

21/11

R. 297

5/10

309

1/11

1/198

15/4

1/89

2/11

Mr Parkin

1/11

L. J.
Loans
Nakuru
Water

1. Governor 570. _____ 30/9/58
Seeks approval of borrowing by Nakuru
Municipal Board of £6000 for necessary
and urgent sedimentation and filtration
works in connection with Nakuru Water
Supply.

It is becoming quite a habit for
the Nakuru Municipal Board to
borrow from the Nakuru Water Supply
Renewals Fund.

(1) In 1952 the Nakuru Municipal Board
needed a loan of £1500, and as there
were no Govt funds available from
which ^{the money} it could be supplied it
was borrowed from the Nakuru Water Supply
Renewals Fund for 3 years
at $7\frac{1}{2}\%$ (the rate ^{prevailing} at which the
Renewals Fund was ~~working~~ ^{carrying}), &
redemption was provided for at £50
per annum. In the Dept
when the Govt approved ^{this}
arrangement he thought that "the
question of the manner in which
the money is to be replaced at the
end of the period of 3 years will
receive

18091/32

(i.e. a 30-year
basis)

receive early attention.

In 1935, when the 3-year period had elapsed, there were still no Govt funds from which the money could be provided, so the loan from the Water Supply Renewals Fund (now of only £1350, 3 x £50 having been redeemed) was extended for a further period of three years, the interest on it being reduced to 2%, the rate which the Renewals Fund was earning at the time. A

② further loan to the Nakuru Municipal Board from the Water Renewals Fund of £400 for 3 years @ 2% redeemable at the rate of £15.6.8 per annum was approved at the same time.

③ In 1936 a further loan of £550 to the Municipal Board from the same source was approved, at 2% ~~and~~ redeemable at £18.6.8 p.a. & for 3 years.

④ In this despatch it is proposed

that the Nakuru Municipal Board should borrow £6,000 from the Waterworks Renewals fund, to meet the cost of works in connection with the water supply, "until such time as a loan for this purpose can be obtained from Govt", redemption to be over a 30-year period [like the previous loans] and interest at the rate at present earned by the Renewals Fund.

I believe that "borrowing in", i.e. from one's own Renewals funds, is a recognized financial device. But it seems that in these cases there is a danger of it becoming reprehensible owing to lack of any definite arrangements as to when & how the borrowed sums are to be made good by the Municipal Board to the Water Supply. No mention has been made in the correspondence of any suggestion as to how the loans are eventually to be made good

for what done
Govt money & fund
renewal fund
all the same
1/2/36

12 on 38076/
35
36

324 on 38076/
35
36

good, and in the present despatch it is proposed to let this new £8,000 loan run on "until a loan from Govt can be obtained", which may be many years. This will no

doubt be the prelude (if it is approved) to a proposal for the previous loans to be continued for a similar more or less indefinite period. In this connexion the

point arises of when the first loan, and also the second, loan subsequently extended, ^{and also the second loan} ^{are due to} be repaid ~~are~~; and as far as I can see

(see pencil note in margin of 1 on -/25/36 p/b) it should have been at the end of 1937. Yet we have

had no request for an extension of the period of these two loans, nor indication that they have been repaid; and I have been unable

to find any information bearing on the subject in the financial statements or Local Govt Reports for 1936 & 1937. A further

point arises here: these two loans are ^{now} at 2%, the rate

at which in 1935 the Renewals Fund was earning interest. It is probable that by now the Renewals Fund is earning a higher rate of interest. In order that the Fund may not be the loser for having made these loans it would therefore seem appropriate for the rate of interest on the loans to be raised; this ^{would be the} ^{was} ^{now} ^{to} ^{be} ^{raised}; this, ^{otherwise} of the rate having been lowered from $\frac{1}{2}\%$ to $\frac{1}{2}\%$ in 1932 to 2% in 1935.

The advantage ^{for the Municipal Council} in borrowing from the waterworks Renewals Fund is that the money can be obtained more cheaply than if it were borrowed from Govt, which could not raise a loan at anything like 2% ^{or} would probably have to lend to the Nakhun Municipal Council at a higher rate than it itself can borrow.

~~Therefore~~ The present proposals? should be approved, but in doing so it seems ~~desirable~~ ^{desirable} that the Govt should be asked to give a comprehensive statement of the position of the three previous loans from the waterworks Renewals

There is no reference to this in the recent despatch informing a new colonial loan.

X or in fact at any rate as low as that at which the Renewals Fund can lend without thereby mistaking itself in loss

Fund, that attention should be drawn
to the point about interest payments
at A above, and that he should be
asked what arrangements he intends
to propose for the eventual repayment
of the ~~the~~ ^{previous} loans.

Clayton White

4/10

It is curious that this despatch does not
contain any reference to the despatch of the 28th July
(1 on 38128/4/38) on the general question of the
method to be adopted in financing the capital
requirements of local authorities.

It seems to me that the question whether the
temporary expedient proposed in this despatch can be
approved, depends largely on the question whether

(a) Kenya is to be allowed to raise a loan (which
has still to be discussed with the Treasury), and

(b) whether, as suggested by the Crown Agents
in No. 4 on 38128/4/38, the view is accepted that the
proper method of financing these requirements is for
the Government to raise a loan, and then to lend the
money to the local authorities.

I do not myself see how Kenya can get on
without a loan, though perhaps not quite such a large
loan as the Governor has asked for; and I also agree
with the Crown Agents' view as to the proper method to
be adopted for financing the requirements of local
authorities.

In the circumstances I should be disposed to
approve the proposal in this despatch; to draw
attention to the point mentioned by Mr. Costley-White
(as to the replacement of previous borrowings from

the

the Renewals Fund); and to send to the Governor a
copy of the Crown Agents' letter of the 2nd September
(No. 4 on 38128/4/38), expressing concurrence in the
view as to the proper method of financing these
requirements, and asking the Governor (if he agrees)
to state the amount, in respect of these requirements,
which would have to be added to the amount of the loan
for which he has already asked approval; but add that,
as he is aware, no decision has yet been taken on the
question of the raising of that loan.

A copy of the despatch to be placed on

38128/4/38.

copy registered
22/10/38

J. J. Casan

19. 10. 38.

I agree, assuming the Renewals Fund
is not statutory, but merely an internal
optional device for ensuring a fund of
ready money for replacements.

I would not raise the interest point at all.
It is usual for such loans to bear for their
whole life the rate of interest current at the
time of borrowing. The Renewals Fund could not
sell out & reinvest at better rates than it now
receives in securities.

As regards (b) I agree with C.A. If
has I think repeatedly affirmed that public
loans should always be raised by Govt. &
debt to statutory bodies & the latter should not
be on the market direct.

L. Wade
20/10

The method of borrowing from a Renewals Fund
 rather than an obvious objection that it leaves the lender
 in an awkward position in the event of any call on
 these funds for the purpose they were designed and the point
 in this case is somewhat emphasized by the apparently somewhat
 vague condition "until such time as a loan... can be obtained
 from the Govt". It is, of course, a usual practice to continue interest
 terms at the same rate throughout the currency of a loan so, in
 this case, it would be eminently desirable to ensure that the
 "repayment over a 30 year period" relates specifically to the
 rate of repayment and not to the actual period of the loan. It is
 a definite undertaking is required regarding the borrower
 to accept a real loan when available at a lower rate of interest
 (naturally higher than that at present earned by the Renewals Fund).

X

According to the previous minutes no question was raised
 about an interest charge in excess of the rate earned
 by the Renewals Fund: this was apparently the case in the earlier
 loan (the 2nd page of Mr. Lortie White's minutes) the rate on which was
 reduced to the rate then being earned by the Renewals Fund. I am
 not certain how the Renewals Fund is actually employed & even
 its present interest but a loan to the African Industries Fund
 must involve some disturbance of the Renewals Fund investment (or
 loan if it exists) and some compensating rate of interest is likely
 to be paid say + 2% over the rate earned by the Fund.

H. P. ...
 20/7

M. P. ...

This has the authentic
 flavor of Kenya finance.
 I suppose the general question

of financing these local authorities
 will come up at our discussion
 tomorrow: and I should like
 to hold this over until we
 can see our way a little
 more clearly on Kenya
 finance generally.

A.P.S.
 24.10

R 297

Please bring up in a fortnight.

A. R. ...
21/11

Mrs.
 data copy of ...
 to go on 21/12/4/38
 as ...
 Mr. ...
 ...

B.L. as directed above
 J. Jackson 247.
 5/12.

Please draft on 38/24/4/38.

D.P. ... submitted
 Clerk White
 9/2/39

2 lob doc 3pm

16/2/39

DESTROYED UNDER STATUTE

reply to No. 1

received in
98/1/38

38128/4/38

Pl see minute of 14/4 on

38128/4/38.

? Party

Close Minute
17/4

As I have explained in my Minute on
38128/4/39. it seems that we are now in a position
to deal with these local loan questions. and that the
Governor may reasonably expect us to do so. I
accordingly submit a draft.

F. J. Peake
28/4

Do things long come.

8 MAY 1939

Ans

(7863-150) WL 10318-94 15,000 7/38 I.S. 695
(7860-150) WL 38741-16 20,000 1/39 TS. 695

27

C. O.

Mr. Pedler. 28/4

Mr. Boyse 2/14

Mr.

X Mr. A. J. Dawe. 5.5/2

Sir H. Moore.

Sir G. Tomlinson.

Sir J. Shuckburgh.

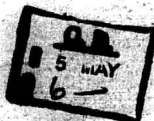
Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

Hand. by 1-1939 file

8 May
April, 1939.



84

Sir,

With reference to your

1. despatch No. 570 of the 30th of

September, 1938, and ~~my~~ confidential

despatch of the 25th of January, 1939,

in which provisional approval was given

for the inclusion in the new loan to

be raised by the Colony of a sum of

£125,000, to be re-loaned to the

local Government Authorities. I have

the honour to invite your attention to

Companion draft. my confidential despatch of even date

in which I have set out the conditions

governing advances to local Government

Authorities from sources such as the

Nakuru Waterworks Renewals Fund.

2. Subject to those conditions

and having regard to the facts

DRAFT.

30. on 38128/38.

KENYA

Conf.

GOVERNOR.

*Copy Kenya
3 on 40/4/39*

FURTHER ACTION.

~~the sedimentation and filtration works at~~
~~the water necessary and urgent, and that~~
~~the Makuru Water Undertaking can meet the~~
~~capital charges involved, including repayment~~
Set out in your despatch
~~of the 19th November 1935.~~ I approve the borrowing

of the Makuru Municipal Board of a sum of £6,000
from the Waterworks Renewals Fund
I observe that the Makuru Municipal
Board has previously borrowed from the
Waterworks Renewals Fund sums of £1,500, £460
and £500. These sums were borrowed for terms
of 5 years (see my predecessor's despatch No. 142
of 19th November 1935, and your predecessor's
despatch No. 297, of the 8th June, 1936). It
is clear therefore that the terms of the first
two of these loans have expired and the term
of the third will shortly come to an end. It
appears however, that from your despatch No. 570
of the 30th September, 1938, that none of these
loans had, at that date, been repaid. I
should be interested to learn the position
with regard to these loans.

I have etc.

(Sd.) MALCOLM MACDONALD

W. 14/20-24 22/20 1/2 2A 0/0

38046/38

C. O.

Mr. Costley-White
Mr. *hurlakin*
Mr. *See alternative draft.*

Mr. A. J. Dore.
Sir H. Moore.
Sir G. Tomlinson.
Sir J. Shackleton.
Permt. U.S. of S.
Permt. U.S. of S.
Secretary of State.

DOWNING STREET.

February, 1939.

Sir,

I have etc. to refer to
your despatch No. 570 of the 30th of
September 1938 on the subject of the
proposed borrowing by the Makuru
Municipal Board of a sum of £6,000
from the Makuru Waterworks Renewals
Fund.

DRAFT.

KENYA
CONFIDENTIAL
GOVERNOR

(30 is
38134/38)

(Draft on
38134/38)

*has
Drafted*

2. As you will be aware from
my confidential despatches of the 25th
of January and of the
a sum of £125,000 has been approved
for inclusion in the new Loan to be
raised by the Colony to meet the
needs of the local Government
authorities for new capital. It
appears that in the circumstances it
would be appropriate for the sum of
£6,000 required by the Makuru
Municipal Board to be obtained from

FURTHER ACTION.

than
this source rather/by means of advances
from the Waterworks Renewals Fund.

3. So far as I am aware the
loans from the Waterworks Renewals Fund
of £1,350, £460, and £450, referred to
respectively in paras. 2 and 3 of
Sir Armigel Wade's despatch No.47 of the
18th of January 1935 and in Sir Joseph Byrne's
despatch No.297 of the 8th of June 1936,
have not yet been repaid to the Renewals
Fund by the Municipal Board. You will no
doubt consider the desirability of arranging
these repayments now, the loss by Government
to the Municipal Board being increased
correspondingly. I shall be grateful in
any case if I might be supplied with a
statement as to the present position of these
loans.

(1 on the -/36 file)

(3 on the -/36 file)

I have, etc.

than
this source rather/by means of advances
from the Waterworks Renewals Fund.

3. So far as I am aware the
loans from the Waterworks Renewals Fund
of £1,350, £460, and £450, referred to
respectively in paras. 2 and 3 of
Sir Armigel Wade's despatch No.47 of the (1 on the -/36 file)
18th of January 1935 and in Sir Joseph Byrne's
despatch No.297 of the 8th of June 1936, (3 on the -/36 file)
have not yet been repaid to the Renewals
Fund by the Municipal Board. You will no
doubt consider the desirability of arranging
these repayments now, the loan by Government
to the Municipal Board being increased
correspondingly. I shall be grateful in
any case if I might be supplied with a
statement as to the present position of these
loans.

I have, etc.

KENYA
No. 570



GOVERNMENT HOUSE
NAIROBI
KENYA

RECEIVED
30 September, 1938.

Sir,

4 on 1936 pp.

With reference to your predecessor's despatch No. 538 of the 22nd July, 1936, I have the honour to seek your sanction, under Section 88(1) of the Local Government (Municipalities) Ordinance, 1928, of the borrowing by the Nakuru Municipal Board of a sum of £6,000 for sedimentation and filtration works in connection with the Nakuru water supply. The work is necessary and urgent. The Water Undertaking can meet the capital charges involved including repayment over a 30 year period.

Copy to Kenya
3 on 10 p. cc

2. It is proposed that this sum should be borrowed temporarily by the Board from its Waterworks Renewals Fund, which now stands at £9,250, interest to be paid at the same rate as that at present earned by the Fund, until such time as a loan for this purpose can be obtained from the Government.

3. This proposal has the approval of my Executive Council.

I have the honour to be,
Sir,
Your most obedient,
humble servant,

Brooke-Popham

AIR CHIEF MARSHAL
GOVERNOR.

THE RIGHT HONOURABLE
MALCOLM MACDONALD, M.P.,
SECRETARY OF STATE FOR THE COLONIES,
DOWNING STREET,
LONDON. S.W. 1.