

C.I.
Transport
Railway Provident
Fund
General

1. H. Cm. Transport 28.....13 March 1935.

Suggests that question of annual adjustment of the value of investments should now be reviewed and recommends the creation of a special reserve account to cover future depreciation in value of securities.

General Department.

I understand that similar proposals have been put forward by certain Colonial Governments and that a circular despatch is likely to issue at some future date.

It is not quite clear whether the High Commissioner's proposal relates specifically to the investments of the Railway Provident Fund or whether it is intended to cover the investments of the General Account as well. The latter includes the investments of the Renewals Fund. From paragraph 3 of the despatch I assume that the proposal is comprehensive.

I attach a copy of the General Manager's report for 1933. The pages marked show the value of the investments of the two Accounts and the amount carried to Net Revenue Account in respect of appreciation of investments.

Would you advise with regard to action on this despatch?

C.A. Rossini
15. 3. 35.

In the circ. despatch on the subject of P.D. Funds, which is now under discussion by the C.C.s, it is proposed to toll P.D. Fords. that, so far as Provident Funds are concerned the S of S is awaiting the report of the "Watson" Committee which formed the subject of the circ. despatch of 17. 8. 34, and that, ad interim, these funds should continue to be treated as in previous years (i.e. under P.D. Reg 276 para 2).

Subject

Subject to any thing the D.C.A. may have to say, I would suggest informing the H. O. accordingly in reply to (1). In any event I think he should refrain from setting up an intermediate "special reserve" account as this is quite definitely contrary to Bd. Reg 275 and is not provided for in the Ordinance under which the fund is established.

E. N. Lake
16.11.35

No: 3677/13.

Mr. Grossmith,

The action proposed by Mr. Cade is in accordance with the line taken by the Colonial Office on 21147/1934 Nigeria and 21082/34 Nigeria in connection with the Nigerian action in transferring appreciation of securities via Revenue and Expenditure to a special Reserve Fund (Investment Appreciation Account); and I see no objection to it. It does not of course close the door to consideration in due course of the creation of such a Reserve Fund if thought desirable.

~~Agrees with the action proposed by Mr.~~

Cade.

A. J. Harding

Director of Colonial Audit.

25/4/35

D. C. A.

Pr. dt. comm

Drum
26

The minutes and the draft follow recognised and well established practice and that practice was only adopted after considerable argument and therefore ought not to be upset. At the same time in the case of the K-U.R. there is considerable disadvantage in the authorised procedure. In passing I may say that the question of the value of investments is not confined to the Provident Fund in this despatch but is obviously meant to cover all investments held on account of the Railway. These investments are largely held on behalf of the Railway Renewals Fund and that is the reason why appreciation amounts to so much as £125,814.

The result of showing an appreciation in revenue is to enhance the receipts in the year in which such appreciation is credited by a fictitious amount. In the case of a Colonial Govt. it does not matter very much, but in the case of the Railway, with people contending that it makes exorbitant profits, it is desirable if possible to get such adventitious aids out of the revenue because in spite of any amount of explanations people will argue on gross totals and will not allow for the fact that some of the revenue is a very doubtful quantity. The opposite side of the picture has also to be taken into account in case it be urged in any year that

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~~Agree with the action proposed by Mr. Cade.~~
Cade.

A. J. Harding

Director of Colonial Audit.

25/4/35

PP. Mt. comm
D. C. A.

26

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the Railway is losing money simply because some of its investments have gone down.

The Watson Committee dealing with Provident Funds is not likely to report for a generation, I shouldn't think. I am a member of it and I can see little prospect of any finality.

I therefore rather hesitate to rule the proposal out of consideration until that Committee has reported (and until its Report gets approved, which will take even longer) and in the special circumstances of the Railway I think that there is a great deal to be said for the suggestion put forward by Kenya. I note that you are of the opinion that the establishment of such a reserve fund can properly be considered and if you would have no objection I think the proposals should be approved. The effect will be that there will be a special reserve account to which appreciation will be credited and against which depreciation will be charged but when depreciation gets to such a point as to wipe out the credit balance it will then be necessary to put in the extra depreciation as expenditure in order to keep the account balanced.

Would you see any objection to this?

J.P.O. K.S.
2-5

Mr. Flood,

In view of the fact that the Watson Committee may not be reporting for a considerable time, I agree that a definite decision on the Kenya proposal appears desirable, subject to anything that the General Department may have to say in view of their draft circular despatch and the detailed consideration of all and sundry funds which that draft foreshadows.

The accounting of the Kenya-Uganda Railway is more truly "commercial" than other Colonial Railways; and in the circumstances I agree that it would probably be sound policy to create a reserve fund from present appreciation of investments to meet future depreciation. On the other hand, I do not see why a departure from Colonial Regulations and the principles embodied therein should be permitted. It would probably lead to similar applications from other sources; and as I have already pointed out in my minute of 25.4.35. herein a reserve can be created by constitutional means by crediting the appreciation to revenue and then voting it out of expenditure to the reserve fund. Future depreciation would be similarly charged to expenditure, and, funds being available, a like amount is brought to the credit of Net Revenue from the Reserve Fund. This could hardly lead people into unfounded criticisms of "exorbitant profits" because they could hardly be so foolish as to base their views on the gross total of revenue only and disregard the gross total of expenditure, even were such gross totals available. Actually, however, under the system of accounting

accounting of the K.U. Railway gross totals are not shown and such transactions as I have described above pass through the Net Revenue Accounts without confusing the totals of working revenue and expenditure. Any person having the wit to extract such totals for himself would also have the wit to differentiate between ordinary working revenue and what I would prefer to call "windfall" revenue rather than "fictitious" revenue. There is nothing "fictitious" in an increase in the market value of investments.

A. J. Harding

Director of Colonial Audit.

12-6-35

Sir J. Harding.

Many thanks and I submit a draft accordingly which I think will carry out your intention. I am afraid, however, that I don't agree with you about the ordinary people who look at Estimates. Unofficial opinion in East Africa is, I am afraid, quite unequal to the task of extracting any figures, and will use any figures placed before it in whatever manner political expediency may dictate.

I also venture to differ with regard to what I have called "fictitious" revenue from the appreciation of investments. If I buy £1,000 worth of stock and, having bought judiciously, see it rise to £2,000, I am no better off until I sell the stock.

Therefore

Therefore, unless I have sold it, I have not gained any revenue. The same principle holds if I buy Chinese Porcelain or Old Masters. I have got the things and what I have is the object, whether it be a Chinese figure or a Velasquez, ^(or a stock certificate) and, from the point of view of my income, it doesn't matter whether the value of the thing goes up or down. However, I don't want to quarrel about it, and I know my view is heretical & unacceptable, the official practice being the sounder. *W.S.*

J. W. Hunt

15.6.35.

m. Flood

Draft initialled with a few small alterations - but subject to my minute of 12th June

*A. J. Harding
D.C.A.*

24-6-35

W. J. P. Vernon

Any objection to this?

J. W. Hunt

24.6.

This only needed me to say, I think the draft is sound. (Appreciation & depreciation of investment held in the same account fund with of course net to be credited to revenue or debited to expenditure. (It is not a revenue and expenditure account.)

W. J. P. Vernon

(16 got involved with some policies pp.)

You should see the point is whether the
K. U. R. can be allowed to start on a
Revenue Account by crediting appreciation of
stocks to Revenue in the first place and then
putting it as Expenditure to a Reserve fund.
The D.C.A. & G.D. have no objection and
as it is really only an accounting procedure
to avoid undue inflation of Revenue over Expenditure
I don't think the Treasury is involved.

J.E.G. Ford
11.7

I agree - but I have thought
it best to avoid the word
"voting" in the case of the K/U.R.

W.S.
12.7 am

2 to H.H. 66 (1 am). 18 JUL 1935

Seen. Copy of no 2 taken
A.J. Harding
23-7-'35
D.A.

Abstake copy
no 2.
see file 6/8.
Please may like to see
McLain's notes
held
J.M.

H. Com. Transport 61 _____ 26 June '35
Some details of resolution passed by the Adm. Advisory
Council regarding the appreciation & depreciation of securities.
This has crossed with No 2.
I submit draft.
A. J. Harding
18.7.35

By Air Mail
17/8/35

H. Com. Transport 66 (3 amend) was 16 AUG 1935
DESTR
J.M.

H. Com. Transport 79 _____ 28 Aug '35
DEstroyed UNDER STATUTE
Statement suggested procedure in connection with the annual
adjustment of the value of investments will be suitable for adoption in
the Administration accounts & will be followed in future.

D.C.A. ...

...

...

See
13/7/35
J.A.P.C.

J.M.



RECEIVED
29 JUL 1935
C. O. REGY

3
7

OFFICE OF THE HIGH COMMISSIONER FOR TRANSPORT,
GOVERNMENT HOUSE,
NAIROBI,
KENYA.

TRANSPORT
KENYA-UGANDA.

No. 61.

26th June 1935.

Sir,

I have the honour to refer to my Transport Despatch No 28 dated the 13th March 1935 on the question of the annual adjustment of the value of investments, where it was recommended that in so far as this Administration was concerned, no further sums on account of appreciation of securities should be credited to revenue but that such appreciation should be placed in a special reserve account to which should be added small contributions until provision had been made for reasonable and probable depreciation, and to inform you that the Railway Advisory Council at a Meeting held last week, when considering the future financial policy of the Administration, discussed the question of appreciation and depreciation of securities and passed the following Resolution :-

"COUNCIL AGREED that it was inadvisable that such sums should be credited or debited to Net Revenue Account and accepted the General Manager's recommendation that a special fund should be opened to cover such payments."

I have the honour to be,

Sir,

Your most humble, obedient
servant,

A. S. WARD

HIGH COMMISSIONER.

THE RT. HONOURABLE MALCOLM MACDONALD, M.P.,
COLONIAL OFFICE,
DOWLING STREET,
S.W.1.

No 1

Answer (4)

C. O.

Mr. Flood. 6.35.

Mr. A. J. Harding 22/6/35

Mr.

Sir C. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley. £12.7.35 *for*

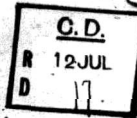
Sir J. Skuchburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

38094/35. Kenya. 2



Annexed by Nos

Downing Street.

19 June, 1935.

July

Sir,

DRAFT.

TRANSPORT.

KENYA-UGANDA.

NO. 55.

HIGH COMMISSIONER.

Handwritten signature/initials

I have the honour to acknowledge the receipt of Sir Joseph Byrne's despatch No. 28 of the 13th March in which he discussed the question of the adjustment of the values of investments held on account of the Railway administration.

2. The existing rule is laid down in what is now Colonial Regulation No. 275, and provides that, at the close of each financial year, securities will be valued, and the amount by which the new value exceeds or falls short of the old value ^{being} ~~will be~~ carried to the credit or debit of an Investments adjustment

FURTHER ACTION.

Copy D.C.A.

adjustment

Adjustment account, the balance of which, ~~is~~ if the securities are held on behalf of the Administration, is to be carried to revenue or charged to expenditure.

3. I am inclined to agree that, especially in ~~regard to~~ the ^{case} affairs of the Railway, it might ~~appear~~ be sound policy to create a reserve fund from appreciation of ~~the~~ investments with which to meet future depreciation, but I feel that the rule as laid down in the Colonial Regulations, which has only been adopted after much thought, should not be lightly infringed, as the precedent created might well be awkward. It is, however, possible to create a reserve, without in any way infringing the Regulation in question, by first crediting the ^{net} appreciation to revenue and then ~~transferring it~~ ^(by a corresponding expenditure item) voting it out of expenditure to the proposed reserve fund. Future depreciation, similarly, should be charged to expenditure; and, funds being available for the purpose, a corresponding amount could be brought to the credit of net revenue from the reserve fund which had been established. I should have no objection to the adoption of this practice ~~I have, etc.~~ in connection with the Kenya-Uganda Railway accounts if you think it commends itself to you.



19

TRANSPORT
KENYA-UGANDA

OFFICE OF THE HIGH COMMISSIONER FOR TRANSPORT,
GOVERNMENT HOUSE,
NAIROBI,
KENYA.

No. 28

RECEIVED
10 APR 1935
C. O. REGY

13th March, 1935.

Sir,

I have the honour to refer to your Transport despatch
No 2. Kenya-Uganda No.136 of the 28th December 1933, on the
3355/33 subject of the working and management of the Railway
Provident Fund, and to suggest that, so far as this
Administration is concerned, the time is ripe to review the
annual adjustment of the value of investments.

*C. O. Regy 275-
1935-Edw*

2. Colonial Regulation No. 291 requires the value of
investments to be adjusted to the middle market price in
London on the last working day of the year by adjusting any
depreciation or appreciation to revenue. This Regulation
was not received by this Administration until 1932 but since
then appreciation amounting to £125,814 has been credited to
revenue.

Annex. 2

3. Although there is a distinct advantage in accounting
for securities in this way, the adjustment of fluctuating items
of this nature which cannot be budgeted for constitutes a
disturbing factor in the net revenue account of this Administration.
An appreciable drop in the market value of securities
might have a very disturbing effect during a period of
depression similar to that through which this Administration
passed in 1931 and 1932 and for this reason I recommend for
your consideration that in so far as this Administration is
concerned no further sum on account of appreciation of
securities should be credited to revenue but that any such
appreciation should be placed in a special reserve account.

to....

THE RIGHT HONOURABLE
MAJOR SIR PHILIP CUNLIFFE-LISTER, G.B.E., M.C., M.P.,
SECRETARY OF STATE FOR THE COLONIES,
DOWNING STREET, S.W. 1.

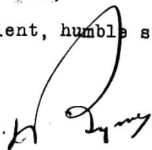
to which could be added small annual contributions until provision has been made for reasonable and probable depreciation

4. I request that you will be so good as to inform me whether you will be ready to agree to a special reserve account of this nature being created to cover any future depreciation in value of securities.

I have the honour to be,

Sir,

Your most obedient, humble servant,



HIGH COMMISSIONER.