

38389

185
120
114
1938

38389

KENYA

Eldoret Municipal Development

Previous

~~227~~ 983130/33 }
3135/33 }

Subsequent

see in 30116/39.

1945

297

2/9

309

4/10

~~Mr. Frazer~~

m. Walker

2/10

m. Boyer

7/18

m. ~~Parsons~~

2/11

Mr. Frazer

11

309

28

C.D.

2/12

R 299

6/17

297

1

R 98

26/1

R 99

27

~~Mr. Frazer~~

m. Walker

28/1

C. J.
Hills
Water
Loans

1. Govt Dep 537

20/9/38

Sets out various proposals regarding the future administration of the Eldon Water Supply, the financial results of which are at present inadequate, and requests approval.

In 1933 the Eldon Municipal Board took over from Govt the Eldon Water Supply. For this purpose Govt made a loan to the E.M.B. of £31,877 to be repaid in instalments by the end of 1949, the life of the equipment being reckoned at 20 years. It is expected that the equipment will in fact have to be replaced in 1950. Under the present arrangements, whereby the payment to Govt of £3057/4/06 annually is reckoned as a profit charge, profits are so low that by 1950 only £7,000 odd will have been accumulated in the renewals fund for ~~contracts~~ the replacement of the equipment. The E.M.B. considers this too small, & there being no other method available for widening

the

the profit margin, ~~which~~ to reduce the annual payment to Govt to £2111 by deferring the date at which the loan will be extinguished to 1958. This will enable a renewals reserve of £20,000 ~~and~~ to be accumulated by 1950, up to which date no profits are to be diverted to "outside" purposes (para 6 of the report).

The real question at issue appears to be how the 1950 replacement is to be paid for. If the present arrangements stand there will be no old loan outstanding, but only a small accumulated reserve: consequently a good deal will have to be raised in new loans, which may or may not be cheap at that time. Under the proposed new arrangements relatively little new loans will be needed as a large renewals reserve will have been accumulated, ~~and~~ ^{but} a large amount

of the old loan will be still outstanding. If new loans are cheap in 1950 it would be better to have paid off the old & to have to deal solely with new loans (ie stick to the present arrangements); if on the other hand loans are expensive then it will have been wise to have adopted the new proposals & to have ^{clung} ~~adhered~~ to the old loan as long as possible. The Govt

however does not consider this point, but appears to feel that there is some intrinsic advantage in accumulating a renewals reserve ^{rather than} ~~in~~ paying off debt.

It would seem that, if the rate of interest on the debt is higher than that which can be earned by the renewals fund, it would, on the contrary, ^{be} preferable to pay off debt ^{as much as possible} and accumulate no reserve at all. If the debt is paid off by the time the equipment is worn out all is well: the new equipment

can be paid for by a new loan. This
fund is also not raised by the
Gov.

The argument of § 7 of the deep
seems to be sound, anyway on
paper. Lord Pansfield laid
down that the period of a loan
should not exceed the life of the
asset. This rule can be complied
with in two ways. Either regard
the life of the asset as fixed & pay
off the loan by that time; or regard
the amount of the loan as fixed and
take steps from time to time to
prolong the life of the asset so that
at any given moment the value of
the asset is not less than the
amount of the loan.

It would scarcely seem that the
Gov has made out a really good
convincing case for his proposals,
but they do not appear to have
any objectionable features &
rather than embark on discussions
as to the respective merits of the
present and the proposed arrangements
it would be better to approve.
If this is done Mr Walker

I doubt if the
alternative was
intended by

should see as to the accounting
arrangements in para 8.

Cloke, White 14/10

1. I don't think we need object to the
revised financial notes: during the life of
the undertaking it will have provided more
than enough funds to write off the original
cost.

2. Para 8. It would be irregular to
transfer ^{or public} part of payments by the municipal
bond debt to the general supplementary
sinking fund without formal authority
of an appropriating ordinance. I don't
think it & suggest that the easiest way
to secure the necessary authority would
appear to be by transferring the existing
sinking fund & future capital repayments to
Revenue & including under a special
expenditure head a ~~new~~ contribution to the
general supplementary ^{sinking} fund of similar amount,
suitable

R. Walker
21/10/38

Always
ref.

Mr. Freeston

I mentioned this to you. The
argument of para 7 is rather tortuous, but
it seems all right and you will see that

Mr. Waack & Mr. Boyce agree that the proposals may be approved.

? Acc., approving proposals generally but drawing attention to the point raised in Mr. Boyce's minute.

Thurs. A.R. Thomas.
21/11

(P.S. These pp. have been delayed pending
consideration of the loan proposals; but there is
no reason why they should be delayed further
on this account. These proposals involve no
fresh borrowing.)

A.R.T.

W. Waack

2. V. Lungs 728 - 1 thousand - 5. 12. 38

~~W. Waack~~

3. Governor 31 _____ 17/1/39
States it is proposed to adopt alternative
accounting arrangements suggested in para 2 of No 2.

$\frac{2}{3}$ Put by

Colby while at home 27/1

Mr. Waack may perhaps like to see.

See New on

R. Waack
20/1/39

~~W. Waack~~

KENYA
No. 31



35
GOVERNMENT HOUSE
NAIROBI
KENYA

17 January, 1939.

Sir,

2
I have the honour to refer to your
Despatch No. 728 of the 5th December, 1938, regarding
certain proposals for the repayment by the Eldoret
Municipal Board of the outstanding balance of the
loan made to it by Government and to inform you that
it is proposed to adopt the alternative accounting
arrangements suggested by you in paragraph 2 of your
despatch.

I have the honour to be,

Sir,

Your most obedient, humble-servant,

A. Brooke-Johnson

GOVERNMENT CHIEF MARSHAL.

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

C.O.

Mr. Costley-White. 2/11/38.

Mr. Walker 25/11

Mr. P. R. ... 29/11 f

Mr. A. J. Dawe.

Sir H. Moore.

Sir G. Tomlinson.

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DOWNING STREET.

November, 1938.

DRAFT.

KENYA.

NO. 728.

Governor.

Sir,

I have etc. to
acknowledge the receipt of your
despatch No. 537 of the 20th of
September, and to inform you that
I approve your proposal that the
Eldoret Municipal Board should
enter into a new agreement, in the
terms and subject to the conditions
specified in your despatch, for the
repayment of the outstanding
balance of the loan made to it
by the Government in connection
with the acquisition of the
Eldoret Water Supply.

2. As regards the accounting
arrangements.

FURTHER ACTION.

arrangements proposed in the penultimate

paragraph of your despatch, I am advised

would point out that

~~that it would not be in accordance with the~~

~~regular practice to transfer without the~~

~~formal authority of an Appropriation or~~

*(is required to support
the transfer of*

~~other Ordinances repayments by the Municipal~~

~~Board direct to the general Supplementary~~

~~Sinking Fund.~~ I would suggest that the most

^{simple} method by which the necessary formal

authority can be secured would be to transfer

to revenue the existing Sinking Fund and future

capital repayments, and to include under a

Special Expenditure head a contribution of a

similar amount to the general Supplementary

Sinking Fund.

I have, etc.

(Signed) MALCOLM MACDONALD.

KENYA
No. 537.



GOVERNMENT HOUSE
NAIROBI
KENYA

RECEIVED
27 SEP 1938
C. O. REGY

20 September 1938.

Sir,

I have the honour to refer to Kenya despatch No. 311 of the 9th May, 1933, from Sir Philip Cunliffe Lister (now Lord Swinton) concerning the acquisition by the Eldoret Municipal Board of the Eldoret Water Supply.

Letter 322/38
2 on 313/33

2. The Eldoret Municipal Board has been somewhat disappointed with the financial results of the administration of the Water Supply. After providing for the payment of the instalments to Government, and the cost of operation and maintenance, a charge to consumers of Sh. 3 per thousand gallons gives a trading profit which has reached only £500 per annum. In 1933 and 1934 losses aggregating £456 were sustained, and the maintenance of profits at the present level must largely depend on the continuance of prosperity in that neighbourhood since it is not at present possible to foresee any marked increase in the population of the town.

Answer (2)

3. In 1937, the costs of operation and maintenance amounted to £610.12.75 and the annual instalment due to this Government in repayment of capital and interest is £3,055. Economies have already been made in the cost of operation and maintenance which in 1933 amounted to £836. The rate of Sh. 3 per 1,000 gallons compares with Sh. 2/- charged in Nairobi and Nakuru, and Sh. 2/50 in Mombasa, and is only equalled in certain minor water

supplies/

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

supplies. The Eldoret Municipal Board has therefore concluded that the only way of effecting any improvement in the finances of the water supply lies in a revision of the terms of repayment of the capital cost to the Government.

4. The present financial position is regarded as being unsatisfactory for the following reason. The water is supplied by gravity, but the gravitation main is comparatively long and the pressure high. Consequently, while the operation and maintenance costs are low, the capital cost is relatively large, and so long as interest and sinking fund charges are payable on the whole of the capital there can be little prospect of any reduction in the rate or of the Municipal Board receiving that measure of profit for which it naturally looks. The aim of the Municipal Board is therefore to build up a Renewals Fund with a view to decreasing and eventually eliminating the heavy capital charges. It is estimated that the system will require replacement in 1950, but the present profits accumulated in a renewals fund would not realise much more than £7,000 by that time. It is urged that this figure represents too small a proportion of the original valuation of £31,871.

5. It is therefore proposed that the present loan agreement should be cancelled, and that the Government and the Municipal Board should enter into a new agreement providing for the repayment of the outstanding balance of £24,359 over a period of twenty years from the 1st January, 1938, and for reduction of the rate of interest from 5.23% to 5.17%, the latter being the rate applicable to a loan for twenty years or more. The repayment of capital will continue to be calculated on

the/

the basis of a sinking fund accumulated at 3½% interest, and the annual payment by the Board will be reduced from £3,055 to £2,111.

6. An essential condition of these revised terms is that all surplus earnings of the Water Supply shall be carried to a renewals fund, and it is estimated that by 1950 it should be possible by this means to accumulate nearly £20,000. This condition has been accepted by the Municipal Board.

9 on 15/6/30

7. In paragraph 2(ii) of his despatch No.116 of the 13th February, 1931, it was declared by Lord Passfield that the period of a loan should not exceed the probable estimated life of the work on which the money will be expended. It must be assumed, of course, that in 1950 the Municipal Board will have to replace the greater part of the plant and that a renewals fund of even £20,000 will prove to be insufficient. In the absence of other reserves the Board would consequently be compelled to raise a new loan for the purpose before the existing loan is fully repaid. On the other hand, it can safely be assumed that the amount of the new loan together with the outstanding balance of the original loan would amount to a sum less than the cost of replacement, the balance being found from the renewals fund. Consequently, the value of the asset would exceed the total amount outstanding on loan account, and there would in fact be no departure from the principle underlying the statement quoted at the beginning of this paragraph.

copy attached

3
1663/1/37

8. In accordance with the procedure outlined in your predecessor's circular despatch of the 25th November, 1937, the item in the Colony's Balance Sheet

"Advances/

1/31/33
3/27/33

"Advances, Eldoret Municipal Board" will be written off against the corresponding item "Loan. Funds - Sale of Eldoret Water Supply", and the special accounting arrangements detailed in paragraphs 9 and 10 of Sir Joseph Byrne's despatch No.171 of the 16th March, 1935, will thereupon lapse. At the same time it is proposed that the Eldoret Water Works Supplementary Sinking Fund should be absorbed in the general Supplementary Sinking Fund, to which repayments of capital by the Eldoret Municipal Board will in future be directly credited.

9. I shall be glad to receive your approval of the proposals contained in this despatch.

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

C. W. Wade

GOVERNOR'S DEPUTY.