

1925

KENYA

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5684

REC'D
6 FEB 25

Date

FOR COMMISSION.

TEL
49

5th February 1925.

INCUBATION

Mr.
Mr.
Mr.

MAGADI SODA CO. RECONSTRUCTION.

Asst. U.S. of S.

H. Stalling

Statement of working costs may be based on first six months of final year of current period. G.M. adheres to his opinion regarding Clause 21 A; he still urges valuation at rate, but S. of S. may consider otherwise as matter of policy.

Permt. U.S. of S.

Part U.S. of S.

Secretary of State

Previous Paper

5192
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MINUTES

The principle that, if the Government buys out this branch railway, it should be at cost was definitely agreed in 1911, and the only alterations we have contemplated are

(1) That there should be an agreed sum instead of the elaborate system of capital accounting which was unavoidable before the line was built, and

(2) that, as the new Company is to be let off full rates and royalties at first, the deficiency below the normal rates should be set off against this agreed purchase price.

The General Manager, late in the day, asks that the purchase price should be subject to a depreciation allowance of 1 per cent per annum. We have opposed this, and, in spite of this telegram, I think we should overrule him:—

Subsequent Paper

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(u)

(a) It is too late to revise a condition of the leases to the new Company, in which we have made no avoidable alterations in the old terms. The new Company has already been formed.

(b) We put the Government in a better position than if it had built the line itself. It would ^{in that case} have borrowed the money, built the line, maintained it in proper order, and have been liable for interest on the cost and for the repayment of the full amount to the loan holders. As it is, the Company raised the money (debentures), the Government maintains the line; but does not pay interest on the capital cost. There is no reason why, if it takes over the line ^{which} it is responsible for maintaining, it should do so at less than its maintained value. And it would not be fair to the ~~debenture holders~~ ^{debenture holders} who are (of course) a party to the reconstruction.

There is some anomaly in the fact that, although when the Lake lease expires 99 years hence, the line will lapse to the Government, it should maintain its full value to the 99th year, but that does not seem to me to justify the General Manager's *proposal*. Actually, the Government would take good care not to buy near the end of the term.

W.C.S. 9.2.25
Submitted by W.C.S. 12.2.25
C.S. 13/2/25

C.O.
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85

TELEGRAM

From the Governor of Kenya to the Secretary of State for the Colonies.

Dated 5th February 1925

(Received Colonial Office 2.2 p.m. 5th February 1925)

Gov. 6078/ru

No. 49. 5th February. Your telegram of 6th January.

Magadi. Statement of working costs may be based on the first six months of the final year of current period. Clause 21 A. General Manager adheres to his opinion which is based on technical reasons pointing out that the Colonial Office proposal by excluding provision for depreciation caused by wear and tear practically precludes possibility of purchase. General Manager still urges valuation at date. I support the General Manager on this railway point but you may consider otherwise as a matter of policy. Lake lease Clause 2 matter is under consideration.

7/5/25

4th Kenya
5684

86
Codes & Sent
5.50 pm
13th Feb. 25
CPD

Jan

Code tel.

13th February

DRAFT.

owner ~~to~~ ~~of~~ ~~the~~ ~~tel.~~ of 5th February
Nairobi 49. Merged railway

MINUTE.

leave clause 21 A. I feel

Mr. Ashmole

Mr. 12.2.25

Mr. Strachey 1/2
Sir C. Davis. 1/2

Sir G. Grindle.

Sir H. Read.

Sir J. Masterion Smith.

Lord Arnold.

Mr. Thomas.

that I have no option but
to overrule opinion of
General Manager ~~in view~~
as his
of
course would involve
sacrifice of great part of
security of adventure
holders and ~~unadvisedly~~
would be
prejudicial ~~to~~ ~~the~~ ~~interests~~ ~~of~~
through ~~the~~ ~~efforts~~ ~~of~~ ~~their~~

in 3648

whereas the cost of the purchase
at cost has been contemplated
from the beginning and was
provided for in previous draft
railway lease sent to you

in my dispatch no. 735, 17th May 1922

As compared with a typical
Governmental construction ~~there~~
~~is no extra cost~~
loan funds there is no extra
cost and there is a great
saving of interest.