

1934

1934

23029

C0533/441
KENYA

23029

K. U. R. Depreciation.

Provision for Renewals.

Previous

3129/33

Subsequent

38179/5/35

R. 297

1. H. Cms. Transport Conf. _____ 27th Dec. 33

Furnishes details of discussions of the Rly Advisory Council & coms. with Govts. of Kenya & Uganda regarding depreciation & reserves & the Sub. Ref. Submits views as to amount of Reserve Fund & rate of contribution to Renewals Fund.

2. G. Walker (s.o) (The Mail) _____ 22 Jan. 34

States question of Renewals Fund has been discussed with s. of s. who does not wish a reply to be sent, but information collected regarding the practice on other railways

Mr. Flood.

2+

I attach a copy of a Note sent to General Dept.

It appears from the Directory of Directors and other sources that Mr. Follett Holt is Chairman of a large number of companies operating in South America including the three railways specified in Colonel Walker's letter. Mr. J.M. Eddy is a Director (not Chairman) of the Buenos Aires Western, Buenos Aires Great Southern, and the Buenos Aires Midland Railways. In the circumstances it will perhaps be best to write as in the accompanying draft for Mr. Lee's signature, and await Mr. Holt's reply before approaching Mr. Eddy.

D. Lee
15/2

I think this is the best course to pursue.

D. Lee
15.2.

Send off the letter then let
Sir J. Campbell + Sir J. Maffey see

W.L.S. 16.2.34
atroc

2. F. Holt s.o. coms 16 Feb 34 15/3

4

J.B. Barland P.O. — 21.2.34
In reply to 3, states that the same information
requested is being released & must be
forwarded shortly
Seen: thanks.

(I think it might be well to ascertain, from
the I O, how this matter is now dealt with
in India, particularly as regards the "State"
lines. The whole question was gone into exhaust-
ively during Sir B Blackett's term of office
there.).
The 13-2-34.

Seen
7/2/34
19/2

In the India office it is
Mr. Rowbray who deals with
railway finance. I went over
there yesterday and explained
to him the sort of thing we wanted
to know. He said the I.O. had
full information available, but
suggested it would be better to
ask for it in an official
letter.
I submit a copy
T.D. Davis: 21/2

5 To I.O. (Ramesh) Com. 28/2/34
(PW)

3

Mr. Flood

Please see the correspondence with
Mr. Graham below.

697.

As I mentioned to you a few days ago,
Mr. Graham rang me up about this to say that he feared
that his Company would be unable to give us any
useful information in regard to the arrangements for
the provision of renewals. The Argentine Government's
law controlling the Railways made provision for
renewals at a certain rate; but, in practice, the
Company had never found it necessary to obey this law
to the letter and had not, in fact, done so. In good
times the Company had set aside 7 or 7½ per cent. of
its gross revenue to Renewals Fund. (I understood
Mr. Graham to say that there was no attempt at a
detailed calculation of the amount which should be
set aside as renewals, e.g., calculated in accordance
with the probable life of wasting assets such as
rolling stock, etc., but that a sum equivalent to 7
or 7½ per cent. of the gross revenue was taken as
constituting an appropriate sum to be set aside for
the purpose.)

During the last two or three years, owing to
the drop in receipts, Mr. Graham said that the Company
had been unable to make any provision at all for
renewals, and he could not say when they would be in
a position to resume doing so.

Mhee
27.2.34.

4

9.8.34
In reply to 2. state that the matter requested is being re-examined & will be forwarded shortly.
Seen: thanks.

(I think it might be well to ascertain, from the I O, how this matter is now dealt with in India, particularly as regards the "State" lines. The whole question was gone into exhaustively during Sir B Blackett's term of office there.).

The 19-2-34.

Seen. J.H. 19/2

In the India office it is Mr. Rowbray who deals with railway finance. I wrote over there yesterday and explained to him the sort of thing we wanted to know. He said the I.O. had full information available, but suggested it would be better to ask for it in an official letter.
I submit a copy.
T.W. Davis: 21/2

5 To I.O. (Finance Dept.) Bonn. 20/2/34
(W)

3

Mr. Flood

697.

Please see the correspondence with Mr. Graham below.

As I mentioned to you a few days ago, Mr. Graham rang me up about this to say that he feared that his Company would be unable to give us any useful information in regard to the arrangements for the provision of renewals. The Argentine Government law controlling the Railways made provision for renewals at a certain rate; but, in practice, the Company had never found it necessary to obey this law to the letter and had not, in fact, done so. In good times the Company had set aside 7 or 7½ per cent. of its gross revenue to Renewals Fund. (I understood Mr. Graham to say that there was no attempt at a detailed calculation of the amount which should be set aside as renewals, e.g., calculated in accordance with the probable life of wasting assets such as rolling stock, etc., but that a sum equivalent to 7 or 7½ per cent. of the gross revenue was taken as constituting an appropriate sum to be set aside for the purpose.)

During the last two or three years, owing to the drop in receipts, Mr. Graham said that the Company had been unable to make any provision at all for renewals, and he could not say when they would be in a position to resume doing so.

M. Kee
27.2.34.

Introducing the Argentine law - see 38 (1) on p. 22
apparently limits renewals to 2 1/2% of the value of
the existing assets. The Company don't bother about this
but take 7 or 7 1/2 % of gross receipts or, when
times are bad, nothing at all.

This is not scientific, but I expect it works.
So far as it is a guide for us it seems to indicate
that one should not insist on any fixed percentage
or any ~~set~~ set amount each year.

J. L. W. Wood

28-2

I'm afraid there is not much help in this.
The 2 1/2% is determined with reference to a
special purpose, which has nothing to do
with the actual problem of renewals; and
it is liable to alteration as proved necessity
may dictate. It is really an (more or less)
arbitrary limit, determined for a fiscal purpose.
So for the Co's plan of 7 to 7 1/2% of the
gross receipts; there is clearly nothing
scientific in that--and nothing which
gets to grips with the actual problem. It is
pure " chuck and chance it"; and the thing is
probably kept right, in practice, by spasmodic
contributions to renewals, or by changes of
the rate. Anyhow, I see no guidance here.
The 1-3-34.

J. L. W. Wood
1/3/34

Sir J. Moffat.

This order out of 20:2.
We should charge get nothing
more by consulting the Board,
whose name was also mentioned

alter
back to 6 to be
returned.

and K. J. O.
reply.

by the S. G. O., and we must now
wait for the General Dept. order on
Colonial practice unless you think
that Wellington House could give
us useful information about
the Sudan Govt. Railway
practice.

W. C. S.
2/3/34

Dear Sir, I do not think Sudan Govt.
Railway practice would be very helpful.
The capital required was paid by the
Egyptian Govt. & remains dead
capital.

However, there is a connection
policy - I would suggest your asking
Wellington House for a copy of Sir
Felix Coleridge's reports on the Sudan
Rly. He visited the country in
1924 & 1930.

J. L. W. Wood
6/3

To Sudan Govt. Office Cairo. 9/3/34
30/3

9. S.O. 2:3:34
Three brief memos explaining provision
for depreciation of Indian State Ry. systems

10. J.S. Borland s/o 2:3:34
"guis inform" as to working of
Renewal Funds.

11. J.S. Borland. s/o. 10/2/34. 3:3:34

R 297

Mr. Flood:

I attach a further letter which I have
received on the question of Renewal Funds on the
Argentine Railways. You will see that I have
acknowledged it.

? This should be attached to departmental
papers on the subject.

Mhee

3.3.34.

12. Sudan govt office 13 Feb. 34
No. 8 referred to Sudan govt. Authorities
will communicate when replied

10-12 I spoke on the telephone to Mr.
Chadron about this yesterday. He
said the reports were confidential & the
permission of the Sudan govt would
have to be got before we could have
copies. He said he'd send a letter by
to-day's air mail, & I said we'd be
very much obliged if he did. Put by

12a I attach a wire translation in
summary form what information
we now have on this file - a 31698/34 Gen.

14 Feb.

Handwritten notes on left margin:
"Lined to 6 to be
refd."
"The Government to
write letter"

Handwritten note: "silly of them"

Sir J. Campbell

You may like to see Mr. Davies's memo.

The result is inconclusive. It all leads me to the opinion that
you can overdo the 'renewals'. But in the case of the K.U.R.
it is very necessary to see that the Railway needs every possible
change, because, if it shows a profit, there is a demand for
immediate reduction of rates to suit the settlers.

Handwritten note: "I agree. We have
always had that
in mind."

Handwritten signature and date: "14/3/34"

Handwritten date: "14.3.34"

Thanks. I don't think one can overdo "renewals",
if the provision is properly based, simply because
renewals are a liability which must be met when
the time comes--or your railway ceases to be.
The great temptation--and Mr. Davies' list shows
how many of our Govts. have succumbed to it--is
to "have peace in our time, Oh Lord". They do
not listen to the beating of a distant drum.
2. I believe, of the four great home railways,
all but the L N E Ry. work out their renewal
contribution on a "wasting assets, life" basis.
They set aside that sum, year by year. The L N
E Ry. goes on the "provision" basis--i.e. it
charges to revenue each year the amount required,
in that year, for renewals. But I gather it is
finding this a not very satisfactory method. Its
line, and its stock, ^{are} ~~is~~ already believed to be
suffering from this policy--which financial
stringency probably dictated, or at least
maintained.

The 14-3-34.

Handwritten signature and date: "14/3/34"

Handwritten note: "Financial stringency is expensive, I
think, for some of the colonial railways
also. How long?
15.3.34"

Sir J. Campbell

13.

Please see the S/S letter & the attached minutes. I am getting out the meat factory pp.

L.S.G. Flood

24.2.

Seen: thanks. There were the T T meat papers, and the application (applications?) to the C.D.A.C.

I suppose we shall also have to look into the railway debt question:--as between Kenya and Uganda.

The 26-2-34.

26/2/34

* ~~Flood~~

We had some preliminary talk about this yesterday - I hope to put together some notes tomorrow as a starting point; but if Dept. can get down to it first, so much the better.

I do not think that the S. of. contemplates Uganda's issuing a ^{new} railway loan, that would be as uneconomic as a Kenya commission loan, if it must wait till 1947 or so. Uganda is to declare its intention to stand in for a part, and it may be necessary to get British subsidies as to how far that would help Kenya's credit.

W.S.S. 27.2.34

Sir J. Maffey: (through Sir J. Campbell).

on the above points dealt with in the

Secretary

Secretary of State's letter to the Chancellor:-

- included in Summary*
1. A memorandum on coffee by Mr. Clauson has already gone forward.
 2. You have already seen the papers about the sisal machinery and they will come to you again when the letter now being copied has been cleared off.
 3. On the debt question I did not realise until this paper came back to me yesterday that Sir J. Campbell had not yet seen the papers again. I am sending this through him, but I feel that there is nothing to be added at the moment to my minute just above. If it is considered justifiable for Kenya to raise another loan we should have to make clear the justification in the prospectus by saying that Uganda had assumed responsibility for whatever part of the past borrowings may be decided, but that in any case the whole of the loan charges on the Railway and Harbour expenditure ^{are} ~~were~~ at present borne by the receipts of those services without any call on either of the two Governments. The wording of such an announcement would have to be agreed with the Treasury, who might wish us to include some reference to the liability (upon Kenya) for the cost of the original Uganda Railway (£5,500,000 roughly) the discussion as to which was postponed a year ago until 1938.
 4. Fertiliser. Please see the ⁺ loose minutes below. I had the meat factory papers looked up partly in the hope that ^a the meat or extract business might strengthen the economic position of a fertiliser factory and partly because the meat factory papers contained all we have as to the manufacture

7

manufacture of fertilisers. I am afraid that the conclusion is that our previous papers do not really help.

We have ^{to} ~~approach~~ the scheme as one of general benefit rather than as one which has to be self-supporting. We have got to reduce the native stock in some way and we have got to face the necessity for providing fertiliser for agriculture generally, beginning with European coffee land.

I think we must wait for the Kenya application to the C.D.A.C. before we get down to the matter here. Kenya will no doubt have considered the political problem of inducing the natives to give up part of their stock, at a price which must necessarily be low, for any purpose whatever. It is definitely interfering in a matter of native custom for the natives' own benefit, and a lot of spade work by the District Officers will be required if it is to be a success.

Also the factory or factories, once started, must be kept supplied and we must expect, as the experience in Tanganyika shows, that when they ^{realise} ~~realise~~ that there is a commercial demand for their stock they will not be content with as low a price as they may get at the start.

We have just heard that in the case of the sisal scheme the Department of Overseas Trade may be able to help in the way of providing credit facilities for the machinery. Possibly they will be able to give us similar help over the fertiliser factories.

? Wait for the return of the S 48.

W.P.S. 15.3.34.

W.P.S.
10/2/34

W.P.S.
16/3

(2) Renewals. Gen. Rhodes had maintained that 2% was adequate. Any papers in which he has maintained this point, and the papers about Gen. Hammond's 3.11% figure should be looked up.

(sd) W.C. Bottomley
28/3

Mr. Napier

Library are seeing to A + B. Will

you kindly undertake C.

Note enclosed
6/4
29

Mr White to say I will check
in 10/12 as per instructions
and check 1-1/2 (p. 1) for
the

14 Sudan Govt Office
Encls. copy of each of two Reports 1924 & 1931 made by
Sir F. Pole on Sudan Rlys, together with copy of 1924
Questionnaire & Answers.

Between 1924 and 1931 the Sudan Government made full provision for renewals on a life-basis. In 1932 Sir Felix Pole reported:-

"There can be no doubt as to the soundness of the policy that has been adopted by the Government, but in the circumstances of State railway undertaking, there is no reason why theoretical accounting principles should be allowed to outweigh practical considerations. . . . Now that the Government are again faced with a period of financial stringency and as arrears of renewals have been undertaken, I have no hesitation whatever in recommending the Government to economise temporarily in allocations to the Depreciation and Renewals Fund. . . . For the next five years the allocation from revenue to the Fund should be limited to actual expenditure incurred with the proviso that when the financial outlook improves and full allocations to the Fund are resumed, the question of making good the deficiency of allocations

pp. 13 & 14 of "From surplus railway revenue should be considered".
Second Report on Sudan Govt. Railways.)

The material necessary for coming to a decision on the question raised in No. 1 hereon is ~~now~~ ^{now} available as follows:-

- Note 1. Summary of practice of other railways.
- Note 2. Summary of General Hammond's views in favour of a 3.11 per cent. rate of contribution.
- Note 3. Summary of General Rhodes's views urging a 2 per cent. rate.
- /Note 4.

14 A

Note 4. Statement showing the anticipated decrease in loan charges during the next few decades, whereby additional funds will be available for renewal purposes.

The decision required will affect the rate of contribution from the 1st January, 1935, onwards; there is, therefore, no great urgency. The railway administration will begin to frame their 1935 estimates in September, but some time will necessarily be taken in obtaining the concurrence of the Treasury in whatever rate is decided upon by the Secretary of State.

C.B. Austin
26/4/34.

Sir J. Campbell.

The question at issue is the old one of the rate of contribution to Renewals. Kenya presses for 2% up to 1945 (i.e. for 10 years) and "life" (i.e. 3.11%) thereafter. The present agreed temporary rate is 2½%.

I don't want to mince at length. I think 2% is safe for the time if after 1945 (when the loans can begin to be repaid & interest charges fall) the Railway will build up gradually to the 'life' basis. The 'life' basis is the only right one but it is a burden on the railway which has to find interest and sinking fund on its capital.

v.l.v. Kent
28.4.

I agree generally. I went into this difficult and very technical question, in detail, in the minutes on 10/20 / 1930 below. I have nothing to add. It seems to me that the various minutes on that file cover the point now in issue, completely. The 2% contribution seems to me perfectly safe, on the conditions proposed. The opposition came from the Treasury; we failed to convince them.
The 30-4-34.

30/4/34

Sir J. Maffey.

I am sorry that in a busy week I have kept back this paper. As Mr. ~~Fiddler~~^{Fiddler} says, we have got to settle things up with the Treasury when the Secretary of State has decided what rate of contribution we should support.

The Notes 1 to 4 show the position fully. The Treasury attitude is based not merely on what they consider the railway ought to provide but also on their view that if the railway is to be required to repay the capital cost of the original line (the question of which is now postponed until 1939), it is essential that it should make every possible provision both for Renewals and by way of Reserve before the new commitment falls upon it. Our argument that a full "life basis" for Renewals is not necessary when we are in process of extinguishing the loans is weakened if when those loans are extinguished we have a new liability (which must run on for many years) which will interfere with our ability to set aside the full annual provision for Renewals. *TP* I do not

myself

new para.

myself see why the Treasury should demur to Sir J. Byrne's recommendation in paragraph 12 of No. 1 that if the 2% rate for Renewals is accepted the railway should aim at building up a reserve fund of £1,000,000 by contributions equivalent (subject to working results) to the difference between contributions on that basis and contributions on the life basis. If the Treasury will agree, Sir J. Byrne's proposals in the latter part of the paragraph are not a matter in which the Treasury are specially concerned and they can be considered in the light of railway working from time to time. I should, however, entirely agree that provision for Betterment should be subordinated to both Renewals and Reserves.

W.C.S.
7.5.34

? We may approach the Treasury on the above lines.

J.H.
7.5.34

You
I want to camouflage
the Reserve as
reserves. R.W. 17/5

15 To Treasury (part 1) Cont. 20/5/34

Very kind
to Mr. [unclear]
Secy

? as to relations
of card to No. 6

16. Extract from a record of an interview between the S of S & the Elected Members of the Council 24 Feb 34.

14. H.C. Com. Home Let Tel. Conf. ————
Requests early reply to Nos

No. 16 may be put by.

No. 17. This morning I was talking to

Sir G. Rhodes about the Reserve Fund question, and (not having seen the telegram) I asked him how long the K.R. Administration could manage to wait for a decision, in view of the preparation of the 1935 Estimates. He said that October would be soon enough!

I understand from Treasury (Mr. Puffin) that they are consulting Genl. Hammond before replying to No. 15.

? As in draft - copy concept to

Treasury LF.

W.C.S. 24/6

18 To H. H. Innes: K. U. R. Tel No 5.

22.6.34

cf to Treas. v Dept. 18.

19 To Treas. (21/17+18) 18/16 26/6/34

See action as at 75.

20 W. S. Palford (S.O.) (Treasury) 23 July 34

Furnishes views on proposals for the contribution to Renewals Fund of the K. U. R. in 1935 & subsequent years & states that on the termination of the present arrangement contributions should be on a pro rata basis, i.e. as ascertained on a life calculation.

21 H. C. M. Transport Ticket Leaf 31 July 34

Enquires whether an early reply may be expected to Nos 20 1935 Estimates are under review.

By air mail 22 To H. H. Innes 10 31/7/34 (21/20) (21/21)

I saw Mr. Speed (who has succeeded Mr. Ryan at the Treasury) about this today. He promised a further S.O. letter in a day or two.

dated 20/9

Wait.

J. H. Innes 17/9

Further action as at (45)

Dept.

As to action

send to (6)

Please 18/8

23 E. B. B. Speed (Treasury) 7/0 15 Sept 34
Sets out results of conversations & confirms that Treasury are agreeable to the Railway Administration being authorized to compile Estimates, 1935 on a 2% basis on certain stated conditions. States that in 1936 thereafter if there is a reasonable surplus on the rly. account & rly. seems to be on the upgrade, the full life basis would have to be introduced less half the contribution to the Sinking Fund Account.

24 E. B. B. Speed (Treasury) 9/0 6 Nov 34

Enquires what progress has been made in the matter of the rate of depreciation of the wasting assets of the rly.

(These papers returned to me on Nov. 16th.)

To deal first with the question on the basis of Mr. Speed's letter of Sept. 7 (23).

The end of his first paragraph reveals a misunderstanding. The Renewals Deficit Account (see Appendix I on p. 75 of the 1934 Estimates) is actually the accumulated differences between what was, and what should have credited to Renewals during recent years, - not on a life-basis, but on the basis accepted for the time being by the Treasury.

Taken from Estimates
1935 G.P.R. Report

As regards his second paragraph. ~~the~~ 1934

figures are as follows:-

To Renewals (2½%)	£ 366,232
3.11% on same capital would be	454,793
Involving an additional contribution of	88,561
Sinking fund payments	128,760
If half this is deducted, the additional amount to Renewals in 1935 (on 1934 figures) would be	
£ 88,561 - $\frac{128,760}{2}$ =	24,181.

(In other words, while at present 15 cents of every shilling earned by the Railway goes to Renewals, on the basis suggested by the Treasury 16 cents would be so directed.)

The Treasury proposal may therefore be expressed thus:- Renewals contribution in 1935 to be @ 2½%. If, at the end of the year, a surplus is shown on the Combined Net Revenue Account,

Outward about £1693000

such surplus should not go in its entirety to the reduction of the Renewals Deficit Account (its natural destiny) but the first £24181 of it should be deemed to have formed part of the 1935 contribution to Renewals so as to bring the latter up to the ~~3.11%~~ ^{3.4% - SF} basis.

The effect on the K.U.R. accounts would, of course, be precisely the same. Contributions to Renewals, and the Renewal Deficit Account, vary inversely; whatever is added to the one is deducted from the other. But, under the suggested arrangements, the Treasury would have gained their point - the principle would have been accepted ^{the} ~~with~~ ^{proper} ~~profit~~ basis for renewals ~~at~~ 3.11, not 2½%, as from the 1st January 1935, and the Secretary of State would be effectively stopped from pressing for the lower rate in subsequent years.

I would agree to this

(We ^{have} note, as a matter of fact, that the draft Estimates for 1935 will contain provision for a 2½% Renewals Contribution, so there is no great urgency as regards communicating with the ^{rather} ~~real~~ Administration)

It seems useless to ask the Treasury to reconsider their attitude at present; so long as the liability for the ~~£51~~ ^{£51} million Railway Construction Loans is recognised, it is difficult to dispute the Treasury's right to have the last word. But it seems important at all costs to avoid getting manoeuvred into a position from which our chances are weakened of a renewed assault on the Treasury next year.

The only hope of practical relief seems to lie in accepting Mr. Speed's suggestion, (at the end of his penultimate paragraph) that the 3.11% factor should be revised during 1935. Please see in this connection the annexed extract from Sir Pollett Holt's remarks to the B.A. Western as reported in the Times.

Possible

Possibly similar considerations may apply to the K.U.R.

? Write officially to the Treasury referring to the semi-official correspondence from which the Secretary of State notes that their Lordships, while considering that the correct contribution to Renewals should be on the basis of the life-figure (3.11) less half the contribution to Sinking Fund, are prepared to agree, in respect of 1935, that provision should be made in the Estimates on a 2½% basis. ~~But~~, as regards the suggestion that any surplus on the year's working should be allotted to making good the difference between the 2½% basis and that regarded by Their Lordships as the full basis, that the Secretary of State prefers to await the draft Estimates for 1935, now in preparation, before committing himself to its acceptance. And add that the High Commissioner is being asked to arrange for a revision during 1935 of the calculation of the true life figure.

When this letter has gone we must send a despatch to the High Commissioner giving briefly the substance of the semi-official letters from the Treasury and enclosing a copy of the above official letter.

As regards No. 24 on the file, I submit a draft reply.

Chamberlain
29/11

Sir John Campbell.

I think that you should see this. (23)

Mr. Freeston's proposal for action involves an apparent irrelevance at A, since the proposal which the Treasury make is entirely conditional upon there being a surplus; ~~this~~ ^{it} is a general proposal which could be accepted or not ~~in respect~~ ^{in respect of} of any particular year's working. ~~The one qualification~~ ^{But} to that is that it may be that the railway will be reduced to some special cut in any part of its ordinary expenditure during the particular year, which would have to be made good as a first charge on any surplus arising from the following year. From that point of view I think that Mr. Freeston's suggestion is reasonable and that we should write as he proposes.

The whole position is one of difficulty. The Treasury expect us to do what no other railway anywhere is doing, by making full provision on the life basis for renewals, while providing for ~~further~~ ^{the} interest on all borrowings. That means that as soon as the borrowings are paid off, we shall have, in effect, an entirely unencumbered railway. They will then, of course, claim repayment of Kenya's debt of £5,500,000 in respect of the Uganda Railway. That is what we are heading for and it means that there can be no reduction of rates (unless it brings in additional revenue) and no improvements until the original debt is paid off.

There is some reason to believe, though not, I think, from any authoritative source ~~of~~ ^{at} the Treasury, that that is what they have in mind. In three or four years from now, the question of the repayment of the debt will arise for definite consideration and it seems most undesirable that we should

if he so decides
should do anything which would hamper the Secretary of State in asking, when the time comes, for a final cancellation of the debt.

I should much prefer that we should not throw everything into renewals and the Secretary of State, in his minute on No.14 definitely objected to such a course. I shall probably have to send the paper on when I have your views.

*W.S.S.
30.11.34*

I do not like the Treasury proposal--or the manner in which it is put, as a piece of machinery. My view has always been that the sinking fund payments, and the renewals payments are separate and unconnected matters: the former are designed to take care of the capital obligations of the Govt; and must be kept up to the full amount required, unless we are prepared to take a chance as regards raising a fresh loan at a predetermined time. The latter are required to keep the line in a proper condition as regards physical repairs.

2. The plan of linking the two--it is General Hammond's idea, I think--seems to me unsound, for the reasons given very briefly above; but it has the advantage of meeting, to some extent, and indirectly, the point which Kenya always takes, and which you have taken above.

3. I do not think there is any chance of getting the Treasury to give way here: they have been very stubborn as to this matter all through the long discussions--and they are, I think, undoubtedly actuated by considerations as to the 5 million pound claim.

14

4. The main difficulty I see is the political one--the one stressed so strongly in Major Frogan's recent articles. Kenya, a new country, has to amortise its railway expenditure within a comparatively short time period: the ordinary railway is not called on to do that. Its share capital is there, while the railway lasts; its loan capital is usually ^{irredeemable} unredeemable. Kenya therefore suffers, during the life-time of the loan raised for railway expenditure. It pays off that loan during say two generations; succeeding generations have their railway for nothing. Further, the point will doubtless be ~~emphasised~~ emphasised that a 2% renewal contribution would provide adequately for everything foreseen as regards renewals during the next ten years; loan charge relief would then take care of the renewals on a permanent basis. This temporary and admittedly much needed relief is also denied them. These are strong arguments; and they would undoubtedly have a strong popular appeal. The "man in the street" would I think undoubtedly be on Kenya's side in this argument; and the man not in the street could point to a wealth of precedent in favour of such a method. It was largely with these considerations in mind that I agreed to the 2% suggestion.

5. The wider issue is I think for the L/S. The Dept: has made its efforts, and has failed. Kenya opposition will almost certainly be strong and vocal--and their arguments will be difficult to meet in any convincing way. They are the toad beneath the barrow.

6. Subject to a decision as to this wider issue, I agree with the course of action it is proposed

*I should agree
to amended proposal.*

to take. If we have, later, to agree to the Treasury proposal, I would agree for a particular year, expressly leaving the suitability of the 3.11%-s.f./2 formula, as a measure of general applicability, open. (I am afraid that Treasury insistence on what they regard as orthodox finance may quite probably defeat its own object. The local pressure to relieve producers looks as if it would become more and more intense; the Govt: is almost bound to sympathise with that view, owing to their own very grave difficulties; and the result may easily be rate reductions which will render the whole renewals question one of mainly academic importance. The railway and the local people must know about the 1/2 billion claim in the offing; and they will appreciate the repercussions on the renewals and reserve problems.)

The 3rd: December, 1934.

3/12/34

** Sir E. Gigg mentioned it in the Kenya Leg. Co: in 1926 - see p. 53 of volume of these days records.*

SIR JOHN MAFFEY.

I need not add to Mr. Freeston's exposition of the position. I agree with what Sir J. Campbell says as to the importance of remembering that the Kenya producers are likely at any time to need help. We are reaching the stage when no one except the railway gets anything material out of the producers' efforts. On

On the financial side, the essence of Major Grogan's campaign is that we are overburdening the present generation for the benefit of posterity. In the case of the railway posterity has little to hope for, since when the present burdens on the railway have disappeared, the new burden of the £5,500,000 debt will be laid on them. Generally, my view has always been that the justification for relieving posterity by a strict financial system lies in the fact that posterity will have its own burdens to bear, of a sort which we may not foresee now. Therefore, even if we can (as I hope may eventually be the case) get rid of the £5,500,000 incubus altogether, I should still feel that the present generation should provide fully for the service and maintenance of the railway to the reasonable limits of its power to do so.

The Treasury proposal, by making an idol of the full life-basis provision for renewals, takes away all question of a reasonable limit and that is more than we can afford to agree to now. I would write to the Treasury in the terms which Mr. Freeston suggests in his minute, but I would add a caveat that it may be necessary at any time, in view of the economic position in Kenya, to make such alterations in rates as will keep production alive and that any arrangement which may be come to as regards matters now under consideration, must be subject to that possibility.

(Of course, the question of Uganda as a joint debtor and as the most valuable customer comes into this picture, but not, I think, for the purpose of the terms of the present letter to the Treasury).

*W.C.S. 4.12.34
Subject to the reservation set out*

by Mr. Franks at A - by Sir
C. Bottomley at B I agree
to the course of action proposed.

John
4. xii. 34

S. G. S.

But by agreement with
I (Capt. Marshall) the
Treasury attitude is
absurd. They must
doubt whether Kaya will
be able to budget this
year - B must have
to raise the Revenue
Fund. The Treasury will
be up against a sustained
demand for U.K. to
float a loan.

P. 22
8/12

S. G. S. discussed this question further with
Sir C. Bottomley and me on Monday Dec. 10th.
He directed that nothing should be said
officially to the Treasury at present. (I
have told Mr. Speed S.O. that an official
letter is not to be expected.)

This paper (if not called for
earlier) should be brought up with
the 1935 K.V.R. Estimate.

Till then

Put by

Streeter
12/12 at 11

25 To E.F.S. ~~24~~ 24 amount ——— 6th Dec 34

26 To H.C.T. Tel 12 leaf - cons ——— 11th Dec 34

27. A. G. S. Transcript 7.15 leaf ——— 15th Dec. 34

Furnishes information regarding revised estimates for
deficit account & available balance asked for on 4.12.34.

The figures under (1) are very significant.
The Deficit Account, stood at £ 315,782 on
1/1/34, and the original 1934 Estimate
foreshadowed a reduction during the year of
£ 2480 only. The figure given in this
telegram shows that the surplus in the
year's working now is now placed at £ 297,782.
The 1933 surplus was £ 232,386. If 1935

(315782 - 1000)

should show a surplus of the same
(say £250,000). The Deficit Account
would be extinguished and there would
remain, say, £232,000 free profits
for disposal!

The second part of the telegram
is unintelligible. "Liquid securities"
cannot provide working capital. The
Annual Report shows that on 31/12/33
Investments amounted (at market price) to
£482,000 against Provided Fund, and
£256,000 on General Account. Cash
held locally was £423,000; by Crown
Agents (nearly all in Joint Colonial Fund)
£515,000.

? Telegraph that part 2 of let^{rs}
is not understood, & ask for a further
explanation, by air-mail dispatch,
showing how Renewals Fund is held.

44. I can add up figures ^{10/11.}
£1,886,000, but only by including
both "working capital" £250,000 and
"local cash" £423,000. I don't see how
they can be independent of each other.

See J. Moffat.
I think the S.A. done on
as to the Renewals Deficit account.

17
Mr. Freeston's figures show that, the
addition to the normal £366,232 paid to
Renewals, on a 2 1/2% basis, the Railway
has available £297,782 towards
bringing up past provision to the 2 1/2%
basis. Together this represents 4%
and the Treasury are certain to
press for the first life loan
contribution of 3.11%.

But we can, if 2 1/2% is added,
use the figures for the Freeston
indicator) as showing that the
Railway is exceeding its provision
by probably more than
half of a distribution of profits.

W.C.B.
13.12.34

J.D.
The figures are taken from the
Annual Report, and I have
tried to make a forecast of
the (last year) of the R.
in fact shows more than
J.D. Subsidy fund, a 2 1/2%
increase, the balance in
must go in relief of

one form or another.
 Let us get the preliminary
 figures exactly right.

P.L.
 14/12

1. Per Report to S.F. Co.
2. See J. H. H. Co.

WCS 9/1

Jh.
 Director

26 Tel to H. for transport H. 13 brief ^{lms.} 17/12/34
 16/1/35

Brought up under estimate of 15 December 34

19.12.34
 R. J. H.

X
 L. J. H. H. Co.
 to see
 H. J. H.

29. Com. Transport. Conf. (H. 1. 1. 1.) — 20 Dec 34
 Furnishes full explanation of revised estimate of
 surplus balance at 31 Dec 1934, & states that it is now
 probable that the surplus for the current year will
 clear the Deficit Account entirely.

This shows that in framing his reply (27)
 to S. J. H.'s enquiry (26), the High Commissioner
 needlessly complicated matter by dragging
 in the Stores Working Capital Account. If
 that is eliminated, the position seems to
 be :-

The amount of K.V.R. money
 in the J.C.F. today
 £1,072,000.

	£	
		851,000
1. Cash with C.A.		
2. Cash at Bank re.		
(a) used on Working Capital	£50,000	} 485,000
(b) free (£575,000 -		
£200,000 - £92,000 =)	£233,000	
3. Cash on fixed deposit		300,000
4. Investments (market price on 31/12/33)		250,000
Total, Renewals Fund (actual)		£1,870,000

The only portion of this total which
 could not be realized at short
 notice is the £250,000 under
 2 (-).

? Put by
 J. H. H. Co.
 11/1

minutes not attached.

Submits proposal that the cost of renewing rail points
may be charge to the Renewals Fund. Puts forward reasons
for this view & gives details of expenditure involved.

Th. Hood

This has been held up until the
main question of Renewals Fund contributions
had been settled.

I am not clear why the High
Commissioner has thought it necessary
to refer the point to S.F.S. It
seems self-evident that renewing the
permanent way is a proper charge
against Renewals Fund - it is one
of the things that the Fund is
there for.

? Approve.

L. B. Houston
17.12.34.

The only point is is it "Renewals" or
"Maintenance"? If the latter it would have to
come out of current cost & not the Renewals Fund.
It doesn't matter much but the name would
be easier if it is a renewal
approve

J. D. Hood

? above

23029/36

31⁷⁰

C. O.

Mr. *Kenneth* 18/11/36
 Mr. *Chase* 18/11/36
 Mr.
 Mr. Parkinson
 Sir G. Tomlinson
 Sir C. Bottomley
 Sir J. Shackburgh.
 Perm. U.S. of S.
 Parly. U.S. of S.
 Secretary of State.



December, 1936

Sir,

I have etc to acknowledge
 the receipt of your despatch
 No 112 of the 11th of November
 and to inform you that
 I agree that the cost
 of renewing rail joints
 is a fair charge to
 the Renewals Fund.

I observe that
 the total length of line
 requiring early attention
 in this respect is
 190 miles and that
 the

DRAFT.

Despatch
 Kenya - Uganda
 No. 117
 H.C.

FURTHER ACTION.

The expenditure involved
is £38,000.

Shaw.

(Sgd.) P. C. LITTLE-LISTER



30
21

TRANSPORT

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

KENYA-UGANDA

NO. 112

RECEIVED
NOV 15 1934

1st November, 1934.

Sir,

I have the honour to refer to my despatch Transport No.86 of the 22nd May 1930, forwarding the Report of the Departmental Committee appointed in 1929 to examine the amount of contributions to Renewals Fund necessary to allow for depreciation of wasting assets, and your despatch No.24 of the 9th March 1931, approving as an interim arrangement, an annual contribution to the Railways Renewal Fund of 2½ per cent of the capital value of wasting assets, and to submit the following recommendation in regard to the expenditure of Renewals Fund monies.

No. 112

No. 112

Handwritten (2)

1. The Departmental Committee in its report in 1929 (page 18, paragraph 13 (F) Permanent Way) included rail fittings, i.e. fish plates and bolts, with "Rails" when assessing the life of 50 years. Experience has, however, since shown that deterioration between the web of the rail and the fish plate coupled with weakening of the ends of the rails due to stresses and shocks, necessitates renewing the rail joints by cropping the rail ends and fitting new fish plates and bolts after approximately 33 years of service. This renewal work will ensure rails attaining a life of at least 50 years.

3. The necessity for the renewal of rail joints earlier than the period of 50 years does not, however, necessitate any alteration in the present rate of contribution to the Renewals Fund, for the reason that experience has

shown....

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.

shown that the life of other components of the track is now proved greater than was estimated in 1929. For example, the average life of steel sleepers can now be safely stated to be 35 years, as against the life of 30 years shown in the Departmental Report (1930).

4. Approximately 600 miles of rails will eventually require renewal of joints to permit of the track being kept in a safe condition. Approval has already been given to a thirty mile section being dealt with during 1935, in the manner outlined in paragraph 2 above, the cost of this work (£6,000) being temporarily charged to "Net Revenue Account Extraordinary Maintenance". The Acting General Manager considers that the cost of renewing rail joints is a fair charge to the Renewals Fund, since this work is essential to enable full use being made of rails.

5. As the total length of line at present requiring early attention is 190 miles and the expenditure involved is £38,000 the question of allocation is of considerable importance.

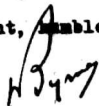
6. Eventually, it will be necessary to deal with the balance of approximately 400 miles, but as the major portion of this balance is in branch line service, the probability is that a further ten years or so additional life may be expected before it becomes necessary to renew the joints of these rails.

7. I therefore submit for your consideration that the work referred to is a fair charge to the Renewals Fund, and shall be glad to receive your decision in the matter.

I have the honour to be,

Sir,

Your most obedient, humble servant,



shown that the life of other components of the track is now proved greater than was estimated in 1929. For example, the average life of steel sleepers can now be safely stated to be 35 years, as against the life of 30 years shown in the Departmental Report (1930).

4. Approximately 600 miles of rails will eventually require renewal of joints to permit of the track being kept in a safe condition. Approval has already been given to a thirty mile section being dealt with during 1935, in the manner outlined in paragraph 2 above, the cost of this work (£6,000) being temporarily charged to "Net Revenue Account Extraordinary Maintenance". The Acting General Manager considers that the cost of renewing rail joints is a fair charge to the Renewals Fund, since this work is essential to enable full use being made of rails.

5. As the total length of line at present requiring early attention is 190 miles and the expenditure involved is £38,000, the question of allocation is of considerable importance.

6. Eventually, it will be necessary to deal with the balance of approximately 400 miles, but as the major portion of this balance is in branch line service, the probability is that a further ten years or so additional life may be expected before it becomes necessary to renew the joints of these rails.

7. I therefore submit for your consideration that the work referred to is a fair charge to the Renewals Fund, and shall be glad to receive your decision in the matter.

I have the honour to be,

Sir,

Your most obedient, humble servant,

H. B. G. M.

TRANSPORT
KENYA-UGANDA
CONFIDENTIAL

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

RECEIVED

27 DEC 1934

C. O. REGY

20th December, 1934.

Sir,

No 28
I have the honour to acknowledge receipt of your telegram, No.13 Confidential, of the 17th instant, regarding this Administration's revised estimate of its balance at the 31st December 1934.

No 26
2. On the basis of the latest figures available on receipt of your telegram No.12, dated the 11th instant, it was estimated that the Combined Net Revenue Account for the year would reflect a balance (surplus) available for transfer to the Deficit Account of £299,946.

3. The balance of the Deficit Account, as at 31st December 1933, was ... 317,946

Deducting from this the revised estimated surplus for 1934 of ... 299,946

Leaves the estimated balance of the Deficit Account advised you in my telegram of the 13th instant of ... £18,000

4. The revised estimated balance of the Renewals and Betterment Funds is now..... 1,888,000

Less estimated Balance of Deficit Account..... 18,000

Available Balance £1,870,000

5. To the foregoing balance of ... 1,870,000 has to be added the amount included in the Capital Account for 'Working Capital, - Stored', of 442,000

Making a total of ... £2,312,000

6. This total of £2,312,000 is accounted for as

follows:-

Cash.....

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

- 2 -

Cash Balances:-	£	*	£
With Crown Agents	851,000		
Local, at Bank and in hand	<u>575,000</u>		1,426,000
Cash on Fixed Deposit			300,000
Investments - General Account			236,000
(Statement A.D.1933 Annual Report)			
Coal, Woodfuel and other Stores			
and Material on hand			<u>350,000</u>
			<u>£2,312,000</u>

* NOTE:

This balance excludes £274,000 in respect of Loan Charges taken to account in 1934 as Sundry Creditors, but not payable until 1935.

7. I trust the foregoing clearly explains the position so far as this Administration's balances are concerned.

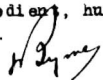
8. With regard to the item of £442,000 for Working Capital Stores and also the amount of £250,000 mentioned in my ~~Memorandum~~ ^{Program} No.18 of the 13th instant, as Working Capital, I think the position will be quite clear if reference is made to Sir Edward Grigg's despatch, Transport No.87 of the 23rd May 1930, and Lord Passfield's despatch, Transport Kenya-Uganda No.122 of the 8th October 1930.

9. I may add that since the revised estimate advised to you was compiled, Railway revenue has revealed further substantial increases which were not anticipated and, consequently, it is now probable that the surplus for the current year will be sufficient to clear the Deficit Account entirely.

I have the honour to be,

Sir,

Your most obedient, humble servant,



HIGH COMMISSIONER.

Not 4

Not 3

16.243/30

2824

dated & sent
3:45 pm
17/12/54
L.H.G.

23029/54

17 DEC
17 DEC

C. O.

- Mr. ~~Frank~~ 11/12
- Mr. ~~Frank~~ 17 above
- Mr. Parkinson.
- Mr. Tomlinson.
- Sir C. Bottomley.
- Sir J. Shuckburgh.
- Perm. U.S. of S.
- Parly. U.S. of S.
- Secretary of State.

Keays
Answered by N/S

Conf. N/S

You let 18 Conf. figures
under (2) not fully
understood. Please forward
by air-mail further
explanation.

DRAFT. Tel.

Highcom
Nairobi

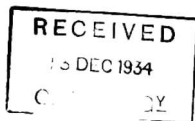
~~7~~

SECRET

|| Sir J. Maffey to see
later

27

20029



Telegram from the High Commissioner for Transport Kenya and Uganda to the Secretary of State for the Colonies.

Dated the 13th December, 1934. Received 9.7 a.m. 13th Dec.

No.18 Confidential

No.18 Your telegram No.12 Confidential. (1) Revised estimates asked for are deficit account £18,000, available balance £1,870,000; (2) available balance is held in liquid securities. This provides working capital of £250,000 but excludes working capital of stores, £442,000, vide statement 1 of annual report. Letter made up of stores, say £350,000, balance cash.

* C. O.

23029/34

726
16

Mr. Austin 11/12

Mr.

Mr.

Mr. Parkinson

Sir G. Tomlinson

Sir C. Bottomley 11.12

Sir J. Shuckburgh

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

11 DEC 11 1934

Kemp

Answered by No. 7

Coded & Serd

3-407

11/12/34

RMH

DRAFT. Tel.

Highcoms Nairobi

No. 12

Conf. Following information is required

(1) Revised estimate of total shown in last line of Appendix I of 1934 Estimates under Deficit Account and Available Balance (2) approximate statement of how available balance is at present held i.e. in liquid securities in stores and in working capital.

Please reply by 11/12/34
SECRET.

noted
5/11/34

FURTHER ACTION.

C. O.

23029/34.

REC 25

Mr. Freston. 25

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley. 30f

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

R-297

45 from CAP

DOWNING STREET,

6 November, 1934.

C. D.
R 4-DEF

DRAFT.

E. B. B. SPEED, ESQ.
TREASURY.

24)

Dear Speed,

Your letter of November 6th

(S.39419) about the Kenya Uganda Railway

There have been inevitable delays in reaching a conclusion on the Renewals Contribution question but I am not without hope that an official letter will reach you in the course of a few days.

Sir Edward Grigg's despatch of May 1930 to which you refer, appears not to have been sent to the Treasury. I enclose a copy though its relevance to the present question seems rather

unimportant.

Yours sincerely,

FURTHER ACTION.

Copy of despatch No. 1 on 16213/30 Kenya.

W. FREESTON

Times 15 Mar. 24

Company Meetings

BUENOS AYRES WESTERN RAILWAY

EFFECTS OF FURTHER FALL
IN EXCHANGE

PREFERENCE DIVIDENDS
MAINTAINED

UNTRAMMELLED ROAD MOTOR
COMPETITION

THE WAGES PROBLEM

X SIR FOLLETT HOLT ON THE X
IMPROVING OUTLOOK

The FORTY-FIFTH ORDINARY GENERAL MEETING of the Buenos Ayres Western Railway, Limited, was held yesterday at River Plate House, Finsbury Circus, London, E.C.

SIR FOLLETT HOLT, K.B.E., chairman of the company, presided.

The SECRETARY (Mr. Robert Graham) having read the notice convening the meeting and the report of the auditors.

The CHAIRMAN said: "If we may take the report and accounts before the meeting as read, I will propose, and ask you to second, the first resolution: that the directors' report and audited statement of accounts for the year ended 30th June, 1934, now submitted, be received and adopted."

Mr. J. M. EDDY, C.B.E., seconded the resolution.

The CHAIRMAN.—Gentlemen.—We meet you to-day with a sense of great disappointment at being unable to recommend the payment of a dividend to some 20,000 holders of the £17,000,000 of Ordinary Stock of the company, for you will remember that at our meeting last year with a caveat as regards exchange and the marketability of grain, I held out a hope that one would be forthcoming.

QUESTION OF RENEWALS

You will have noticed in the report that no provision was made in the year for renewals. In the long period of comparative prosperity we were able, fortunately, to make substantial allocations to the renewal fund, and it was therefore considered possible during this bad cycle to call a temporary halt, which, however, cannot be continued indefinitely. On the other hand, science is assisting to relieve the pressure on railway renewal funds. Water conditioning, electric welding, improvements in the maintenance of rail joints and accessories, all tend to prolong the life of materials, and we can also look forward to benefit from the great advance in the manufacture of metals which should bring us in a few years' time passenger trains of half their present weight running at higher speeds with much less wear and tear, and all should help.

In the earlier part of this year the position with

24 29



TREASURY CHAMBERS,
WHITEHALL, S.W.1.

Telephone No. ; WHITEHALL 1234.

In any reply
please quote Regd. No.
S.39419.

6th November, 1934.

My dear Freeston,

Kenya and Uganda Railways

NO 5

I notice in the enclosures to your official letter of 31st October No. 23295/34 a reference to the rate at which the waating assets of the railway are being depreciated and to a private letter from ^{the Colonial Office} your Secretary of State to Mr. Monck-Mason Moore on the subject. May I ask what progress has been made in this troublesome matter?

NO 22
Mr. Gigg
Sec. Ken. B. Dept. L.N.A.



Will you also let me know whether we have had Sir Edward Gigg's despatch Transport No. 87 of the 23rd May, 1930, and, if so, what was your reference number?

Yours sincerely,

E. B. Speed.
Mr. Agnew

L.B. Freeston, Esq., O.B.E.,
Colonial Office.

Answered. 6 Dec. 34

NO 1.
16213/30



Telephone No.: WHITEHALL 1234.

In any reply
please quote Regd. No.
S.32902/03/8.



RECEIVED
17 SEP 1934
C. O. REGY

23³⁰
TREASURY CHAMBER
WHITEHALL, S.W.1.

16th September, 1934.

My dear Freeston,

I promised to let you have a note setting out the result of our conversation about the Kenya-Uganda Railway Renewals Account on the 13th September. I understood from you that there is some possibility that the estimated surplus in the current year of £43,645 may not be realized in full. I further understood from you that it is the practice of the Railway Administration to credit surpluses on general account to the railway Renewals Deficit Account and that this Deficit Account has arisen, not from a calculation of the difference between what has actually been contributed to renewals and what ought to have been contributed on a proper life basis, but from the fact that deficits on previous years workings on the general railway account have been made good by borrowings from the Renewals Fund.

You told me that the contribution to Sinking Fund in 1933 was £119,203; that this figure in 1935 is

likely

No 192
L.B. Freeston Esq., O.B.E.,
Colonial Office.

likely to be greater, say £130,000; that the contribution to Renewals Fund on the 2½ per cent basis, was £365,400, and that on a 3.11 per cent basis (recently calculated as the true life basis) it would have been £451,497. From these figures we concluded that the renewals contribution in 1935 under the Treasury proposal would be approximately £451,500, less ½ x £130,000, = say £386,500, an increase of £20,000 over what was contributed on a 2½ per cent basis in 1933.

I suggested to you, and I now confirm, that we are agreeable (in view of the doubt about there being any surplus in 1935) to your authorising the Railway Administration to compile their estimates for 1935 on a 2½ per cent basis. If you accept this proposal we should require the Administration to be told that if, in the outturn of the year, there is a surplus, that surplus should not, as heretofore, be credited to the Renewals Deficit Account but should first make good the difference between the sum actually contributed to the Renewals Fund and

and

and the sum which would have been contributed under the Treasury proposal. This would absorb something like £20,000 of any surplus; the railway Administration would be required to work out during 1935 the true life figure i.e. to verify the 3.11 percentage.

I hope that you will find it possible to accept this proposal. I need hardly add that a corollary of the above plan is that in 1936 and thereafter, if there has proved to be a reasonable surplus on the railway account, and if the railway then seems to be on the upgrade, the full life basis would have to be introduced in the Estimate, less, of course, half the contributions to the Sinking Fund Account.

Yours sincerely,

S.A. Jones
to A.C. Higgins

23 029/34

C. O.

Mr. *Summitt* 31/7/34
Mr. *Flood* 31-7/34

- Mr.
- Mr. Parkinson.
- Sir G. Tomlinson
- Sir C. Bottemley.
- Sir J. Shuckburgh
- Permt. U.S. of S.
- Parly. U.S. of S.
- Secretary of State.

31 July, 1934

Dear General.

DRAFT.

H. M. M-M. Home, Esq. C.M.G.

23 July 1934
(20)

This is a hurried note with reference to Sir Joseph Byrne's Transport telegram No 12 of today regarding the question of the Railway Renewals Fund Contribution.

Perhaps you would be good enough to show to Sir Joseph the enclosed copy of a letter from the Treasury which illustrates what we are up against.

We hope to send an official reply to the Transport High Commission

FURTHER ACTION.

Return to Mr Flood

Confidential Dispatch.
of the 27th of December,
shortly when, and if, we can
square Their Lordships.

Yours sincerely

(Signed) J. E. W. FLOOD

COPY FOR REGISTRATION

21³³

RECEIVED
31 JUL 1934
C. O. REGY

Telegram from the High Commissioner for Transport Kenya -
Uganda to the Secretary of State for the Colonies.

Ans. (22)

Dated 31st July, 1934.

Received 11.36.a.m.31st July.

No.12 Confidential.

No.1

May I expect early reply to my confidential
despatch of December 27th Renewal Fund as 1935 Estimates
under consideration.



Telephone No. : WHITEHALL 1234.

In any reply
please quote Regd. No.

S.32902/03/8.



20/34
TREASURY CHAMBERS,
WHITEHALL, S.W.1.

RECEIVED
20 JUL 1934
C. O. REGY

23rd July, 1934.

Dear Freeston,

Speed, who has taken over from Ryan, is on leave, and I am writing on his behalf with reference to your official letter of the 24th May (23029/34) regarding the provision to be made for the contribution to the Renewals Fund of the Kenya-Uganda Railways in 1935 and subsequent years.

No 15

(12)

Copy to H.M. Treasury

Our view is, as you know, that in the interests of prudent finance, the wasting assets of this business ought to be depreciated at the proper rate. What is precisely the relationship between the 2 per cent. proposed and that proper rate does not appear in the correspondence, but it is common ground that the 2 per cent. gives a contribution appreciably lower than that which would be produced on a calculation of the appropriate depreciation of each class of asset based on the original capital value, (or possibly replacement value) divided by the duly assessed life of the asset. It is, of course, possible to express

the

L.B. Freeston, Esq., O.B.E.,
Colonial Office.

the result of the calculation on the life basis as a percentage on the capital value of the whole of the assets, but this is a useless exercise, since the figure required is known without the intervention of the percentage. The whole point of the matter is that the Kenya-Uganda Railway assets are admittedly being depreciated at a rate less than the true rate, and on this matter I fear that we must decline to compromise.

We have made a careful study of the documents enclosed with your letter, but so far as we can see, no fresh arguments have been produced against the introduction of a proper rate of depreciation, and we see no reason to depart from the view which we held in 1931, and have expressed subsequently, that the adoption of that rate should not be postponed indefinitely.

Our opinions have been confirmed in full by Gibb's Report. We agree with him that it will be fair

to

to reduce the full provision for renewals by half of the Sinking Fund provision, and further, that in addition to this a proper reserve provision should be made, and that, until a minimum reserve has been reached, there should be no talk of reducing rates except with the object of increasing net revenue. Gibb suggests a minimum reserve of £2 millions, but we are disposed to think that figure is rather high in view of the size of the undertaking and we will be prepared to accept a minimum of £1 million.

The Railway Administration, and following them the High Commissioner, tried to attribute Gibb's recommendations to misunderstanding, but the only misunderstandings which they quoted (and Gibb would probably deny that they were misunderstandings) referred to comparatively unimportant details such as whether allowance for renewals should or should not be included in calculating the working costs per ton mile and as to the basis on which renewals are allowed on branch lines. We can see no misunderstanding on his part on the fundamental issue, which is that the proper provision should be made for renewals of the undertaking as a whole.

The Railway Administration's demand that if the

rate

rate of provision is fixed on a "life" basis, they should be allowed to use what they consider to be "the unrequired balance" on the purchase of additional assets to be used in much the same way as a Betterment Fund, does not commend itself to us as being in any way a sound proposition. Further, in paragraph 6, they try to quote Gibb in support of this in a way which appears hardly fair to him. The balances of the credits of renewals and other reserves in Railway Companies are frequently used to finance capital expenditure temporarily until a suitable time arrives to float a loan. This is no doubt what Gibb had in mind, in fact he insists that the borrowings from the fund should be clearly shown and he is careful to qualify his approval of this by the words "in times of depression". But the Railway Administration's proposal is that these balances should be definitely allocated even before they have been collected, not to strengthen the liquid resources and improve the financial stability of the undertaking, but to increase its capital commitments. The reference to a Betterment Fund is not without significance, as such funds are usually applied to capital expenditure which is non-revenue earning. In any

case

36
case who is to decide how much of the balance is unrequired?

As regards the Treasurer of Kenya, it is clear from his minute that his main consideration is the maintenance of the existing standard of rates. The financial stability of the undertaking whose loans are guaranteed by his Colony appears a minor consideration. In this connection it is well to remember Gibb's strictures on the rate structure and the scope which he said existed therein for increasing revenue by readjustments.

We do not understand the reference in paragraph 6 of your letter to other Railways. You said "that while most Administrations recognise the desirability of the "life" basis, they have not been able to maintain it in practice owing to the depression". This argument surely cannot be used in support of Administration which can do it in practice, but tries to argue that it is undesirable in principle. I am afraid therefore that we must insist that on the termination of the present arrangement the contributions to the Renewals Fund should be on a proper basis, i.e. as ascertained on a "life" calculation, the new rate to operate from 1935 inclusive.

The latest information goes to show that the

Kenya-

Kenya-Uganda Railways have turned the tide, and it seems to us that it would be wrong both in principle and in practice to continue to make insufficient appropriation to the renewals fund.

Yours sincerely,

W. W. Hayward

C. O.

23029/30

10 27

Mr. ~~Justin~~ 21/6

Mr.
Mr.)

Mr. Tomlinson.

* Sir C. Bottomley 22.6.1919

Sir J. Shuckburgh.

Sir G. Grindle.

Permt. U.S. of S

Parly. U.S. of S

Secretary of State

TTc

23 JAN 5

Copied + sent
1.5.19 22.6.19
J

DRAFT. Tol.

Highways
Navies

Copy to Treasury (19)

Conf. your let of conf.

Matter is under ~~the~~ reference
to Treasury. Decision will
be communicated as soon as
possible.

SG:52

Copy 17.0 this
to LF.

RECEIVED
E 27 JUN 1934
C. O. ABOY

COPY FOR REGISTRATIO.

1738

Telegram from the High Commissioner for Transport Kenya -
Uganda to the Secretary of State for the Colonies.

Dated 21st June, 1934.

Received 10.45 a.m. 21st June.

No.9 Confidential.

Grateful for early reply to my despatch of
the 27th December confidential regarding rates of
contribution to the renewal fund/inclusion in 1935 Estimates.

No 1
copy to Secretary

LORD FRANCIS SCOTT. (cont'd). The third thing we have down here is the question of Railway rating policy as affecting general industry. The main point of that, Sir, is that twelve years ago (I think it was 1942) the whole system of the Railway here was altered; up till then it had been treated as a Government department and it was then taken out of that position and run on its own, with its own reserve funds and so on; and then subsequently of course there was the Order-in-Council. In those days, when it was first started, there was a very definite policy adopted that the financial and economic soundness of the Railway did depend on the greatest possible development of the country, and there was a definite policy adopted for helping exports by having cheap freights on exports and rather high freights on imports, and at the same time there were established low rates for certain bulk crops - cotton seed in Uganda and maize in Kenya. That went on for great many years, until recently, when there seems to have been a change of policy tending in the opposite direction, and it has caused a great deal of feeling of unquiet and dissatisfaction in the country. That is the chief point with regard to this.

SECRETARY OF STATE. Are you asking for subsidised freights?

LORD FRANCIS SCOTT. No, Sir. We are asking for the same old policy as before.

SECRETARY OF STATE. That was subsidised freights.

LORD FRANCIS SCOTT. In the early days it was. That is one point, Sir. The other point which we would like to speak to you about is the question of this 2 1/2 per cent depreciation.

SECRETARY OF STATE. I can tell you that at once. I have discussed it with one of your deputations - it was a new point to me; I have discussed it with General Rhodes and I have instructed that a despatch should go home, that I wished that the whole matter should be gone into, that I wanted to find out what was the genesis of this Order, and that I wished to have a comparison instituted between Railway practice on the home railways and overseas railways in normal times. I gave immediate instructions that the whole question should be taken up.

LORD FRANCIS SCOTT. One small point dealing with that, which we thought we might suggest. Supposing it is laid down that it has got to continue, we wondered whether the half per cent could be put into a definite reserve fund.

SECRETARY OF STATE. The half per cent, as far as I can make out, is carried to a reserve fund; it is not used. The allowance which on merits the Railway takes for depreciation is a two per cent allowance, so that the half per cent is not expended on Railway renewals. It may of course have been absorbed into Railway finance. But I am going into the whole of that and I have said I wish to be satisfied on that point myself, and that no final decision is to be taken without my having reviewed it personally.

C. O.

3100/00
23029/34

40

- Mr. Grossmith. 22/5/34.
- Mr. ~~Greene~~ 22
- Mr. ~~Hood~~ 23
- Mr. Parkinson.
- Mr. Tomlinson.
- X Sir C. Bottomley. 23.
- Sir J. Shuckburgh.
- Permd. U.S. of S.
- Parly. U.S. of S.
- Secretary of State.

Amended (S.O.) by NO 20

Downing Street.



1934.

Sir,

I am etc. to refer to

(5)
3/24/33.

Mr. Ryan's letter of the 20th June 1933

No. S.32902/03/7 and previous

correspondence ^{regarding the Renewals} on the subject of the

~~contributions to be made by the Kenya~~
^{Fund of}

and Uganda Railway Administration ~~to~~

~~the Renewals Fund~~, and to transmit to

you, to be laid before the Lords

Commissioners of the Treasury, a copy of

a despatch from the High Commissioner

for Transport regarding the provision

to be made for the contribution ^{per to the}

~~Renewals Fund~~ in ^{respect of} 1935 and subsequent years.

2. Their Lordships will remember

that it was agreed when the question was

raised last year that provision for

renewals during 1934 should continue

on the basis of 2% pending the

examination

DRAFT.

THE SECRETARY.
TREASURY.

27th Decr. 1933 (No. 1)
47 encls.

FURTHER ACTION.

examination by the Governors' Conference of the recommendations in paragraphs 114-118 of Mr. Roger Gibb's Report on Railway Rates and Finance in Kenya, Uganda and Tanganyika Territory.

(See No 6/3129/33)

3. The relevant Sections of the Report, and Memoranda submitted by the Transport Administration, were duly examined by the Governors' Conference. The Conference considered that it was doubtful if any useful purpose would be served by their discussing this highly technical question and that it would be better for it to be dealt with by the High Commissioner in correspondence with the Secretary of State, consulting where necessary the Governments of Kenya and Uganda.

(See para 5-2 No 1)

4. As the result of correspondence between the High Commissioner ^{and} the Governments of Kenya and Uganda, the Kenya Government

C. O.

- Mr.
- Mr.
- Mr.
- Mr. Parkinson.
- Mr. Tomlinson.
- Sir C. Bottomley.
- Sir J. Shuckburgh.
- Permt. U.S. of S.
- Parly. U.S. of S.
- Secretary of State.

DRAFT.

Government have endorsed a recommendation of the Transport Administration that the contributions to the Renewals Fund should be ^{at the rate of} 2% until 1948 and thereafter on a "life" basis, and that on this basis of contributions to the Renewals Fund a Reserve Fund should be built up of £1,000,000. The Government of Uganda saw no reason to withhold its support from that recommendation.

5. The understanding on which the Annual Contributions for the years 1931-1933 should be 2% of the capital value of the wasting assets for those years was described in your letter No. ^{8. 22902/03/4} of the 24th February 1931. In that letter Their Lordships accepted as proper, the principle of contribution on a 'life' basis, i.e. ^{cost} for each wasting asset an annual provision ^{should be made} equivalent to the original cost divided by the estimated physical life.

See No 15 1625/30

FURTHER ACTION.

6. Since the receipt of the

High Commissioner's despatch steps

have been taken to ascertain the

practice of other railways, concerning

*in India, the Anglo Egyptian Sudan, and S. America
as well as in other British Colonies*

depreciation and their contributions

to renewals, ~~but the information obtained~~

~~has not proved of much value as a guide~~

~~in so far as a policy for the Kenya and~~

~~Uganda Railway is concerned.~~

*recognize
desirability in principle of calculating
contributions on a 'life' basis, few
if any have succeeded in
maintaining this principle in
practice during the recent years
of economic depression.*

7. After careful consideration of

the various aspects of this matter the

Secretary of State supports the High

Commissioner's recommendation that the

contribution should be at the rate of

2% until 1945 and on a life basis thereafter,

but on the understanding that the Railway

should aim at building ^{up} a Reserve Fund of

£1,000,000 by contributions equivalent

(subject to working results) to the

difference between contributions on a

2% rate and contributions on the "life"

basis. Sir Philip Cunliffe-Lister

writes that

~~will be glad to learn whether their~~

~~Lordships~~ *with his acceptance of this* concur in ~~the~~ arrangement.

I am, etc.

(Signed) J. E. W. FLOOD

NOTE 1

RAILWAY DEPRECIATION AND
CONTRIBUTIONS TOWARDS RENEWALS

14 A 42

Tanganyika Territory.

There is no Renewals Fund.

Nigeria.

Contributions amounting to an all over percentage rate of 3.57 are normally paid to renewals. During the last few years contributions have ceased altogether.

Gold Coast.

Contributions amounting to an all over percentage rate of 3.43 are normally paid to renewals. During the last few years contributions have ceased altogether.

Jamaica.

Expenditure on renewals is based on actual requirements and varies from year to year.

Trinidad.

There is no Renewals Fund.

Ceylon.

Up to 1952 contributions at the rate of 7% on gross receipts were made to renewals. Recently the entire balance of the Renewals Fund was appropriated to revenue.

F.M.S.

Contributions are supposed to be on the basis of the replacement cost of the assets divided by their computed life; but reduced railway revenue has precluded this and the Renewals Fund now shows a deficiency of \$38,000,000.

Mauritius.

There is no Renewals Fund. The establishment of one is in contemplation.

Palestine

Palestine.

The amount of the Renewals Fund is not determined on the actuarial basis but purely on capacity to pay.

The Argentine.

Contributions are supposed to be on the basis of 2% of the replacement value. In practice some companies have not earned enough to do this and have made an arbitrary allocation of 7% of gross receipts towards renewals. Both methods have, in practice, more than covered demands upon the Renewals Fund.

India.

Contributions to the Depreciation Fund are at the rate of the total original cost of the wasting assets divided by their life. This normally amounts to about 1.7% of the "capital at charge" but is hardly comparable with the Kenya actuarial figure of 3.11% because (inter alia) the capital at charge contains many elements for which a depreciation fund is not required.

Sudan.

During the five year period 1932/1938, contributions to Renewals Fund should be limited to actual expenditure incurred; arrears to be made good when the financial outlook improves.

NOTE 2

I.

References to General Hammond's views on Renewals.

General Hammond has always maintained that Renewals contributions should be on a proper life basis (i.e. cost \div life) for wasting assets. In paragraphs 190-192^{*} of his 1921 Report Colonel Hammond (as he then was) considered the question of a Renewals Fund. At that time there was no such fund except in regard to the Railway Steamers. In order to ascertain the sum which it would be necessary to find for the purpose of replacement and renewals the Railway authorities were requested to prepare a list of assets considered as replaceable, stating against each the cost of replacement at prices then prevailing. (Colonel Hammond indicated that should there be an appreciable fall in prices reassessment would be made accordingly).

To the figures of replaceable cost as presented by the Railway Colonel Hammond applied annual percentages corresponding to the estimated lives of the various classes. (In most cases the percentages applied were those in force on the South African Railways). The overall percentage worked out at 3.66 %.

Reference to this recommendation was made at a meeting of the East African Guaranteed Loan Advisory Board[†] held on 25.7.28. General Hammond understood that since the date of his Report it had been decided that a general charge of 3% should

be

* Flagged A
(Report on Railway System
of Kenya Uganda - T.I)

page 132 of Report.

† Flagged B
(on 14/9/28)

be made on the total of the wasting assets (this was the rate in force from 1924 to 1928). He recognised that although not as conservative as the figures he had named, such a figure would be approved by many authorities, being in fact higher than that charged on some State Railways. He was prepared therefore to accept this figure as quite sound practice. (He had always recommended however that where provision is made for Sinking Fund the renewals provision might legitimately be reduced by an equivalent amount.) The Committee agreed with General Hammond's views, but considered that in the situation admitted, Sinking Fund provision should be made in addition to the renewals provision.

When the Railway Administration in 1929-30 were putting up a case for a reduction to 3% General Hammond's views were sought. In a 13-page letter^x (7 on 16250/30 Kenya summary at 7a) he maintained his view that the provision for Renewals should be on a proper "life" basis but that a deduction should be made equivalent to the Sinking Fund provision representing Loan Expenditure on wasting assets only).

The figure of 3.11% is worked out from the figures submitted by the Departmental Committee appointed by General Rhodes to consider the question of renewals contributions. The report forms an annexure to (1) on 16250/30 Kenya. On p. 13[†] an amount of £354,766 is recommended as the depreciation contribution recommended on a capital value of £11,407,266 - i.e. 3.11%. General Hammond favours

the

x Flagged C

† Flagged D

(annexure to (1) on 16250/30 Kenya)

the adoption of this figure because it is worked out in the principle which he supports.

Mr. Allen in a note at 5A. on 16250/30 Kenya set out the figures recommended at various times by different persons and bodies.

7 (affid) E

NOTE. 3

References to General Rhodes' view that a contribution of 2% to Renewals Fund is adequate for wasting assets.

Introductory.

(References to Green flags)

As from 1/4/21 net profits of the Kenya and Uganda Railway ceased to be handed over to the Kenya Government and were placed to the credit of a Railway Renewals and Betterment Fund.

From 1/1/24 this fund was reconstituted and the amount distributed to (a) Renewals (b) betterments.

Flag α
(P. 3 of Dept. C's Report - memo to (1) on 16/5/30 k)

For the years 1924-28 the Renewals Fund was credited at the rate of 3% on the capital cost of Railway wasting assets. (in addition the contributions in respect of the years 1926 and 1927 calculated at 5% on capital value of Marine wasting assets were also credited to this Fund).

In the draft Estimates for 1929 the High Commissioner for Transport reduced the percentage from 3 to 2 and put up a case for this action in a despatch of 28/2/29. He indicated that 3% was too high, particularly as it applied to original and not to diminishing values, and he pointed out that standard of maintenance on the Kenya and Uganda Railway was comparatively high. Concurrently with the reduction an interest reserve fund was also being established.

Flag β
(11) on 15/6/29 (k)

As the Treasury had maintained the view that 3% on wasting assets was not more than necessary the High Commissioner was requested to put up a better case. *more detailed arguments*

A Departmental Committee was appointed in Kenya to examine the question of the amount of contributions and the principles to be followed.

From the report it appeared that on a life basis the contribution should be 3.11% (On page 36 of the report an estimate is given of the position after 100 years at various percentage rates).

This report was forwarded by the High Commissioner's despatch of 22/5/30 (1) on 16250/30 Kenya) which also forwarded a 15-page memorandum by General Rhodes in support of the view that 2% was an adequate annual contribution. It was suggested that this rate should be fixed for 10 years and the position reviewed in 1940. Reserve Fund to be 2400,000.

Pending a decision the rate for 1930 had been fixed at 2½%.

The Colonial Office was inclined to favour the adoption of a 2% rate for 10 years but with a figure of £600,000 for the Reserve Fund.

General Hammond maintained that a proper life basis should be adopted subject to a deduction equivalent to Sinking Fund charges on loan expenditure representing wasting assets.

A Colonial Office-Treasury Conference was held at which the Treasury representatives expressed agreement with the views of General Hammond, who attended. It was agreed that provision on less than a life basis was unsafe. It was recognised however that in so far as assets had been acquired out of loans carrying sinking funds, and as there was no intention of re-borrowing on the payment of these loans, the Railway was saddled with interest and

* Flag Y
(enclosure to (1)
on 16250/30 k.)

Flag S
(Memo by Mr Allen
at 5 a on 16250/30)

* Flag E
(Note of Conference
(10) on 16250/30)

and sinking fund charges during the currency of the loans, and with nothing for these charges afterwards. For this reason there was no strong objection to a reduced provision of 2½% for renewals during the currency of the loans (1931-33) on condition that short provisions during those years would be made good in later years on a plan subject to Treasury approval. A decision was reached on those lines subject to a further condition that the arrangement was not to be regarded as prejudicing in any way the decision to be taken by His Majesty's Government in 1934 as regards the liability in respect of the cost of the original Uganda Railway. A figure of £600,000 was agreed upon for the Reserve Fund but no promise was given as to the date by which this amount would be accumulated.

* May 8
 Treasury agreement
 (15) on 11/250/301

The Railway Administration again returned to the charge and the High Commissioner for Transport's despatch of 11/5/31 (1 on 17221/31 L) forwarded a 19-page memorandum by General Rhodes. The Colonial Office re-affirmed the earlier decision.

* May 7
 (enclosure 4(1))
 on 17221/31 Kenya

Subsequently it was agreed that the 2½% rate should be continued in 1934 and that the question of the rate for 1935 should be left open pending consideration of the Gibb Report.

* May 8
 3129/301

Postponed Feb 1939

NOTE. 4

The loans on which the Railways and Harbours Administration ~~has~~ to meet interest ^{and} ~~on~~ Sinking Fund at present are detailed below:-

	Loan	Annual Charges (I. & S.F.)	Redemption Dates
1921	£4,245,386	309,913	1946-56
1927	£5,000,000	300,000	1948-58
1928	£2,840,331	156,219	1950
1930	£1,166,091	64,135	1961-71
	<hr/>		
	£13,251,808	830,267	

It seems, ^{probable} ~~therefore~~ that the Sinking Fund contributions may not prove sufficient to effect the complete amortisation of each loan by its final redemption date, and some further borrowing may be necessary; but on the assumption that each loan is repaid at and not before the final date, the annual charges on the Railway Administration will diminish as follows:-

1934-1950	£830,267
1950-1956	£674,048
1956-1958	£364,135
1958-1971	£ 64,135
1971 onwards	NIL

[It is ^{assumed} ~~assumed~~ annually
at 3% becomes £100
in 47 years]

TELEGRAMS INLAND:
"SUDANOLOGY, SOWEST, LONDON."

TELEGRAMS OVERSEAS:
"SUDANOLOGY, LONDON."

TELEPHONE:
VICTORIA 6313

SUDAN GOVERNMENT
LONDON OFFICE,
WELLINGTON HOUSE, AH/WB.
BUCKINGHAM GATE,
LONDON. S.W.1.

L.O. 2806.8/20.

4th April, 1934.

Sir,

No 8
In reply to your letter of March 9th, No. 23029/34, I enclose a copy of each of the two Reports of 1924 and 1931 made by Sir Felix Pole on the Sudan Railways. I enclose also a copy of the Questionnaire and Answers in connection with the Report of 1924.

I am instructed to say that these documents are for confidential use in the Colonial Office and it is requested that they should not be made public, either in whole or in part, without further reference to the Sudan Government.

I am,
Sir,
Your obedient Servant,

A. B. B. Howell

Controller,
Sudan Government London Office.

The Under Secretary of State,
Colonial Office,
Downing Street,
S.W.1.

1352

GOVERNMENT HOUSE,
KENYA,
EAST AFRICA.

9th February, 1934.

My Dear Mafes

I enclose a secret letter which I have written to the Chancellor. I should like Clauson to see it and consider it.

I telegraphed to you about my journey home. The doctors want me to do the whole voyage by sea so I hope to arrive at Tilbury on the 15th March. I have asked you to let the people at Aden and Port Sudan know of my visit. I also asked you to get in touch with the Suez Canal Directors. You might ask Neville Chamberlain; I rather think they made some arrangements for him by which he motored along the Canal and either stayed or dined at ~~his~~ place at Ismailia, or wherever it is.

My other places are Genoa 6th March ^{when} which, if I have the time I should like to go out to Portofino. You might ask the Foreign Office to send me a Laissez Passé for Italy and France as it may be useful in getting off the boat quickly. We stop at Marseilles on the 8th, Majorca 9th, Gibraltar 10th. Please let Harrington know about Gib.

I.....

He said
I said

GOVERNMENT HOUSE.

KENYA.

EAST AFRICA.

2.

I am making splendid progress and doing just whatever I am told.

Mr

Sir John Maffey. K.C.M.G., K.C.V.C., &c.

The Colonial Office.

LONDON. S.W.1.

SECRET.

9th February, 1954.

My dear Neville,

First of all my most grateful thanks to you and Anne for all you did for Mollie. The fact that I am dictating this letter to you is the best proof of the stage my convalescence has reached.

I have been turning over pretty thoroughly the economic position of this Colony. They have, of course, been terribly hit not only by the price slump, but also by peculiar perils in the way of Locusts and drought. The Locusts have not affected the coffee; the drought of course has.

As the result of my cogitations I wish you would consider the possibility of doubling the preference on coffee by raising the duty on foreign coffee ^{to} 2d, and leaving Empire free. This would be analogous to the action which we took over sugar, except that it would cost you little or nothing in revenue. I don't think anyone at home would grouse much about the extra tax, for coffee in our country is a luxury. Nor, indeed, is 2d an unreasonable rate of preference; speaking from memory I think that the preference we recreated on tea was 4d.

The.....

SECRET.

2.

The advantages I see in this course are the following. We should be doing something to help the most valuable export crop in the Territory. Incidentally, we should be helping Tanganyika and Uganda; directly in so far as they produce Arabica for sale on the English market, and indirectly because I gather the price ~~of the one~~ and the sales of ~~the~~ Arabica do affect Robusta and vice versa. The coffee production on the whole is efficient and, in some cases, brilliantly efficient. The industry is well organised and is becoming still better organised. Prices which ~~have~~^{had} been maintained relatively to other commodities have, in recent months, been heavily cut. There is a bit of a rise at present (the very highest grade will always command a definitely remunerative price) but, broadly speaking, prices have sagged badly owing to Columbian and Brasillian competition.

I feel that the stimulus of an added preference would come just at the right moment. It would help me and the Government here to turn down claims for Government assistance and Government loans which I have been doing ruthlessly. I think the increased preference would also tend to make the Brasillian and Columbian see that we were definitely out to protect our own market and that they had better go in for an effective....

8.

effective control of their own production and export in order to maintain a remunerative price. *There is no basis on which I can do a deal with them.* Incidentally, coffee production is linked up in a strange way with the most acute native problem of over-production of stock. The ablest coffee man in the country tells me that he has proved, without doubt, that it pays handsomely to use animal fertiliser. Now the only solution of land erosion and exhaustion in the Reserves by excessive stock is compulsory culling. But unless you can offer the native price for the cattle you take there will be a revolution. Only apparent solution a series of blood and bones factories to make manure. My coffee friend tells me that he thinks there would be an immediate and increasing demand in coffee plantations for this manure. But of course if the average farmer is getting a non-paying price he can't afford to buy fertiliser.

As regards other crops I think I am satisfied that no further help is necessary. I hope that there is an entirely new prospect opening for Sisal. A new decorticating machinery has been designed and is in operation on one of the most progressive plantations which looks as if it will entirely revolutionise the cost of production. So interesting is this that.....

4.

that one of the biggest Jute firms has been making investigation and is considering entering on sisal production here because they think the new prices will out out Jute.

There is nothing to be done for Maize. They must depend on the world price. This year they have a short crop and they will get better prices, but there is nothing we can do to help except to pursue the policy of raising world prices.

Essential oils are quite interesting and ~~promising~~ ^{promising} ~~progressing~~. They are indeed doing good trade in one or two, Pyrethrum and Geranium, and a big chemist who came out with me is ^{sufficiently} interested ~~that he is likely~~ ^{to be contemplating} to join with growers in putting up some stills for other oils which are now chiefly produced in the United States or the French Colonies.

Wattle is a steadily ~~increasing~~ ^{growing} trade, thanks to the ten cent duty on tanning.

They are making money on Tea. They have their own local market and ~~depend~~ ^{rely} on the restriction scheme; but they must not develop this too much, as they really are drawing all the benefits of the restriction scheme but have not incurred any of its obligations.

Sugar is covered satisfactorily by internal protection and by our new allotment of certificates.

Dairy.....

5.

Dairy produce has its local market and certain limitroph markets. For the rest it must take its chance with the Dominions *in ours*.

Behind all this there looks like building up ^{the} a solid structure of ^a the Gold industry.

I add only one other word because it touches the general financial structure of the Colony. As you know, Kenya carries the whole of the capital debt of the Kenya Uganda Railway. This ought, in equity, be borne in a fair proportion between Kenya and Uganda. I found on discussing the matter with Bourdillon that he would be very ready on merits for Uganda formally to assume a fair proportion of this obligation. He said that they always felt at a disadvantage in Railway matters because Kenya could say that theirs was the whole liability and therefore they ought to have the say in fixing rates but whereas if Uganda had a real financial partnership then they would be able to deal as a partner. I think this is all very sound and I should like my people and yours to go into it together, and I should like to encourage ^a the proposal from Uganda that they should assume part of the liability. At the present time the

Railway.....

6.

Railway is doing well and this year's working shows a satisfactory surplus.

Love to you both.

Yours ever,

N. C.

The Right Honourable Neville Chamberlain. P.C., M.P.

Chancellor of the Exchequer.

LONDON.

"SUDANOLOGY, SOWEST, LONDON."

TELEGRAMS OVERSEAS:

"SUDANOLOGY, LONDON."

TELEPHONE:
VICTORIA 6213

SUDAN GOVERNMENT

LONDON OFFICE,

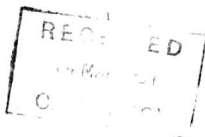
WELLINGTON HOUSE,

BUCKINGHAM GATE,

LONDON, S.W.1.

PEC/WB. 60
(12)

L.O. 2806.8/20.



13th March, 1934.

Sir,

I have to acknowledge receipt of your letter No. 8 23029/34 of the 9th instant requesting a copy of each of the two Reports made by Sir Felix Pole on the Sudan Railways, which is being referred to the Sudan Government Authorities for necessary action. Immediately a reply is received, I will communicate with you again.

I am,

Sir,

Your obedient servant,

GENERAL SECRETARY.

The Under-Secretary of State,
Colonial Office,
Downing Street,
S.W.1.

11.
61

Downing Street, S.W. 1.
3rd March, 1934.

Dear Mr. Borland,

Many thanks for your letter of the 2nd of March about the arrangements for Renewal Funds on the Argentine Railways. We are very grateful for the trouble which you have taken in giving us the information in your letter.

Yours very truly,

(Signed) F. G. LEE.

J. S. Borland, Esq.,

11.
61
Downing Street, S.W. 1.
3rd March, 1934.

Dear Mr. Borland,

Many thanks for your letter of the 2nd of March about the arrangements for Renewal Funds on the Argentine Railways. We are very grateful for the trouble which you have taken in giving us the information in your letter.

Yours very truly,

(Signed) F. G. LEE.

J. S. Borland, Esq.,

TELEPHONE: METROPOLITAN 5238.

RIVER PLATE HOUSE,
FINSBURY CIRCUS,
LONDON, E.C. 2

2nd March 1934.

F.G. Lee, Esq.,
Colonial Office,
Downing Street, S.W. 1.

Dear Sir,

In reply to your letter of the 16th ultimo addressed to Mr. Pollett Holt, I send you the following information which I trust may prove helpful.

The principle established for the building up of Renewal Funds on the Argentine Railways is determined by the following Article extracted from the Contract Law governing the railway concessions, namely:-

"The Companies may charge in each financial year, for the purposes indicated in this article, the sums that circumstances and conditions may justify, it being understood that these sums may not exceed, without the prior consent of the Executive Power, the co-efficient which will be mentioned below as applicable to each item; and it being also understood that should the present circumstances or conditions vary in the future in such manner that said co-efficient be insufficient to meet the provisions that should reasonably be made for other additional reserves, the Executive Power from time to time, and when just cause has been shown by the Companies, shall authorise such additions, and shall also authorise annual co-efficients for the additional reserves that might reasonably be necessary through the altered circumstances or conditions that might occur. The co-efficient which is now established under the terms of this article is as follows:-

For the amount corresponding to the reserve account destined to the renewal of the track, metallic part of bridges, culvert spans, telegraphic, signals, locomotives, rolling stock, floating plant, wharves, and light and power installations: 2 1/2% of their value shall be taken."

The 2 1/2% is now calculated upon the replacement value and not the original value.

In practice it has been found that many companies have not considered their earnings sufficient to make the contributions on this basis, and have preferred to make an arbitrary allocation of 7% of their gross receipts. In this way when

Revised (11)

10
62

traffics are good the contributions to the fund proportionately increase without forming a burden, whilst in light traffic years the contributions automatically are reduced thus giving a relief to net revenue.

The 2½% was originally calculated upon the assumption that these sums would be invested and therefore on a basis of 5% compound interest would provide sufficient funds to renew all wasting assets within a period of twenty years. In practice these sums have not been invested at compound interest, the interest earned on any invested funds being taken into net revenue each year, and it has been found that contributions, either on the basis of 2½% of replacement value or 7% of gross receipts, have more than covered any demands upon Renewal Funds.

I should make it clear that in respect of locomotives, rolling stock, or any other plant, ordinary current maintenance goes direct against revenue and not against the Renewal Fund: for instance, in the case of a new boiler being supplied for a locomotive, this would be charged against current revenue and not against Renewals, the Renewal Fund being responsible only for replacing the locomotive at the end of its life.

No contribution is made in respect of buildings and any demolition of these has to be charged against the current revenue of the year in which the demolition takes place.

If there is any further information that you may require as to the detailed working of the Renewal Funds, I shall be only too willing to give it to you.

Yours faithfully,

J. Borland

Private Secretary.

Any further communication on this subject should be addressed to—

The Under Secretary of State for India,
Financial Department,
India Office,
London, S.W. 1.
and the following reference quoted:—
F. 1338/34.



INDIA OFFICE,

WHITEHALL,

LONDON, S.W. 1.

Telephone:—

Whitehall 8140. I.O. Ext. No.

Telegrams:—

Retaxandum, London.

2⁷⁰ March, 1934.REC
C. O.

Sir,

5 I am directed to refer to your letter of the 23rd February last, No. 23029/34, regarding the contribution to renewals in the case of the Kenya and Uganda Railway, and to forward, for the information of Sir Philip Cunliffe-Lister, a brief memorandum explaining the provision for depreciation on the Indian State Railways system.

I am, Sir,

Your obedient Servant,

Roll: Howbridge

For Financial Secretary.

The Under Secretary of State,
Colonial Office,
S.W.1.

cm

Provision for Depreciation
on the Indian State Railways.

Briefly, the main features of the present
arrangements are as follows:-

- (1) The depreciation fund is intended to provide for the original cost of each particular unit of wasting assets by the time that the useful life expires, and the contribution is the total cost divided by the prescribed life. Consequently the provision continues during the whole period of its prescribed life and ceases at the end thereof irrespective of when it is replaced.
- (2) On replacement the original cost of the new article is found from the depreciation fund and the difference between the original cost and the replacement cost is debited or credited to capital according as the cost of replacement is more or less than the original cost.
- (3) The depreciation fund deals only with whole units (as prescribed in the rules) and the annual contributions from revenue are based only on these. Similarly, it is only when whole units are replaced that the fund is drawn upon; when portions of units are replaced, the cost is charged to revenue direct along with ordinary repairs.
- (4) The depreciation fund does not provide for the replacement of what are called non-wasting assets, e.g. land, works technically described as formation (earthwork, tunnels, walling and side drains), fencing and ballast. Fencing and ballast were excluded from the operation of the fund as the expenditure on such replacements did not vary widely from year to year, and the others were excluded in view of the fact that they had so long a life that it was not necessary to provide in the fund for their replacement. It was considered that it would be preferable, should large expenditure be involved in such reconstruction, in individual cases, to make special arrangements for the expenditure, such as borrowing it from the depreciation fund or from capital and recouping the expenditure by equated payments from revenue spread over a series of years.

The contribution under the present rules expressed as a percentage of the total capital at charge is shown in the table below:

(Crores of rupees.)

<u>Year.</u>	<u>Capital at charge at end of previous year.</u>	<u>Appropriation to Depreciation.</u>	<u>Percentage.</u>
1924-25	621	10.35	1.66%
1925-26	635	10.67	1.68%
1926-27	654	10.89	1.66%
1927-28	681	12.38	1.82%
1928-29	714	12.00	1.68%
1929-30	739	12.59	1.70%
1930-31	770	13.07	1.70%
1931-32	783	13.46	1.72%
1932-33	790	13.75	1.74%
1933-34	791	13.75	1.74%
	591		2.33%

The resultant percentages given above are probably not comparable with the figure of 3.11 per cent. given in paragraph 2 of the letter from the Colonial Office, first because of the special method of dealing with "non-wasting assets", and secondly because "Capital at Charge" on the Indian Railways includes many elements for which a Depreciation Fund is not required, e.g. premia paid to railway companies when their lines were purchased by Government; assets not liable to depreciation, i.e. land; expenditure for which depreciation is provided for separately (collieries and stores). If the items in the second category were excluded, the figure of "Capital at Charge" might be reduced by as much as Rs. 100 crores. "Capital at Charge" also contains a large amount in respect of interest charged to capital during the construction of lines, i.e. before they were open to traffic and began to earn profits. A further reduction of Rs. 100 crores might be made on this account and for non-wasting assets but the figure is a pure guess.

23029/34 Kenya

C. O.

Mr. Davies 7/3
Mr. ~~Frederick~~ 8/3
Mr.

Ans'd 12/11/34



March 1934

- Mr. Parkinson.
- Mr. Tomlinson.
- Sir C. Bottomley.
- Sir J. Shackburgh.
- Permt. U.S. of S.
- Perly. U.S. of S.
- Secretary of State.

~~Dr~~

Sir,

DRAFT.

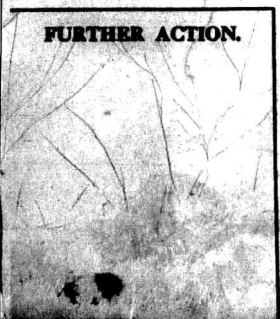
THE CONTROLLER
SUDAN GOVERNMENT OFFICE.

I am etc. to inform you that it is desired to compare in certain respects the working of the finances of the Kenya and Uganda Railways with that of the Sudan Government Railways. For this purpose it would be much appreciated if you would forward to this department a copy of each of the two reports which Sir Felix Pole is understood to have made on the Sudan Railways as a result of his visits to that country in 1924 and 1930 respectively.

I am etc.

(Signed) J. E. W. FLOOD

FURTHER ACTION.



4⁶³

27th February 1934.

Dear Mr. Graham,

Many thanks for your letter of the 23rd of February, and for the translation of the Argentine Law controlling the National Railways in that country. I will see that this is returned to you in due course.

I assume that Sir Follett Holt's Secretary will forward to me later the memorandum which you have been good enough to prepare on the subject of the Renewal Funds set aside by your Company.

Yours very truly,

(Signed) F. G. LFR

Rupert Graham, Esq.

6

BUENOS AYRES WESTERN RAILWAY LIMITED. 69

TELEGRAPHIC ADDRESS,
"PENUADO, AVE., LONDON"
SECRETARY'S DEPT.
TELEPHONE,
METROPOLITAN 1428.

RIVER PLATE HOUSE,
FINSBURY CIRCUS,

LONDON, 23rd February 1934
E.C.2. (Friday)

Checked

Dear Mr. Lee,

I have sent to Sir Fellett Holt's Secretary a short memorandum on the subject of our Renewal Funds giving a reference to Law No. 5315, which is the National ^{Government} Law controlling the National Railways. A National Railway in the Argentine sense is a Railway which connects or runs through two or more Provinces. The Buenos Ayres Western is a National Railway.

As it might be useful to you, I am enclosing a copy of the Law; would you mind returning it to me when you have finished with it as we are short of spare copies. There is no hurry about ~~it~~ and I will write to our people and ascertain whether we can secure a few more. If so, you can of course keep the one I am sending to you.

If there is anything further you would like to know, please do not hesitate to ring me up.

Yours truly,

Robert Graham

P.S. I am sending the pamphlet direct to you so as to make sure of getting it back if the necessity arises! It would, perhaps, be as well not to refer to this elsewhere.

P. S. Lee, Esq.,
Colonial Office,
Banquing Street, S.W.1.

Answered. 24 Feb. 34

W.L.

281

PRIVATE

BUENOS AIRES WESTERN RAILWAY, LTD.**TRANSLATION OF LAW No. 5315****("MITRE" LAW)****D E C R E E****DATED 30th. APRIL, 1908, REGULATING LAW No. 5315****AND****LAW No. 10,657****(ELUCIBATORY OF LAW No. 5315)****BUENOS AIRES****MARCH, 1922**

P R I V A T E

BUENOS AIRES WESTERN RAILWAY, LTD.

TRANSLATION OF LAW No. 5315

(" MITRE " LAW)

D E C R E E

DATED 30th. APRIL, 1908, REGULATING LAW No. 5315

AND

LAW No. 10,657

(ELUCIDATORY OF LAW No. 5315)



BUENOS AIRES

MARCH, 1922

LEY N° 5315

SOBRE CONCESIONES DE FERROCARRILES

Buenos Aires, Octubre 1.º de 1907.

POR CUANTO:

EL SENADO Y CAMARA DE DIPUTADOS DE LA NACIÓN ARGENTINA, REUNIDOS EN CONGRESO, ETC., SANCIONAN CON FUERZA DE

LEY:

Art. 1.º Todas las concesiones de ferrocarriles, sean líneas principales o ramales que en adelante se acordaren, serán regidas por las cláusulas de la presente ley, de acuerdo con la Ley General de Ferrocarriles No. 2873.

Art. 2.º El tren rodante, el peso de los rieles y accesorios y los demás materiales que se empleen en la construcción de la línea, se especificarán en el pliego de condiciones que deberá ser sometido a la aprobación del Poder Ejecutivo.

Art. 3.º Dentro del plazo de seis meses, contados desde la promulgación de cada ley de concesión, el concesionario firmará el contrato respectivo.

En cada concesión se fijará los plazos dentro de los cuales deberán presentarse los estudios, dar principio y término a las obras y se establecerán las multas en que incurrirá el concesionario si las obras no se terminasen dentro del plazo convenido.

TRANSLATION

LAW N° 5315

("MITRE" LAW)

RELATING TO RAILWAY CONCESSIONS

WHEREAS:

THE SENATE AND CHAMBER OF DEPUTIES OF THE ARGENTINE NATION, ASSEMBLED IN CONGRESS, SANCTION AS

LAW:

Art. 1. All railway concessions, be they main lines or branches, which may be granted in the future, shall be ruled by the clauses of this Law, in conformity with the General Railway Law, No. 2873.

Art. 2. The rolling-stock, the weight of rails and accessories, and the other materials which may be employed in the construction of the line shall be specified in the schedule of conditions which must be submitted for the approval of the Executive Power.

Art. 3. Within the term of six months, counted from the date of promulgation of each concession-law, the concessionaire shall sign the respective contract.

In each concession the periods within which the surveys must be presented and the works commenced and terminated shall be fixed, and the fines which the concessionaire will incur if the works are not terminated within the agreed period shall be established therein.

LEY N° 5315

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Buenos Aires, Octubre 1.º de 1907.

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In each concession the periods within which the surveys must be presented and the works commenced and terminated shall be fixed, and the fines which the concessionaire will incur if the works are not terminated within the agreed period shall be established therein.

Art. 4.º Antes de firmar el contrato, el concesionario depositará en el Banco de la Nación Argentina, como garantía, la cantidad de doscientos pesos moneda nacional (\$ 200.00 m/n.) por cada kilómetro de vía, en efectivo o en títulos nacionales de renta, la cual le será devuelta, proporcionalmente a medida que avancen los trabajos.

Art. 5.º Si el concesionario no firmase el contrato, no presentase los estudios completos, no diese principio a las obras, o no terminase los primeros cincuenta (50) kilómetros de vía principal, dentro de los plazos que se establecieron de acuerdo con el artículo tercero, la concesión quedará caduca, salvo caso de fuerza mayor declarado por el Poder Ejecutivo, con pérdida del depósito de garantía. En tal caso, el depósito será transferido por el Banco de la Nación a la orden del Consejo Nacional de Educación.

Art. 6.º Por cada mes de retardo en la terminación de los trabajos, la empresa abonará una multa que fijará el Poder Ejecutivo en el pliego de condiciones y se tomará del depósito de garantía. Si agotado el depósito, la empresa llegase a adeudar más de dos meses de multa, la concesión quedará caduca con relación a la parte de línea no construida.

Art. 7.º Quedan sujetas a expropiación por causa de utilidad pública, las tierras cuya ocupación sea necesaria para las vías, estaciones, talleres, galpones de carga, etc., de acuerdo con los planos que en cada caso apruebe el Poder Ejecutivo, quedando el concesionario respectivo autorizado para gestionar su expropiación con arreglo a la ley general de la materia.

Art. 8.º Los materiales y artículos de construcción y explotación que se introduzcan al país, serán libres de derechos de aduana debiendo regir esta franquicia hasta el 1.º de Enero de 1947. La empresa pagará durante este mismo plazo y cualquiera que sea

Art. 4. Before signing the contract the concessionaire shall deposit in the Bank of the Argentine Nation, in cash or in National Bonds, as guarantee, the sum of \$ 200.00 paper for each kilometre of line, which sum will be returned proportionally as the works proceed.

Art. 5. If the concessionaire should fail to sign the contract, present the complete surveys, commence the works, or to terminate the first fifty kilometres of main line within the periods that may be established in accordance with Article 3, the concession shall become void, save in case of *force majeure* declared as such by the Executive Power, with loss of the guarantee deposit. In such case the deposit shall be transferred by the Bank of the Argentine Nation to the order of the National Council of Education.

Art. 6. For each month's delay in the termination of the works, the Company shall pay a fine which the Executive Power will fix in the schedule of conditions and which will be deducted from the guarantee deposit.

If, after the guarantee deposit is exhausted, the Company should come to owe more than two months' fine, the concession shall become void in respect of the part of the line not constructed.

Art. 7. The lands which it may be necessary to occupy for the lines, stations, workshops, goods sheds, etc., are subject to expropriation, in accordance with the plans which, in each case, may be approved by the Executive Power, the respective concessionaire being authorized to negotiate their expropriation in accordance with the general law on the matter.

Art. 8. The materials and articles for constructing and working imported into the country shall be free from Customs Duties, and this franchise shall remain in force until the 1st. of January, 1947.

The Company shall pay during this same per-

la fecha de su concesión, una contribución única igual al tres por ciento (3 %) del producto líquido de sus líneas quedando exoneradas por el mismo tiempo de todo otro impuesto nacional, provincial y municipal.

Se establecerá el producto líquido reconociéndose como gastos el sesenta por ciento (60 %) de las entradas.

Si los gastos excedieran de este límite, en tres años consecutivos la empresa deberá demostrarlo a satisfacción del Poder Ejecutivo.

El importe del tres por ciento (3 %) del producido líquido será aplicado a la construcción o mantenimiento de los puentes y caminos ordinarios de los municipios o departamentos cruzados por la línea, en primer término de los caminos que conduzcan a las estaciones, y en proporción a la extensión de vías en cada provincia.

El Poder Ejecutivo depositará en cuenta especial, en el Banco de la Nación Argentina, las cantidades que las empresas abonon en cumplimiento del artículo octavo. Sin perjuicio de las sumas votadas para el mismo objeto por leyes especiales y por la de presupuesto, no podrá darse a este fondo ningún otro destino que el expresamente determinado en la presente ley.

Art. 9.º Las tarifas de pasajeros y de carga serán intervenidas por el Poder Ejecutivo, cuando el promedio del producto bruto de la línea en tres años seguidos, exceda del diez y siete por ciento (17 %) del capital en acciones y obligaciones reconocido por el Poder Ejecutivo y siempre que los gastos no excedan del sesenta por ciento (60 %) de las entradas. Si la proporción de gastos fuera mayor en tres años consecutivos la compañía deberá demostrarlo a satisfacción del Poder Ejecutivo y en tal caso el límite de intervención se elevará proporcionalmente. A estos efectos, el capital será fijado por el Poder Ejecutivo al abrirse la línea al servicio público, y no podrá ser aumentado sin consentimiento del mismo.

Art. 10. El transporte de los materiales y artí-

od, and whatever may be the date of its concession, a sole contribution equal to 3 % of the net receipts of its lines, being exonerated for the same period from every other National, Provincial and Municipal tax. The net receipts shall be established by recognizing as expenses 60 % of the receipts. If the expenses should exceed this limit in three consecutive years, the Company must prove it to the satisfaction of the Executive Power. The amount of the 3 % of the net receipts shall be applied to the construction or maintenance of the ordinary bridges and roads of the municipalities or departments crossed by the line, primarily of the roads which lead to the stations, and in proportion to the length of lines in each Province.

The Executive Power shall deposit in a special account in the Bank of the Argentine Nation the amounts which the Companies pay in compliance with article 8. Without prejudice to the sums voted by special laws and by the Budget Law for the same object, these funds may not be used for any other purpose than that expressly determined in the present law.

Art. 9. The passenger and cargo tariffs shall be intervened in by the Executive Power when the average of the gross receipts of the line in three consecutive years exceeds 17 % of the capital, in shares and debentures, recognized by the Executive Power, and always provided that the expenses do not exceed 60 % of the receipts. If the proportion of expenses should be greater in three consecutive years, the Company must prove it to the satisfaction of the Executive Power, and in such case the limit for intervention shall be raised proportionately. For this purpose the capital shall be fixed by the Executive Power on the line being opened to public service, and may not be increased without the consent of same.

Art. 10. The transport of the materials and ar-

culos de propiedad de la Nación destinados a la construcción de obras públicas nacionales y de las obras públicas provinciales, autorizadas por leyes del Congreso, será aforado en un cincuenta por ciento (50 %) de las tarifas ordinarias. En iguales condiciones serán aforados los transportes militares, artículos de guerra, empleados nacionales, oficiales y soldados en comisión del Gobierno, inmigrantes expedidos por la oficina central del ramo; igual franquicia gozarán los empleados provinciales de policía y los telegramas oficiales.

Art. 11. Las tarifas de las líneas telegráficas para el uso del público, serán las mismas que las del Telégrafo Nacional.

Los aparatos y materiales de la línea telegráfica deberán ser aprobados por el Poder Ejecutivo.

Art. 12. La empresa estará obligada gratuitamente:

- 1.º A transportar en departamentos especiales donde puedan clasificarse las cartas e impresos, las valijas de la correspondencia y los empleados que las conduzcan.
- 2.º A tender paralelo a su línea y en toda su extensión un hilo telegráfico que será entregado al Gobierno para su explotación, quedando la empresa encargada de su conservación, sin cargo alguno para el Estado.
- 3.º A destinar un local especial en las estaciones principales para oficinas de correos y telegramas.
- 4.º A permitir el empalme del telégrafo nacional con su línea.
- 5.º A establecer en sus puentes principales, donde a juicio del Poder Ejecutivo fuese necesario, un pasaje para jinetes.

Art. 13. En cualquier tiempo el Poder Ejecutivo podrá ordenar a la empresa transforme en móviles, sin indemnización alguna, los puentes sobre los ríos y canales que sean declarados navegables.

ticles belonging to the Nation and destined to the construction of National Public Works and of Provincial Public Works authorized by laws of Congress, shall be assessed at fifty per cent (50 %) of the ordinary tariffs. Military transports, war materials, national employees, officers and soldiers on government service, and immigrants despatched by the Central Office of the Immigration Department shall be similarly assessed. The same privilege shall be enjoyed by the Provincial Police employees and the official telegrams.

Art. 11. The tariffs for the use of the telegraph line by the public shall be the same as those of the National Telegraph. The instruments and materials of the telegraph line shall be approved by the Executive Power.

Art. 12. The Company shall be obliged gratuitously:

- 1) To transport in special compartments, where the letters and printed matter can be classified, the mail bags and the employees in charge of same.
- 2) To place parallel to the line and throughout its length, a telegraph wire which will be handed over to the Government to be worked, the Company being encharged with its maintenance without any charge to the State.
- 3) To set apart special premises in the principal stations for the Post and Telegraph Office.
- 4) To permit the junction of the National Telegraph line with its line.
- 5) To provide a passage for horsemen on its principal bridges where, in the opinion of the Executive Power, it be necessary.

Art. 13. The Executive Power may at any time order the Company to transform the bridges over the rivers and canals that are declared navigable, into moveable ones, without any indemnification.

Art. 14. Los estudios definitivos y los trabajos de construcción, serán inspeccionados por el Ministerio de Obras Públicas, siendo de cuenta de la empresa concesionaria los gastos que ocasione la inspección.

Art. 15. Tanto la construcción como la explotación de las líneas, estarán sujetas a la ley general de ferrocarriles y a los reglamentos de policía e inspección dictados o que se dictaren. El domicilio legal de la empresa será la capital de la república.

Art. 16. La Nación se reserva el derecho de expropiar en cualquier tiempo las obras concedidas por el monto del capital reconocido, aumentado en un veinte por ciento (20 %).

Art. 17. Las concesiones de ferrocarriles podrán ser transferidas a terceros con autorización del Poder Ejecutivo, pero la transferencia de la concesión o del ferrocarril y el arrendamiento de éste no podrá hacerse a otra empresa ferroviaria existente en el país, ni efectuarse la refundición de su administración con la de ferrocarriles de otras empresas sin autorización del Congreso.

Art. 18. La empresa podrá construir pequeños ramales no mayores de treinta kilómetros, para ligar establecimientos industriales o rurales, previa aprobación de sus planos por el Poder Ejecutivo.

Art. 19. Las empresas de ferrocarriles existentes podrán, dentro del plazo de seis meses, contados desde la promulgación de esta ley, acogerse a los beneficios establecidos en el artículo octavo, siempre que se sometieran a las condiciones establecidas en el mismo artículo octavo y en el artículo noveno.

Art. 20. A la expiración de sus actuales franquicias, las empresas de ferrocarriles existentes que no hagan uso de la opción contenida en el artículo anterior, pagarán todos los impuestos vigentes que les correspondan, quedando en lo demás sometidas a las prescripciones de la presente ley, en cuanto no altere derechos adquiridos.

Art. 14. The definite surveys and the construction works shall be inspected by the Ministry of Public Works; the expenses occasioned by this inspection being for account of the concessionaire Company.

Art. 15. Both the construction and working of the lines shall be subject to the General Railway Law and the Police and Inspection regulations in force or which may be issued.

The legal domicile of the Company shall be in the Capital of the Republic.

Art. 16. The Nation reserves to itself the right to expropriate at any time the works conceded, for the amount of the recognized capital, plus 20 %.

Art. 17. The railway concessions may be transferred to third parties with the authorization of the Executive Power, but the transfer of the concession or of the railway or the leasing of the latter may not be made to another Company existing in the Country, nor may its administration be amalgamated with that of railways of other Companies, without the authorization of Congress.

Art. 18. The Company may construct small branches, not longer than thirty kilometres, for connecting with industrial or rural establishments, on approval of the plans by the Executive Power.

Art. 19. The existing Railway Companies may, within the period of six months counting from the date of promulgation of this law, avail themselves of the benefits established in Article 8, provided they submit to the conditions established in the same Article 8 and in Article 9.

Art. 20. At the expiration of their present franchises, the existing Railway Companies which do not exercise the option contained in the preceding article shall pay all the taxes in force corresponding to them, becoming in other respects subject to the prescriptions of the present law, in so far as it does not alter acquired rights.

Art. 14. Los estudios definitivos y los trabajos de construcción, serán inspeccionados por el Ministerio de Obras Públicas, siendo de cuenta de la empresa concesionaria los gastos que ocasione la inspección.

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Art. 20. At the expiration of their present franchises, the existing Railway Companies which do not exercise the option contained in the preceding article shall pay all the taxes in force corresponding to them, becoming in other respects subject to the prescriptions of the present law, in so far as it does not alter acquired rights.

Art. 21. Las traviesas que se emplearan en todos los ferrocarriles de la República, serán de madera dura del país.

Art. 22. Comuníquese al Poder Ejecutivo.

Dada en la sala de sesiones del Congreso Argentino, en Buenos Aires, a treinta de septiembre de mil novecientos siete.

BENITO VILLANUEVA

ALFREDO J. LABOUGLE
Secret. del Senado.

JUAN ORTIZ DE ROSAS

JUAN OVANDO
Secret. de la Cámara de Diputados.

Registrada bajo el No. 5315.

Por tanto:

Cúmplase, comúníquese, publíquese e insértese en el Registro Nacional.

FIGUEROA ALCORTA
C. MASCHWITZ.

Art. 21. The sleepers to be employed on all the Railways in the Republic shall be of hardwood of the country.

Art. 22. Let it be communicated to the Executive Power.

APPROVED in the Sessions Chamber of the Argentine Congress, in Buenos Aires, on the thirtieth day of September, one thousand nine hundred and seven.

BENITO VILLANUEVA

ALFREDO J. LABOUGLE
Secretary to the Senate.

JUAN ORTIZ DE ROSAS

JUAN OVANDO
Secretary to the Chamber
of Deputies.

Buenos Aires, 1st. October, 1907.

REGISTERED UNDER NUMBER 5315.

WHEREFORE:

Let this be National Law, communicate it, publish it, and insert it in the National Register.

FIGUEROA ALCORTA.
C. MASCHWITZ.

DECRETO REGLAMENTARIO

Buenos Aires, Abril 30 de 1908.

Vistas las gestiones iniciadas por las empresas de ferrocarriles con el objeto de acogerse a los beneficios de la ley 5315, aceptando las cargas que ella impone, y

CONSIDERANDO:

Que si bien la citada ley contiene la reglamentación necesaria respecto de concesiones futuras, carece de la que debe ser aplicada a las empresas ferrocarrileras existentes que, según lo dispuesto por el art. 19, pueden acogerse a sus beneficios y cargas para lo cual solo consagra la ley disposiciones de carácter general (arts. 8 y 9).

Que es indispensable para fijar las relaciones entre el Poder Ejecutivo y las empresas ferrocarrileras existentes, especialmente en lo que se refiere a la determinación de los respectivos capitales, establecer cláusulas reglamentarias que den unidad a los procedimientos adoptados, evitando desigualdades en la aplicación de la ley o cambios de jurisprudencia administrativa que podría afectar el crédito de las grandes empresas radicadas en el país, que el Gobierno de la Nación tiene el deber de estimular por todos los medios compatibles con el interés público.

Que para responder a los altos fines de estímulo que ha inspirado al Honorable Congreso la ley número 5315, se requiere dar permanencia a los pormenores de su aplicación, lo que solo puede asegu-

DEGREE REGULATING LAW 5315

BUENOS AIRES, April 30th., 1908.

In view of the steps taken by the Railway Companies with the object of availing themselves of the benefits of Law No. 5315, accepting the obligations that it imposes, and

CONSIDERING:

That although the said Law contains the necessary regulations regarding future concessions, it lacks those that should be applied to the existing Railway Companies which, according to its Art. 19, may avail themselves of its benefits and obligations, for which case the law only contains dispositions of a general nature (articles 8 and 9).

That in order to establish the relations between the Executive Power and the existing Railway Companies, especially in regard to the determination of the respective capitals, it is indispensable to establish regulative clauses that should give unity to the procedures adopted, preventing inequalities in the application of the Law or changes in the administrative jurisprudence that might affect the credit of the great undertakings established in the Country, which it is the duty of the National Government to stimulate by all the means compatible with the public interests.

That in order to respond to the lofty aims of encouragement which inspired the Hon. Congress, to sanction Law 5315, it is necessary to give permanency to the details of its application, which can

rarse por medio de un reglamento que la acompañe con la eficacia necesaria.

Por estas consideraciones

El Presidente de la República

DECRETA :

Artículo 1.º Las empresas de ferrocarriles que se hayan acogido ya a las disposiciones de los artículos 8 y 9 de la ley 5315, de acuerdo con lo prescrito en el art. 19 de la misma, quedarán sujetas a las siguientes disposiciones reglamentarias.

Art. 2.º Las líneas de propiedad de una empresa ferrocarrilera, incluyendo los ramales, desvíos, inmuebles, talleres, tren rodante, planteles, elevadores, tren de dragado, plantel flotante, muelles, canaletas, canteras y equipo movable y permanente, instalaciones de luz y fuerza y todos los demás accesorios anexos, dependencias y empresas subsidiarias de o correspondientes a las líneas y que se relacionen con la construcción y explotación de los ferrocarriles, siempre que lo enumerado en este artículo fuere debidamente autorizado por el Poder Ejecutivo, se denominará "sistema perteneciente a la empresa".

Art. 3.º Se consideran como "sistemas explotados bajo convenios", las líneas y otros negocios o empresas que pudieran ser explotados por arrendamiento o de otra manera, en combinación con el sistema perteneciente a la empresa; las propiedades, terrenos, plantel y equipo movable y permanente; los demás accesorios anexos y dependencias de las citadas líneas, así como otros negocios o empresas que se relacionen con la construcción y explotación del sistema, siempre que fuesen debidamente autorizados por el Poder Ejecutivo. En caso contrario, estas líneas o empresas y otros negocios que pudieran ser explotados bajo convenio de arrendamiento o de otra manera, en combinación con el sistema perteneciente a

only be assured by means of regulations that accompany it with the necessary efficacy.

For these reasons,

The President of the Republic

DECREES :

Art. 1. The Railway Companies that have already availed themselves of the dispositions of Articles 8 & 9 of Law 5315, in accordance with what is provided by Art. 19 of same, shall be subject to the following regulative dispositions.

Art. 2. The lines belonging to a Railway Company, including the branches, sidings, fixed property, workshops, rolling-stock, plants, elevators, dredging plant, floating plant, wharves, shoots, quarries, movable and permanent equipment, light and power installations, and all the other annexed accessories, dependencies and subsidiary Companies of or corresponding to the lines and which are connected with the construction and working of the Railways, provided that those enumerated in this article be duly authorized by the Executive Power, shall be denominated "system belonging to the Company".

Art. 3. The lines and other businesses or undertakings that might be worked under lease or in other manner, in combination with the system belonging to the Company, the properties, land, movable and fixed plant and equipment, other accessories, annexes and dependencies of the said lines, as also all other businesses or undertakings connected with the construction and working of the system, are considered as "systems worked under contract", provided they be duly authorized by the Executive Power.

In contrary case, these lines or undertakings and other businesses which might be worked under leasing contract or other manner, in combination with the system belonging to the Companies, the proper-

las empresas, las propiedades, terrenos, plantel y equipo movable y permanente y los demás accesorios, anexos, dependencias de las citadas líneas, negocios o empresas, serán tratados completamente separados del "sistema perteneciente a la empresa" a objeto de que su capital, producto, gastos y demás operaciones, no afecten en nada los resultados de la explotación del "sistema perteneciente a la empresa". Los "sistemas pertenecientes a las empresas" combinados con los "sistemas explotados bajo convenio", que tengan la aprobación del Poder Ejecutivo, serán en adelante referidos como los "sistemas explotados por la empresa".

Art. 4.º Al dictarse el decreto declarando a las empresas acogidas a los beneficios y cargas establecidas en la ley 5315, en los términos del artículo 19 de la misma, se fijará el capital correspondiente en acciones y obligaciones que no podrá ser aumentado sin consentimiento del Poder Ejecutivo. No se admitirá como parte del capital en acciones y obligaciones, sino las emitidas para obtener un capital efectivo o para la adquisición de bienes, obras o líneas pertenecientes a otras empresas debiendo ser excluidas de ese rubro las partidas no autorizadas por el Poder Ejecutivo, correspondientes a la explotación y las emisiones que no respondan a valores reales.

Art. 5.º Para las líneas u otros negocios o empresas explotadas bajo convenio, se fijará el capital en acciones y obligaciones en la forma dispuesta por los artículos anteriores, con las limitaciones de sus respectivas leyes de concesión, y ese capital se agregará al de la empresa explotadora, mientras subsista el convenio, al efecto de la intervención en las tarifas de acuerdo con el art 9.º de la ley 5315.

Art. 6.º El producto líquido y el producto bruto a que se refieren los arts. 8 y 9 de la ley 5315, serán el producto líquido y el producto bruto respectivamente, que resultare de la explotación en cada ejercicio de todos los sistemas explotados por cada empresa

ties, lands, movable and fixed plant and equipment and other accessories, annexes, dependencies of the said lines, businesses or undertakings, shall be dealt with completely apart from the "system belonging to the Company", in order that their capital, receipts, expenses and other operations do not in any way affect the working results of "the system belonging to the Company".

The "systems belonging to the Companies" combined with the "systems worked under contract" which have the approval of the Executive Power, shall hereinafter be referred to as "systems worked by the Company".

Art. 4.º When issuing the decree declaring the Companies incorporated to the benefits and obligations established in Law 5315, in the terms of Art. 19 thereof, the corresponding capital in shares and debentures shall be fixed, which cannot be increased without the consent of the Executive Power. No shares or debentures shall be admitted as forming part of the capital except those issued for obtaining cash capital or for the acquisition of properties, works or lines belonging to other Companies, the items not authorized by the Executive Power, those corresponding to the working, and the issues which do not represent real value must be excluded therefrom.

Art. 5. For the lines or other businesses or undertakings worked under agreement, the capital in shares or debentures shall be fixed in the form laid down in the previous articles, with the limitations of their respective concession-laws, and that capital shall be added to that of the working Company during the subsistence of the agreement, for the purposes of the intervention in the tariffs in accordance with article 9 of the Law 5315.

Art. 6. The net receipts and the gross receipts referred to in Articles 8 & 9 of the Law 5315 shall be the net receipts and the gross receipts respectively derived from the working, in each financial year,

cuyo capital esté reconocido y que exploten en los términos y de acuerdo con la ley de concesión.

Se considerarán como productos brutos todas las entradas, tal como se producen y sin disminución alguna, quedando excluidos los créditos pendientes por conceptos de transporte u otros servicios prestados, que serán computados en el ejercicio en que se haga efectivo su cobro. No se incluirán en los productos brutos, los pasajes, cargas, etc., que se efectúen por cuenta de explotación y a cargo de la empresa. En los casos en que las empresas hicieran rebajas autorizadas por el Poder Ejecutivo con fines de fomento y a condición de hacerse efectivas cuando los requisitos impuestos hubieren sido llenados, su importe se disminuirá de los productos en el año en que se hiciera la rebaja o en el subsiguiente, según la conveniencia de la empresa.

Art. 7.º Para determinar el porcentaje de gastos que se señala en los artículos 9 de la citada ley, queda establecido que los gastos serán todos los incurridos en cada ejercicio anual y que correspondan a la explotación de los sistemas explotados por las empresas y en la representación y dirección de las mismas, debidamente comprobados y comprenderán:

- a) El importe de la contribución del 3 % del producto líquido de que trata el artículo 8 de la citada ley.
- b) Las sumas que en cada ejercicio se apliquen a la amortización del capital invertido en concesiones a término, debiendo acreditarse en la cuenta de capital las referidas amortizaciones en las épocas en que éstas se producen.
- c) Las sumas que en cada ejercicio anual se acrediten en las siguientes cuentas de reserva:

(1.º) La renovación de la vía, parte metálica de los puentes, tramos de alcantarillas, telégrafos, señales, locomotoras, muelles e instalaciones de luz o fuerza, tren rodante y flotante; (2.º) Las reservas pa-

of all the systems worked by each Company whose capital is recognized and who works them under the terms and in accordance with the concession-law.

All the receipts, just as they are produced and without diminution whatsoever, shall be considered gross receipts, there being excluded therefrom pending credits for transportation or other services rendered, which shall be taken into account in the financial year in which their collection is effected.

The cost of passages, carriage of goods, etc. for working account and chargeable to the Company shall not be included in the gross receipts.

In the cases in which the Companies might make rebates authorized by the Executive Power with the object of fomenting traffic and on the condition of making them effective when the requirements imposed have been complied with, the amount of same shall be deducted from the gross receipts for the year in which the rebates might be made or in the subsequent year, according to the convenience of the Company.

Art. 7. For determining the percentage of expenses indicated in Articles 8 & 9 of the Law referred to, it is hereby established that the expenses shall be all those incurred in each financial year and which correspond to the working of the systems worked by the Companies and in the representation and direction of the same, duly proved, and shall include:

- a) The amount of the contribution of 3 % of the net receipts mentioned in Art. 8 of the law referred to.
- b) The sums which in each financial year are applied to the amortization of the capital sunk in terminable concessions, capital being credited with the said amortizations at the time they are effected.
- c) The sums that are credited in each financial year to the following reserve accounts:

ra accidentes, reclamos, gastos judiciales e imprevistos. (3.º) Seguros contra incendios; (4.º) Pensiones y fondos de beneficencia para el personal.

Art. 8.º A los fines determinados en el artículo anterior, las empresas podrán cargar por cada ejercicio anual para las reservas indicadas en el mismo artículo, inciso C, las sumas que las circunstancias o condiciones puedan justificar, siendo entendido que esas sumas no podrán exceder, sin previo consentimiento del Poder Ejecutivo de los coeficientes que más abajo se expresarán como aplicables a cada partida; y siendo entendido también que si las circunstancias o condiciones actuales varían en lo futuro de tal manera que tales coeficientes fuesen insuficientes para las provisiones que debieran razonablemente hacerse para otras reservas adicionales, el Poder Ejecutivo de tiempo en tiempo, mediante justa causa demostrada por las empresas, autorizará tales adiciones a los coeficientes más abajo indicados, como también autorizará coeficientes anuales para las reservas anuales que pudieran razonablemente corresponder por el cambio de circunstancias o condiciones que pudieran ocurrir. Los coeficientes que ahora se establecen bajo los términos de este artículo, son los siguientes:

1.º Para el importe correspondiente a la cuenta de reserva destinada a la renovación de la vía, parte metálica de puentes, tramos de alcantarillas, telégrafos, señales, locomotoras, tren rodante y flotante, muelles e instalaciones de luz o fuerza, se tomará el 2 y ½ % de su valor. Para las empresas existentes y con el fin de atender a las renovaciones que tengan su origen en épocas anteriores al presente reglamento, el Poder Ejecutivo autorizará sean cargadas a una cuenta de reserva especial el importe de la amortización correspondiente al número de años que el material tenga de uso. Es entendido que se agregarán a esta reserva especial los fondos que tengan acumulados las empresas con ese objeto en la fecha del acogimiento a la ley 5315. Cuando se po-

(1) Renewal of track, metallic part of bridges, culvert spans, telegraphs, signals, locomotives, wharves, light or power installations, rolling-stock and floating plant.

(2) The reserves for accidents, claims, judicial and unforeseen expenses.

(3) Fire insurance.

(4) Pension and Benevolent Funds for the staff.

Art. 8. For the purposes mentioned in the preceding article, the Companies may charge in each financial year, for the reserves indicated in the same article, sub-section C, the sums that circumstances and conditions may justify, it being understood that these sums may not exceed, without the prior consent of the Executive Power, the co-efficients which will be mentioned below as applicable to each item; and it being also understood that should the present circumstances or conditions vary in the future in such manner that said co-efficients be insufficient to meet the provisions that should reasonably be made for other additional reserves, the Executive Power from time to time, and when just cause has been shown by the Companies, shall authorize such additions to the undermentioned co-efficients, and shall also authorize annual co-efficients for the additional reserves that might reasonably be necessary through the altered circumstances or conditions that might occur. The co-efficients which are now established under the terms of this article are the following:

1. For the amount corresponding to the reserve account destined to the renewal of the track, metallic part of bridges, culvert spans, telegraphs, signals, locomotives, rolling-stock, floating plant, wharves, and light and power installations: 2½ % of their value shall be taken.

For the existing Companies and with the object of providing for the renewals which have originated in epochs anterior to the present regulations, the Executive Power will authorize the charge to a special reserve account of the amount of the amortiza-

duzca un gasto de renovación será atendido con los recursos arriba indicados sin afectar a la explotación.

2.º Para el importe correspondiente a accidentes, reclamos, gastos judiciales e imprevistos, se calculará una cantidad que esté en relación con la importancia y condiciones de los sistemas explotados por las empresas, la que será formada por cuotas que se fijarán de acuerdo con el Poder Ejecutivo. Cuando se produzcan gastos imputables a estas cuentas serán atendidos con los fondos arriba indicados sin afectar la explotación, reintegrándose la cantidad máxima fijada por cuotas que serán establecidas por las empresas, de acuerdo con el Poder Ejecutivo.

3.º Para el importe correspondiente al fondo de seguros contra incendios, se reservará el ¼ % del valor de los materiales y efectos del sistema explotado por las empresas, que esté sujeta a riesgo de fuego, hasta llegar a una cantidad máxima que se determinará en cada caso. Los siniestros que ocurran y los premios que se paguen por reaseguros, como asimismo los gastos de precaución, serán atendidos con estos fondos sin afectar a la explotación.

4.º Para el importe correspondiente al fondo de pensiones y beneficencias para el personal, se reservarán las sumas que las empresas apliquen a ese objeto.

Art. 9.º Los desembolsos de las sumas acreditadas a las cuentas de reserva, en los términos de los artículos precedentes, podrán en cualquier tiempo ser inspeccionados por el Estado.

Art. 10. Para el cómputo de la contribución del 3 % sobre el producto líquido en los términos del art. 8 de la ley 5315, se observarán las siguientes reglas:

- a) Si los gastos no exceden del 60 %_{oo} el impuesto se abonará sobre el 40 % del producto bruto.
- b) Si los gastos excediesen del 60 % las em-

tion corresponding to the number of years the materials have been in use.

It is understood that to this special reserve account shall be added the funds the Companies have accumulated for this purpose at the date of availing themselves of Law 5315.

When a renewal charge is incurred it shall be defrayed from the funds above mentioned, without affecting the working expenses.

2. For the amount corresponding to accidents, claims, judicial expenses, and unforeseen expenses, a sum shall be calculated which is in relation to the importance and conditions of the systems worked by the Companies, which sum shall be formed by quotas which shall be fixed in agreement with the Executive Power.

When expenses chargeable to these accounts are incurred, they shall be defrayed from the funds above mentioned without affecting the working expenses, the maximum sum fixed being reimbursed by quotas which shall be established by the Companies in agreement with the Executive Power.

3. For the amount corresponding to the fire insurance fund, ¼ % of the value of the materials and effects of the system worked by the Companies and liable to destruction by fire shall be reserved, until attaining a maximum sum, which shall be determined in each case. The damage caused by the fires that occur and the premiums paid for re-insurance, as also the expenses of precautionary measures, shall be defrayed from these funds without affecting the working expenses.

4. For the amount corresponding to the pension and benevolent fund for employees, the sums applied by the Companies to that object shall be reserved.

Art. 9. The disbursements of the sums credited to the reserve accounts in the terms of the preceding articles may be inspected by the State at any time.

Art. 10. For computing the contribution of 3 %

presas deberán demostrarlo a satisfacción del Poder Ejecutivo a los efectos de una determinación diferente para la relación de gastos a productos.

Art. 11. Dentro de los cuatro meses de la clausura de su año financiero, las empresas depositarán en el Banco de la Nación Argentina al crédito de la cuenta especial que prescribe el artículo 8º de la ley 5315, el importe de la contribución del 3 % del producto líquido y presentarán al mismo tiempo al Poder Ejecutivo un estado del producto bruto y gastos correspondientes al año de referencia. No siendo observado por el Poder Ejecutivo ese estado dentro de los seis meses de su presentación, se considerarán aprobadas las cuentas respectivas y en caso de ser observadas las diferencias que no pudieran resolverse directamente entre el Poder Ejecutivo y las empresas serán sometidas a la decisión de árbitros de derecho, o peritos arbitradores según los casos.

El 30 de Junio será la fecha en que debe clausurarse el año financiero.

A objeto de poder establecer la fiscalización que se deriva de la ley 5315, las empresas deberán suministrar al Poder Ejecutivo todos los datos, estados y documentos que solicite, como asimismo a permitir la fiscalización de su contabilidad.

Art. 12. Queda expresamente entendido:

- a) Que todos los materiales y artículos que se introduzcan al país, para o en relación con la construcción y explotación del sistema explotado por la empresa, comprendido en el capital reconocido por el Poder Ejecutivo y los términos de este decreto, serán libres de derechos de aduana. Que dicho sistema con todas las propiedades, terrenos, elevadores, talleres, muelles, canaletas, tren de dragado, plantel flotante y rodante, canteras, todo el plantel y equipos móviles y permanentes, instalaciones de luz y fuerza y todos los de-

of the net receipts in the terms of Art. 8 of Law 5315, the following rules shall be observed:

- a) If the expenses do not exceed 60%, the tax shall be paid on 40 % of the gross receipts.
- b) If the expenses exceed 60%, the Companies must demonstrate it to the satisfaction of the Executive Power for the purpose of a different determination of the relation of expenses to receipts.

Art. 11. Within four months from the closing of their financial year, the Companies shall deposit in the Bank of the Nation, to the credit of the Special Account prescribed by Art. 8 of Law 5315, the amount of the contribution of 3 % of the net receipts, and shall, at the same time, present to the Executive Power a statement of gross receipts and expenditure corresponding to the year referred to. Should this statement not be questioned by the Executive Power within six months after its presentation, the respective accounts shall be considered as approved, and in case any observation be made on them, the differences that cannot be arranged directly between the Executive Power and the Company shall be submitted to the decision of legal or expert arbitrators, according to the cases.

The 30th. June shall be the date on which the financial year should close.

In order to establish the fiscalization provided for in Law 5315, the Companies must furnish the Executive Power with all the information, statements and documents it asks for, and will also permit the inspection of its accounts.

Art. 12. It is expressly understood:

- a) That all the materials and articles introduced into the country, for or relating to the construction and working of the system worked by the Company, comprised in the capital recognized by the Executive Power and

más accesorios, anexos y dependencias del mismo, comprendidos en el capital y sujetos por tanto, al impuesto del 3 % establecido en el artículo 8º de la citada ley, estarán exentos de todo otro impuesto nacional, provincial y municipal, de acuerdo y por el término fijado en dicho artículo y siempre que fueren debidamente autorizados por el Poder Ejecutivo. En el caso de duda sobre si los útiles y materiales a introducirse por los ferrocarriles son destinados a la construcción o explotación, será resuelto por el Ministerio de Obras Públicas, previo informe de la Dirección General de Vías de Comunicación.

- b/ Que la participación que las empresas pudieran, de tiempo en tiempo tener (en forma de títulos, préstamos o sociedades) en negocios u otras empresas de que aquellas no sean único dueño, no entrará a formar parte del presente decreto; que el capital que la empresa tenga de tiempo en tiempo colocado en tales negocios o empresas, será llevado por separado y no entrará a formar parte del capital que el Poder Ejecutivo ha de conocer conforme con este reglamento y que las ganancias o pérdidas provenientes de esos negocios o empresas, tampoco figurarán en el producto líquido, producto bruto o gastos a que se refiere el presente decreto.
- c/ Que los contratos de concesión vigentes quedarán subsistentes en todo lo que no hubiesen sido modificados por la ley 5315 y por el presente reglamento.

Art. 13. Mientras el producto líquido de cada año no llegare al 6.8 % del capital reconocido, las empresas podrán establecer sus tarifas en los términos de la ley N.º 2873 y sus reglamentos; cuando ocurriese el caso en que se establezcan tarifas con intervención del Poder Ejecutivo de acuerdo con el

the terms of this decree, shall be free of Customs Duties.

That said system, with all the properties, lands, elevators, workshops, wharves, shoots, dredging plant, floating plant, rolling-stock, quarries, all the moveable and fixed plant and equipment, light and power installations, and all other accessories, annexes and dependencies of the same, included in the capital and subject, therefore, to the 3 % tax established in Art. 8 of the said law, shall be exempt from every other National, Provincial and Municipal tax, in accordance with and for the term fixed in the said article and always provided that they have been duly authorized by the Executive Power.

In case of doubt as to whether the articles or materials to be imported by the Railway Companies are destined to the construction or working of same, it shall be settled by the Ministry of Public Works, after being reported upon by the Direction-General of Ways of Communication. (*)

- b/ That the participation the Companies might from time to time have (in the form of shares, loans or partnerships) in businesses or other undertakings of which the Companies are not sole proprietors, shall not come under the provisions of the present decree; that the capital the Company may, from time to time, have invested in such businesses or undertakings shall be kept in a separate account and shall not form part of the capital that the Executive Power has to recognize in conformity with these regulations, neither shall the profits or losses arising out of those businesses or undertakings figure amongst the net receipts, gross receipts, or expenses referred to in this decree.

(*) Now Direction-General of Railways.

artículo 9º de la ley 5315, se observarán también las disposiciones pertinentes a la citada ley 2873 y su reglamento. Para determinar si ha llegado el caso de intervención en las tarifas, se tomará el promedio resultante de los tres años anteriores, empezando con los tres años que anteceden a la fecha en que cada empresa se haya acogido a la ley 5315.

Art. 14. Para los efectos de la intervención en las tarifas, las empresas llevarán su estadística a satisfacción de la Dirección General de Vías de Comunicación.

Art. 15. El presente reglamento regirá para cada ferrocarril desde la fecha de su acogimiento a la ley 5315, debiendo correr desde la misma la obligación de las empresas de abonar el impuesto de 3 % y de presentar las cuentas que determina este decreto. Las cuestiones que se suscitaren sobre la inteligencia o interpretación de sus cláusulas, serán decididas por árbitros de derecho o peritos arbitradores, según el caso.

Art. 16. Comuníquese, publíquese y dése al Registro Nacional.

FIGUEROA ALCORTA
EZEQUIEL RAMOS MEXIA.

c) That the concession-contracts in force shall remain subsistent in all that which may not have been modified by Law 5315 and the present regulations.

Art. 13. As long as the net receipts of each year do not amount to 6.8 % on the recognized capital, the Companies may fix their tariffs in accordance with the terms of Law N.º 2873 and its regulations; when the case occurs that tariffs are established with the intervention of the Executive Power in accordance with Art. 9 of Law 5315, the pertinent dispositions of Law 2873 and its regulations shall also be observed.

In order to determine whether cause for intervention in the tariffs has arisen, the average result of the three preceding years shall be taken, commencing with the three years preceding the date on which each Company may have availed itself of Law 5315.

Art. 14. For the purpose of intervention in the tariffs the Companies shall keep their statistics in a form satisfactory to the Direction-General of Ways of Communication. (*)

Art. 15. The present regulations shall apply to each railway as from the date on which it avails of Law 5315, the obligation of the Companies to pay the 3 % tax and present the accounts determined by this decree ruling from the same date. The questions that may arise as to the meaning or interpretation of its clauses shall be decided by legal or expert arbitrators, according to the case.

Art. 16. Let it be communicated, published and given to the National Register.

(sgd) FIGUEROA ALCORTA
" EZEQUIEL RAMOS MEXIA.

(*) Now Direction-General of Railways.

LEY N.º 10.657

SOBRE EXONERACION DE IMPUESTOS
ESTABLECIDA POR EL ARTICULO 8 DE LA
LEY N.º 5315

POR CUANTO:

EL SENADO Y CAMARA DE DIPUTADOS DE LA
NACION ARGENTINA, REUNIDOS EN CONGRESO,
ETC., SANCIONAN CON FUERZA DE

LEY:

Art. 1. La exoneración de impuestos establecida por el Art. 8 de la Ley 5315, comprende además de los impuestos propiamente dichos, las tasas, contribuciones o retribuciones de servicio cualquiera sea su carácter o denominación, con las siguientes excepciones:

1.º Provisión efectiva de agua corriente y servicio de cloacas, y

2.º Contribución de pavimentación en las plantas urbanas en la proporción que corresponda por las estaciones.

Respecto a esta última excepción las empresas podrán optar por construir con sus propios medios la parte de pavimento que les corresponda, sujetándola a las especificaciones respectivas.

37
LAW N.º 10,657

REGARDING EXONERATION FROM TAXES
ESTABLISHED IN ART. 8 OF LAW 5315.

WHEREAS:

THE SENATE AND CHAMBER OF DEPUTIES OF
THE ARGENTINE NATION, ASSEMBLED IN
CONGRESS, SANCTION AS

LAW:

Art. 1. The exemption from taxes established in Art. 8 of Law N.º 5315 comprises, in addition to the taxes properly speaking, the rates, contributions, or retribution of services, whatever may be their nature or denomination, with the following exceptions:

1st. Effective provision of piped water and sewage services.

2nd. Paving contribution in townships in the proportion corresponding to the stations.

In respect of this latter exception, the Companies shall have the option to construct by their own means the part of the pavement corresponding to them, subject to the respective specifications.

Art. 2. These exemptions do not comprise the new rates and retributions for municipal services which may be created in the future in so far as they affect the urban stations of the Companies and whose amount be susceptible of measurement and be equi-

Art. 2. Estas excepciones no comprenden las nuevas tasas y retribuciones de servicios Municipales que puedan crearse en el futuro en cuanto afecten a las estaciones urbanas de las empresas y cuyo monto sea susceptible de medida y equivalga a la compensación exacta del servicio y siempre que éste se imponga con carácter obligatorio general.

Art. 3. Comuníquese al Poder Ejecutivo.

DADA en la Sala de Sesiones del Congreso Argentino, en Buenos Aires, a trece de Agosto de mil novecientos diez y nueve.

BENITO VILLANUEVA ARTURO GOYENECHÉ
ADOLFO J. LABOUGLE CARLOS G. BONORINO

POR TANTO:

Cumplase, comuníquese, publíquese, insértese en el Registro Nacional y archívese.

(Fdo.) IRIGOYEN
" P. TORELLÓ.

BUENOS AIRES, Agosto 22 de 1919.

valent to the exact compensation for the service, and always provided that the service be imposed as of an obligatory general character.

Art. 3. Let it be communicated to the Executive Power.

APPROVED in the Sessions Chamber of the Argentine Congress, in Buenos Aires, on the thirteenth day of August, one thousand nine hundred and nineteen.

BENITO VILLANUEVA ARTURO GOYENECHÉ
ADOLFO J. LABOUGLE CARLOS G. BONORINO.

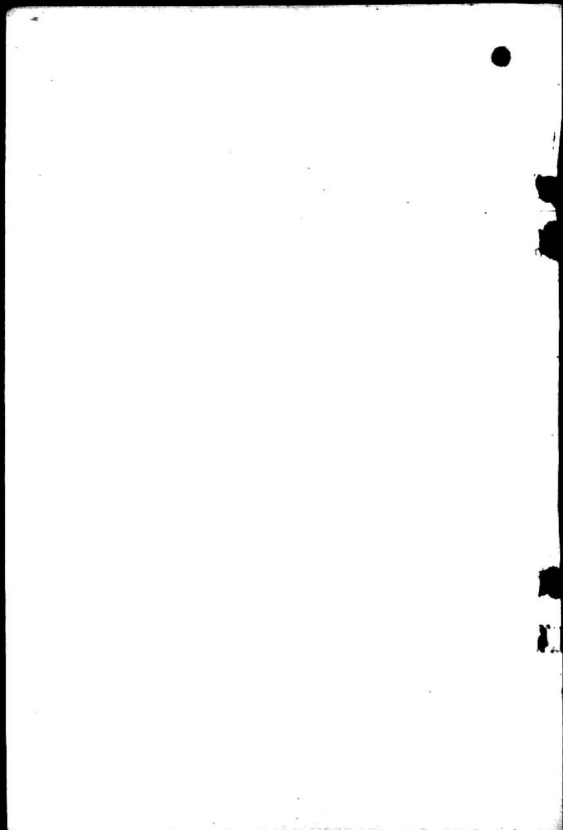
REGISTERED UNDER NUMBER 10.657.

WHEREFORE:

Let it be complied with, communicate it, publish it, pass it to the National Register, and, that done, archive.

(signed) IRIGOYEN
" P. TORELLÓ.

Buenos Aires, 22nd. August, 1919.



C.O.

23029/34 Kenya

PC
-RD
5⁹⁰

Mr. Davies 22/2
Mr. Freshm 22/2

Ann. 9.

C.O.
23 FEB
D 23 "

- Mr. Parkinson.
- Mr. Tomlinson.
- Sir C. Bottomley.
- Sir J. Shuckburgh.
- Permt. U.S. of S.
- Parly. U.S. of S.
- Secretary of State.

23 February, 1934.

DRAFT. for concon.

Sir,

U.S. of S.
FINANCE DEPT.
I.O.

I am etc. to request you to inform Secretary Sir Samuel Hoare that the question has arisen of the appropriate rate of contribution to renewals in the case of the Kenya Uganda Railway.

2. This Railway was built out of loans, the charge (including sinking fund) ^{by Govt.} ~~on which~~ are met annually from the working profits of the Railway. (In addition sums are annually credited to ~~the~~ a Renewals Fund to provide the ^{necessary} amounts for replacing the physical assets of the line as they become

FURTHER ACTION.

worn out. It has been calculated that the annual contribution to this fund should be 3.11% of the total capital cost of the physical assets.

Hitherto, however, the Railway administration has contributed only on a 2 1/2% basis.

3. The question which has now been raised is whether the contributions to the Fund should or should not be raised to the 3.11% level actuarially necessary.

4. As Sir Samuel Hoare will be aware, Sir Philip Cunliffe-Lister is now proceeding home from East Africa, and he intends to give this matter his consideration upon his return. In the meantime, however, he has asked that information may be collected regarding the practice of other Railways concerning depreciation and their contributions to renewals. In these circumstances, it would be greatly appreciated if information could be

C. O.

Mr.

Mr.

Mr.

Mr. Parkinson.

Mr. Tomlinson.

Sir C. Bottomley.

Sir J. Shackelburgh.

Parlt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

91
supplied as to how this matter is now dealt with in India, particularly in the case of the State Lines.

I am etc.

(Signed) J. E. W. FLOOD

DRAFT.

FURTHER ACTION.

WILBECK 8882.

M. Fresher

M

22

50, ORCHARD COURT,
PORTMAN SQUARE,

W. 1.

21st February 1934.

F.G. Lee, Esq.,
Colonial Office,
Downing Street, S.W. 1.

Cunliffe

Dear Sir,

In reply to your letter of the 16th instant, I have to inform you that Mr. Follett Holt sailed ten days ago for a short visit to the Argentine and expects to return to London towards the end of April.

Meantime the Secretaries of several of the railway companies in which Mr. Follett Holt is interested are drawing up the information which you desire to lay before Sir Philip Cunliffe-Lister on his return, and this will be sent to you in the course of next week.

Yours truly,

J.S. Borland

Private Secretary.

C. O.

93

Mr. Freeston. 15/2

Mr. Hood 15.

Mr.

Mr. Parkinson.

Mr. Tomlinson.

X Sir C. Bottomley. 15

Sir J. Shackburgh.

+ Mr. Lee 15/p
Perm. U.S. of S.

Parly. U.S. of S.

Secretary of State.

For Mr. Lee's signature.

Ackd (4)

Ansd. 10

Downing Street,

16 February, 1934.

Dear Sir,

Among other questions which

Sir Philip Cunliffe-Lister is looking into in E. Africa is one connected with the finances of the Kenya-Uganda Rly.

As no doubt you are aware,

that Rly. was built by Govt. out of loans, the service of which is the

first charge on working profits.

There is also a Renewals Fund, to which annual contributions from

railway revenue are made. The

question in which Sir Philip is

particularly interested is that of

the proper amount to be credited

annually to Renewals, having regard

to the probable life of the physical

assets which the Fund is designed to

replace.

DRAFT.

FOLLET HOLT, ESQ.,

50 ORCHARD COURT,

PORTMAN SQUARE,

W.

FURTHER ACTION.

He has written from Nairobi to ask that information should be collected "regarding the practice on other railways concerning depreciation and their contribution to renewals - not only Govt. Rlys. but private railways" naming especially some of those *in which you are interested* controlled ~~by yourself~~, such as the Argentine N.Eastern, the Buenos Aires Western and the Gt. Western of Brazil.

Sir Philip will, I am sure, be very grateful if you will be good enough to let us have a note on the ~~practice~~ ^{case} which we ~~will~~ put before him on his return to London - probably about the middle of March.

Yours very truly

(Signed) F. G. LEE

see 514.98/34
Genl.

2A 94

General Department:

The Kenya-Uganda Railway was built out of loans, the charges (including Sinking Fund) on which are met annually from the working profits of the Railway.

(2) In addition, sums are annually credited to a Renewals Fund, to provide the amounts for replacing the physical assets of the lines as they become worn out. It has been calculated that the annual contribution for this Fund should be 3.11 per cent of the total capital cost of the physical assets. Hitherto, however, the Railway has contributed only on a 2½ per cent basis.

(3) The question has been raised whether Renewals Fund contributions should or should not be raised to the 3.11 per cent level actually necessary.

(4) The Secretary of State has discussed the question in Nairobi and has directed that no decision should be taken on the question until after his return to London.

In the meantime he wishes "information collected by the Colonial Office regarding the practice of other railways concerning depreciation and their contribution to renewals".

(5) May steps be taken please for collecting the desired information? Presumably the following Railways would provide parallels:-

- Ceylon.
- Malaya.
- Nigeria.
- Gold Coast.
- Tanganyika Territory.
- Jamaica.
- Trinidad.

Handwritten initials and date: J.A. 5/12

By Air Mail

KENYA AND UGANDA RAILWAYS AND HARBOURS 95

9

601
HICHCOMA, NAIROBI

OFFICE OF THE HIGH COMMISSIONER FOR TRANSPORT

RECEIVED
5 FEB 1934
C. O. REGY

NAIROBI
KENYA

22nd January, 1934.

Fin/A.1.

PERSONAL

Dear Bottomley,

Amongst other things discussed with the Secretary of State has been the Renewals Fund of this Railway, and he asked me to write to you personally saying that he did not want any reply sent to the last despatch (Transport Kenya-Uganda, Confidential, dated the 27th December 1933) from here on this subject until after he had got home.

No1

In the meanwhile, he said that he wanted information collected by the Colonial Office regarding the practice on other railways concerning depreciation and their contribution to Renewals - not only Government railways but also private railways, especially some of the railways controlled by Mr. Follitt Holt and Mr. J. Eddy, such as the Argentine North East, Buenos Aires Western and the Great Western of Brazil, so that after his return to England he could re-consider the whole position himself.

Yours sincerely,

C. G. G. G.

Sir Cecil Bottomley, K.C.M.G., C.B., D.S.O.
Colonial Office,
Downing Street,
S.W.1.



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

TRANSPORT
KENYA-UGANDA
CONFIDENTIAL

RECEIVED
23 JAN 1934
C. O. REGY

24th December, 1933.

Sir,

No 1
3331/33

I have the honour to refer to my Despatch Transport Kenya-Uganda No.124 of the 29th September 1933 and to correspondence dealing with the provision to be made for renewals and reserves in the accounts of this Administration, ending with your Confidential telegram No.11 dated the 22nd June 1933 in which you sanction provision for renewals on a 2^{1/2}% basis for the 1934 Estimates, and state that the provision for the 1935 Estimates must remain open pending further consideration of the Gibb Report.

No 6
3124/33

2. The Gibb Report has been discussed by the Railway Advisory Council at various meetings throughout this year and the question of depreciation and reserves was considered at the August meeting. The following is the relevant extract from the minutes of this meeting:-

Copy to Treasury (15)

817. Depreciation and Reserves - Gibb Report.

Considerable discussion took place on this matter and the attention of Council was drawn to previous memoranda and despatches which had been sent to the Secretary of State, as summarised in the General Manager's memorandum of the 3rd July 1933.

2. Council desired to re-emphasise the urgent need to assist the present generation as far as possible in easing the burden of Depreciation and Loan Charges.

3. Council also NOTED that both Mr. Gibb and General Hammond recommended that the contribution to the Renewals Fund on account of depreciation should be reduced on account of Sinking Fund payments.

4. Council, however, adhered to previous recommendations with regard to this question and desired to record the

following/

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

following resolution:-

That, arising out of Mr. Gibb's comments upon the question of Depreciation and Reserves, this Council re-affirms its previously expressed view that 2% is an adequate rate until 1945 and advises that renewed representations be made on the subject to the Secretary of State. Failing acceptance of this proposal, Council recommends that, with the approval of the Secretary of State in each specific case, the unrequired balance of the Renewals Fund should be invested in the purchase of additional railway assets (i.e. that it should be used in much the same way as a Betterment Fund).

MR. FOLKES and MR. PRESTON abstained from voting.

5. With regard to the question of Reserves, Council accepted the recommendations contained in paragraph 13 of the General Manager's memorandum, and

FURTHER AGREED to recommend that the views of the two guaranteeing Governments should be obtained before submitting this recommendation to the Secretary of State.

and enclosed is a copy of the General Manager's memorandum of the 3rd July referred to.

3. As the ultimate liability for the financial position of this Administration is carried by the Governments of Kenya and Uganda, I considered that it would be desirable to obtain the views of those Governments on this question of depreciation and reserves before making any recommendation to you. I did not suggest to the Governments that they should concern themselves with the technical calculations on which the percentage contribution to the Renewals Fund has been worked out - calculations which have extended over several years and the results of which have been forwarded to the Crown Agents and other authorities for examination and criticism - but asked for the general view of the two Governments on the amount of the reserves which should be built up in relation to the various rates of contribution to the Renewals Fund.

4. The Government of Kenya has endorsed the views of the Treasurer as contained in a memorandum on the subject dated the 4th October and has asked that a copy of this memorandum may be forwarded to you. (A copy is enclosed) The views endorsed by the Government of Kenya expressed briefly are that contributions to the Renewals Fund should be 2% until 1945 and thereafter on a life basis and that on this basis of contribution to the Renewals Fund a Reserve Fund should be built up of £1,000,000.

The Government of Uganda has stated that its views on this question are contained in the memorandum which it prepared for the Governors' Conference - Paper No. GC(36)85, page 9 - copies of which are included in the proceedings of the recent Governors' Conference held at Dar es Salaam, forwarded to the Under Secretary of State by the Secretary to the Conference with his letter C/GC/F.4. dated the 19th October 1933. Briefly these views are that it does not feel itself in a position to give a considered and independent opinion on this complicated and technical subject, but, on the information supplied by the General Manager it sees no reason to withhold its support from his recommendations, and agrees that any measures aimed at building up a large reserve at so fast a rate as to burden present users of the Railway in order to relieve those in the future of their liabilities, are to be deprecated. Furthermore, it seems to be desirable for the next few years to reduce to the lowest minimum of security the financial provision thus locked up in reserve.

No 53.
4002/33
EH

5. At the Governors' Conference reference was made to this question as it was referred to at considerable

length/

length in Mr. Gibb's report; in view, however, of the opinion of the Government of Uganda, as contained in Paper No. GC(33)85, and also as it had previously been suggested in Paper No. GC(33)69 which had been circulated by me, that it was doubtful if any useful purpose would be served by the Governors' Conference discussing this highly technical question and that it would be better for it to be dealt with by me in correspondence with you, consulting where necessary the Governments of Kenya and Uganda, the Conference held the opinion that no reference should be made to this question in the proceedings.

No 1
16250/30

6. As you are aware, this question has been exhaustively discussed in the past and the following is a summary of the more important despatches on the subject. In his Transport Despatch Kenya-Uganda No. 86 dated the 22nd May 1930 Sir E. Grigg, on the advice of the General Manager and the Railway Advisory Council after an examination in detail of the requirements for renewals by a departmental committee which sat for over six months, recommended a 2% contribution to Renewals for ten years when the position should be re-examined, and a Reserve Fund to be built up to £400,000 by annual contributions of £100,000 if possible and anyhow not less than £50,000. The arguments adduced in that despatch in favour of the 2% contribution are still valid and it is unnecessary to repeat them.

No 6
16350/30

7. Lord Passfield in his Transport Despatch Kenya-Uganda No. 24 dated the 9th March 1931 did not approve of this recommendation but after consultation with the

Treasury/

Treasury approved as an interim measure:-

"An annual contribution to the Railways Renewals Fund of 2½ per cent of the capital value of the wasting assets for the years 1931-1933 on the understanding:

- (a) that the "life" basis is accepted as the proper one.
- (b) that the short provisions during the years 1931-33 are to be made good in the later years, on a plan to be subject to the approval of the Secretary of State and the Lords Commissioners of the Treasury;
- (c) that acceptance of this arrangement is not regarded as prejudicing in any way the decision to be taken by His Majesty's Government in 1934 as regards the liability in respect of the cost of the original Uganda Railway."

He also fixed the Reserve Fund at £600,000 and instructed that it should be raised to that amount as rapidly as circumstances allowed.

No 1
1722/31

8. In my Transport Despatch Confidential of the 11th May 1931 it was stated that the question had again been considered by the Railway Advisory Council who re-affirmed their previous resolution to the effect that contributions to the Renewals Fund should be at the rate of 2% for ten years and that the position should then be reviewed: I endorsed the resolution of the Council and explained my reasons for doing so - reasons which in my opinion still hold to-day.

No 2
1722/31

9. Lord Passfield in his Confidential Transport Despatch dated the 27th July 1931 stated that he did not feel justified in re-opening the question with the Treasury and that the rulings in his Despatch of the 9th March 1931 accordingly stood.

No 6
16250/30

10. Since that date the position has not been re-considered until during this last year as a result of the

publication/

publication of Mr. Gibb's Report. Various remarks in this Report are dealt with in detail in the General Manager's memorandum enclosed herewith, from which it is clear that some of Mr. Gibb's recommendations were based on misunderstandings. His proposals were considered by the Railway Advisory Council at their August meeting when the Council had before them the General Manager's memorandum, and also when further questions on the subject were explained to the Council verbally by the General Manager. The Council's resolution on the subject has been given in paragraph 2 above.

11. To my mind the arguments put forward previously as regards the rate at which contributions should be made to the Renewals Fund by this Administration still hold good, and I repeat my previous recommendation which has now been supported by the Governments of Kenya and Uganda that the rate of contribution to the Renewals Fund should be 2% until 1945 when the question should be re-examined, or in 1940 if the position would appear to warrant it.

12. As a result of the experience during the last three years of depression I consider that the minimum amount of the Reserve Fund should be £1,000,000 if the contribution to the Renewals Fund is at the rate of 2%. The rate at which contributions should be made to the Reserve Fund must depend to a great extent on working results but it appears to me that every endeavour should be made to contribute at least the difference between contributions to the Renewals Fund on a 2% basis and contributions on a life basis. This means that at present the minimum contribution would be about £120,000, namely some £60,000 more than the difference between a 2% and 2½% contribution to the Renewals Fund.

I further consider that contributions to the Reserve Fund should take precedence over contributions to Betterment Funds and that, if the financial results of this Administration admit, further contributions to the Reserve Fund should be made at the rate of £100,000 a year until the Fund has reached £600,000: at that date the position could be re-considered but it would seem that after that date the additional contribution to the Reserve Fund could safely be £50,000 a year. In connection with this question I invite attention to my Confidential Despatch dated the 11th May 1931 and point out that the amount credited to the Renewals Fund in excess of the 2% contribution then recommended is £245,881 and should it be now agreed that the 2% contribution is adequate it appears to me that when the Reserve Fund has reached £600,000 it may be desirable to transfer this £245,881 to it.

No 1

17221/31

13. The alternative recommendation of the Railway Council that if the 2% contribution to the Renewals Fund were not approved then with your approval in each specific case the unrequired balance of the Renewals Fund should be invested in the purchase of additional Railway assets (i.e. that it should be used in much the same way as a Betterment Fund) to which reference is made in my Transport Despatch Kenya-Uganda No.124 dated the 29th September 1933, does not arise for consideration, if my recommendation, which is based on the views of the Railway Advisory Council and the Governments of Kenya and Uganda, that the contribution to the Renewals Fund should be 2% until 1945 when the question should be re-examined, or 1940 if the position/

No 1

3331/33.

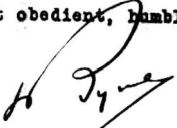
- 8 -

position then appeared to warrant it, is approved.

I have the honour to be,

Sir,

Your most obedient, humble servant,



HIGH COMMISSIONER.

GIBB REPORT - DEPRECIATION AND RESERVES.

The attention of Council is drawn to previous memoranda on this subject and to the following Minutes:-

- Minute 465 (16) of the Meeting held on 20th/22nd September, 1929.
- Minute 520 of the Meeting held on 28th/29th April, 1930.
- Minute 620 of the Meeting held on 24th/25th February, 1931.
- Minute 641 of the Meeting held on 8th April, 1931.

2. The case put forward by the Administration to the Secretary of State, with the approval of Railway Advisory Council, may be summarised as follows:-

- (i) Contributions to Renewals Fund on a life basis will result in the accumulation of a balance, representing the minimum of accrued depreciation that must exist at any one time, which will never be required for expenditure upon renewals.
- (ii) The report of the Departmental Committee on Depreciation demonstrated that had contributions been made on a life basis from 1931 onwards this unrequired balance would have amounted to £1,918,530 by the end of 1939 and that as time went on this figure would have been substantially increased.
- (iii) The whole of the capital of the Administration, with the exception of £5,686,437 provided for the construction of the original Uganda Railway and £2,736,079 provided from revenue, has been raised in the form of loans. The total amount of such loans now outstanding is £14,139,229 on which the annual charge for interest is £729,383 and for Sinking Fund £141,393. There is a suspended liability for interest and redemption charges in respect of the grant for the construction of the original Uganda Railway.
- (iv) The conditions under which we, as a Government Railway, are compelled to obtain our capital, i.e. either by providing it directly from revenue or by raising it in the form of comparatively short term loans bearing high fixed rates of interest and carrying a definite annual liability for sinking fund places a strain on our finances which has no parallel in the case of a Railway Company. In contrast to our present position is that which will obtain 40 or 50 years hence. If sinking fund

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payments are maintained at their present figure the Railway system as it exists to-day will be entirely free from any interest charge. Such a state of affairs is illogical and unfair to the present users of the Railway. Every legitimate means, therefore, is sought for reducing the burden which they are now called upon to bear.

- (v) The first opportunity of redeeming any of our present loans will occur in 1946. The loan then concerned will be that of £8,000,000, raised at the rate of 6% in 1921 of which this Administration's proportion is £4,245,386. By 1946 the Administration's share of the accumulated sinking fund of this loan should be about £1,800,000 so that assuming that opportunity is taken to redeem in that year by the raising of a fresh loan, the Administration's annual liability will be reduced by £126,000 plus, in all probability, a further substantial sum by way of lower interest charges.

- (vi) A reduction of the rate of contribution to Renewals Fund to 2% in respect of Railway wasting assets, from 1931 until 1945 would have resulted in an accumulated shortage on a life basis of £1,959,585, roughly equalling the unrequired balance referred to in (ii) above. The Administration proposed that this rate of 2% should be raised to a life basis, involving an additional annual charge of £131,759 which would be more than covered by the reduced liability in respect of the £3,000,000 (1921) loan.

The adoption of this proposal would have laid up no liability for the future, although, in view of the position set out in (iv) above, the Administration would not have regarded a proposal to transfer part of the burden of the present day to future years, which will be free of loan liabilities, as entirely illegitimate.

3. After considering the above proposals, however, the Secretary of State ruled that contributions must continue at the rate of 2% (the rate provided in the Estimates for 1930) until 1933 and that from 1934 onwards they must be raised to a life basis.

4. In reply to representations made in March last, the Secretary of State modified this ruling by agreeing that the present rate of 2% could be continued during 1934 and that a final decision could be come to after consideration of Mr. Gibb's recommendations.

5. Dealing seriatim with the section of Mr. Gibb's Report relating to Depreciation, it must be emphasised that the conclusions come to in the first part of paragraph 114 are entirely incorrect.

The reason for working costs being shown throughout our accounts and statistics in a form both including and excluding depreciation is that this arrangement is absolutely essential if comparison is to be made with our own costs

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during previous years, when either no provision at all was made for depreciation, or provision was made at a different rate, and also if comparison is to be made with the costs of other Colonial Railways, many of which made no provision at all for depreciation and none of which, so far as we are aware, consistently make provision at as high a rate as we do.

The reason why our Branch Line formula makes no provision for a depreciation charge in respect of Branch Line traffic passing over the main line is because it is considered that any acceleration of the depreciation of main line assets by reason of the passing of Branch Line traffic is negligible, except in the case of rolling stock, and we do raise depreciation against the Branch Line for this.

6. In paragraph 115, Mr. Gibb endorses the Administration's contention set forth in (1) above; in fact, he goes further and says: "If, therefore, full provision for renewals is made, there will be in the Renewals Reserve funds approximating to half the value of the wasting assets which will never be required." The Administration, however, while agreeing with the thesis does not admit that the unrequired balance would ever amount to anything like 50% of the value of wasting assets.

In the concluding portion of this paragraph Mr. Gibb conceded that this unrequired reserve and also balances which are not required for some years to come could be borrowed for general purposes.

7. Paragraph 116 reveals further misunderstandings. If and when the Administration contributes on a life basis, it will do so without reference to the number of decimal points involved.

Depreciation of Branch Line assets is calculated at the actual rate in force during the period to which any particular account relates. The figure 3% which represents the approximate contribution on a life basis has only been used for the purpose of preliminary estimates.

8. Although paragraph 117 lends support to the Administration's case for a reduction in the rate of contribution to sinking fund, the Administration does not regard the argument put forward as sound, but relies upon the case set out in paragraph 2 of this memorandum.

9. Paragraph 119 is extremely difficult to follow. In paragraph 115 Mr. Gibb suggests that the unrequired balance of the Renewals Fund will eventually approximate to £7,500,000, this amount being available for borrowing for general purposes. In the paragraph now under comment he further recommends the accumulation of a general reserve of £2,000,000, making, say, £9,500,000 in all. Regarded purely as a reserve for a railway of this size this figure seems fantastic.

10. After the closest study of Mr. Gibb's proposals, the Administration sees no reason for altering its original

recommendations.....

recommendations that so far as existing railway assets are concerned the rate of contribution should be fixed at 2% until the year 1945 and thereafter raised to a life basis.

11. Failing acceptance of this proposal, it recommends that, with the approval of the Secretary of State in each specific case, the unrequired balance of the Renewals Fund should be invested in the purchase of additional railway assets (i.e., that it should be used in much the same way as a Betterment Fund).

12. The Administration would prefer a rate of 2% until 1945 as opposed to a rate fixed on a life basis, with the proviso that unrequired balances could be invested in the purchase of additional railway assets, for the reason that while the former would leave a margin of net revenue available for any urgent purpose, such as the building up of a reserve, the latter would tend to be an incentive to launch out into expenditure which might not be incurred were funds not so easily available.

13. The Administration's recommendation with regard to a Reserve Fund must be dependent upon the decision come to in connection with the rate to be charged for depreciation.

If this rate is fixed on a life basis and if the unrequired balance cannot be spent on the acquisition of additional railway assets, then the Administration considers that no further reserve is required and points out that no such reserve has been found necessary during the present depression, which has been one of the worst in history, although contributions to Renewals Funds were not commenced until over twenty years after the construction of the original line and have never yet been on a full life basis.

If the present rate of 2% is maintained for a further period of years, the Administration would regard the reserve of £600,000 already laid down by the Secretary of State as ample, even excessive, for any possible requirements.

On the other hand, if the rate of 2% until 1945 is accepted, or if contributions are made on a life basis, but unrequired balances are recognised as being available for the purchase of additional railway assets, the Administration would recommend building up a reserve fund to the amount of £1,000,000.

Ref. No.A.4/546/4.

GENERAL MANAGER'S OFFICE, NAIROBI.

3rd July, 1933.

1943

FROM

STAFF

TO

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Renewals Fund is imposed before some relief from annual loan charges is obtained in 1945, the question of an upward revision of the general standard of rates will have to be considered. In my opinion such an upward revision in the general standard of rates could only be justified if there was conclusive evidence of the necessity therefor.

4. In my view, therefore, the interests of the Colony are likely to be best served if a decision is reached which does not lead to an unduly high contribution being made to the Renewals Fund or to the accumulation of an unnecessarily large sum of money in that Fund.

5. I am impressed by the argument put forward by the Railway Administration and endorsed by Mr. Gibb that contributions to a Renewals Fund on a life basis must result in the accumulation of a balance which will never be required for expenditure upon renewals. The statement contained on pages 37 to 46 of the Report of the Departmental Committee on Depreciation is illuminating on this question.

6. I also consider that advantage should be taken of the prospect of being able to redeem a part of the 1921 Loan in 1946. In that year, as pointed out in Paragraph 2 (v) of the General manager's Memorandum, Interest and Sinking Fund charges will decrease by £126,000 per annum or more and it will, therefore, be possible at that date to bring contributions to the Renewals Fund up to a life basis without undue strain.

7. All these considerations appear to me to lead to the conclusion that the Kenya Government should strongly support the proposal that the contributions to the Renewals Fund should be 2% until 1945 and thereafter on a life basis.

8. From the Colony's point of view I regard this proposal as greatly preferable to the alternative put forward by the Railway Council, namely, that, starting with 1935, contributions should be on a life basis with power to use the unrequired balance in the purchase of additional Railway assets. This proposal entails a higher annual contribution to the Renewals Fund (B) and would, therefore, prejudice the Colony's expectation of receiving full reimbursement of Interest and Sinking Fund charges (C). Furthermore the utilization of a part of the Renewals Fund on Betterment would mean that a charge which now ranks lower in order of priority than Loan charges would be given preference over Loan Charges as well as over the claims of the Reserve. The Colony would, therefore, be in a weaker position in regard both to its prospect of receiving reimbursement of Loan expenses and to the maintenance of a Reserve. So far as the Colony is concerned I consider that, until an adequate Reserve has been built up, the first claim on any money available for allocation to the Reserve or to the Betterment Fund should be to the Reserve rather than to the Betterment Fund.

9. With regard to the amount of the Reserve to be aimed at the position should, I think, be reviewed from time to time. For present purposes I think that this Government might support the General Manager's proposal that the Reserve to be accumulated (if his proposals in regard to the Renewals Fund contributions are approved) should be £1,000,000 but I suggest that the position be reconsidered when the Reserve approaches that figure.

(sd.) H. H. RUSHTON

TREASURER.