

1931

Kenya

No. 17221

SUBJECT CO 533/413

K. A. R. Depreciation

Provision for Renewals

Previous

16/50/30

Subsequent

31/29/33

11 May 28
A. G. V. Payne Conf
forward copy memorandum by Mr. Manager on Renewals
for Renewals will submit by Railway Board regarding
further representations be made for 2% contribution to
Renewal Fund. Comments on Renewal Fund and
state arrangements being made to credit it with
2 1/2% ~~of~~ this year.

16/10/30
KLD
AM

A. Renewals.

As I anticipated when "a return to the charge" was foreshadowed this despatch misses the bus. It really ignores the determining factor, i.e. the liability in respect of the capital cost of the original railway. Apart from this, there is, I think, no doubt that the proposal of 2% for 10 years would have been agreed to, even by the Treasury, as justified on the merits. The position is fully set out at the end of paragraph 2 of the letter to the Treasury of 28th January, a copy of which was sent to the H. Cr.

13/1/31

13
16250/30

I think it would merely be a waste of time to try to argue further with the Treasury and the H. Cr. should now be told definitely that the arrangement agreed with the Treasury must be regarded as definite and that provision at 2 1/2% must be made in 1932 and 1933 and thereafter in the absence of any further arrangement at the full life rate the short provision in the ^{earlier} ~~later~~ years also being made good. (I wish the 2 1/2% had also been agreed for 1934 as the estimates for that year will have to be prepared before the general question comes up.)

1000

The Treasury
have frequently
expressed their
view that
the discussion
would be held in
1933 & come into
effect in 1934
WCS

B. Reserve.

The H. Cr. (para. 8) sees no immediate prospect of placing £200,000 to Reserve as well as 2 1/2% to renewals. At the discussion with the Treasury

Treasury Sir C. Bottomley was careful to say that no assurance could be given that the object of accumulating 2500,000 would be achieved by the end of 1934 and the Treasury expressed contentment if instructions were given for the Reserve Fund to be raised to that figure as rapidly as circumstances allow, and if possible by the end of 1934, on the understanding that the sanction of the H.Cr. will be sought before any recourse is had to the renewals fund to meet any emergency for which the fund ~~or~~ reserve are insufficient.

Such instructions were given, and if the Admin. makes every endeavour to hold up the Reserve accordingly that is the most that is required at the moment.

I think the reply might deal with this point on the above lines.

C. Loan Programme.

See para. 9 (a). It is not strictly correct to say that the additional loan expenditure ^{for} of both the Kedowa-Kericho and Thika-Donyo Sabuk branches has been sanctioned, since in the case of the Kedowa-Kericho branch the inclusion of the service in the loan programme has been agreed only in principle and subject to further investigations. This might be pointed out in the reply.

As regards the other transport items in the approved loan programme, they were sanctioned on the conditions that effect is given to the agreement with the Treasury as to the Renewals Reserve Fund, and also that fresh capital

capital expenditure (which includes the expenditure in question) will be deferred as far as possible until the traffic outlook improves.

? The H.Cr. should be informed to this effect.

D. Liability in respect of the cost of the Original Uganda Railway.

See para. 10 in which the H.Cr. expresses the hope that the question of repayment ~~off~~ has been definitely accepted as a liability against either the Transport Admin. or the Government of Kenya. The agreement with the Treasury, the terms of which are set out in para. 5 of the despatch to the H.Cr. of the 17th June 1929 (No. 5 of 15697/29), definitely admitted the liability, but the question of repayment and the terms of agreement were left over for consideration by H.M.C. until 1934. I cannot see why there should be any misunderstanding as to the position and the statement in Parlt. in 1914 that no provision for repayment is contemplated under the Act does not affect it. If the Act had definitely provided for repayment there would have been nothing to argue about! The attached copies of Questions and Answers in the House of Commons on 20/21 March 1907, 17 June 1907 and 6 August 1907 are really more material, particularly the statement in the reply of 6 August 1907 that "if the present arrangements are continued the Railway will belong to the Imperial Government when the debt is paid off" - the debt which was being liquidated by annuities paid by the Imperial Exchequer, the last of which

fell

(bill for payment, on November, 1926.

I think the reply on this matter might merely point out that, although, as stated in 1914, the Acts do not contemplate repayment it was, on the other hand, definitely stated by Mr. Churchill in the House of Commons on the 6 August, 1907, that if the then arrangement were continued the railway would belong

to the Imperial Government when the debt was paid off, but that while the liability was necessarily admitted it has been agreed that the question of repayment should be postponed until 1934 and that the S. of S. is unable to anticipate the ultimate decision by any further statement at the present time.

If the action suggested above is approved it will scarcely be necessary to consult the Treasury and it will be sufficient to send them a copy of the correspondence, i.e. No. 1 and enclosure and the reply without comment.

(Signed) H. T. ALLEN
29/6/31

(The above minute was prepared for a letter before going on leave & sent for copying. (S))

I agree throughout
acceptance
11/7/31

13/7/31

13/7/31

2. 1/2 Lib. (Yama Land) (See 10/11/31 & 12) - 27 JUL 1931 4
(No. 1) (Revised.)

To Secy (with 5992) 28 JUL 1931

DESTROYED UNDER STATUTE

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BY AIRMAIL

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30/11/31

to J. Campbell & ...
to be despatched before he left for ...

He agrees that this is
no other way for us to propose to
the Treasury, to agree to release to the
Reverend's fund. He also thought, when
I put the point to him that we
should leave the Treasury to ask for
further information, they think fit. He
says "I am so sure that
it is useless to go into further
details. He attached off to the

Person is a line that I discussed
with Sir Campbell & those of
sufficiently self explanatory. Sir
Campbell, while not wishing to
acquiesce in the point, agreed with
me that it would be better for the
full provision for arrears to appear
as a working expense in the
Income Tax Return

W. Allen
21/9/31

The provision for arrears in
the accounts is not of the
nature of a working expense
and will be not given the same treatment

W. Allen
21/9/31

To Treasury (H/124 - dep. for dep.)
no 124/29/31

6. Treasury %
Inquire if any objection to realized deficits
being shown as such in Balance Sheet and
not deducted from Revenue Fund. 3/2 %
contribution to Revenue Fund should be made
in 1932 returns.

Sir J. Campbell

Tax will remember that
the question of accounting for this

Autograph 8.
W. Allen
21/9/31

W. Allen

deficit was mentioned then we
discussed but I understood that you
were not disposed to acquiesce in the
point. In answer to the Treasury
I therefore refrained from going into that
point beyond saying that the provision
for arrears should be shown in the
Income Tax Return as a
working expense. Personally I see
no objection to the Treasury
proposing it as all to the good
to have the matter clear on
that point so as to take to the
Board old days when no proper
provision for arrears was made.

The fact was not self-evident
so to think that before coming
to any conclusion it would be
well to consult the DCA on
the technical aspects?

W. Allen
3/10/31

W. Allen
3/10/31

W. Allen
3/10/31

W. Allen
3/10/31

Mr. Allen,

There are two possible ways of creating a Railway Renewals Fund. One is to set aside out of earned profits of working each year such sum as those profits will bear - and, if there is no working profit in a given year, letting that year go by without making any contribution to the Renewals Fund. That way has the very serious defect that the provision made for Renewals depends not on the amount which the renewals will in due course require but on the financial results of working during the year.

The other method is to treat the provision for renewals not as a reserve accumulated out of profits but as a definite liability for which provision must be made year by year whether profits are earned or not; the amount of which provision depending not on the prosperity of the concern but on the amount of the calculated annual depreciation of the wasting assets which will in due course have to be renewed. This is the only sound method, and it is the one which has been agreed upon for the Kenya and Uganda Railways and Harbours Department. That being so, the fact that there is a loss on the working of the Department during a given year after transferring the proper annual contribution to the Renewals "Fund" is no ground for not making in the books the full annual contribution to that "Fund" (thus raising the "Fund" to its proper figure)

nor

nor for raiding the "Fund" to meet the deficit. It would be almost as improper to cover up the deficit in that way as it would be to do so by reducing the amount of the liability "Sundry Creditors".

I therefore agree with Mr. Skevington's view, and I see no technical difficulty in carrying it out. In 1930 there was a loss of £83,000 odd, which was met from the Reserve Account - quite properly because that was the object - or one of the objects - of the Reserve Account. If 1931 shows the anticipated loss, it can be charged to the Reserve Account until that is exhausted and the balance would then be charged to a Deficit Account.

From the 1930 Balance Sheet you will see that the liabilities for Renewals and Betterment and Reserve were covered by cash balances (including in that term the Department's balance in the Joint Colonial Fund); so I do not think that a cash shortage should occur yet awhile.

I should be glad if these files could be returned to me when action is completed, as there is a good deal in them of which we ought to have a note and this is the first we have seen of them.

A. J. Harding

Director of Colonial Audit.

7-10-31

*Draft to Mr. Skevington hereafter
Mr. Allen 9/10/31*

+reducing it to
£16,789.

X.15697/29.
X.16250/30.
X.17221/31.

To Treas (Sherrington To.) band - 12 OCT 1931

8
TREASURY

16th October, 1931

Agree to realised deficit for 1931, so far as it cannot be met from the Reserve Fund, being carried to the Balance Sheet as a deficit, and to similar treatment of the realised deficit, if any, for 1932. Provision for Renewals Fund Contribution at 2 1/2% should be made in 1932 Estimates.

(To me 20 Oct.)

? as in ltr to him for conser -
copy kept without cover to T4 LA for 1931
D.C.A. to see later.

Sherrington
24.10.31.

As time is getting on, I think it would be best to telegraph fully as in the alternative draft B which I put up for conser. The arrangement it is now suggested should be approved really includes the conditions at A at the end of para. 3 of No. 5, and it would, therefore, not seem necessary to refer to them specifically. If the telegram I propose is approved, it would not seem necessary to send the correspondence with the Treasury. If the official correspondence alone were sent, it might leave an impression that there was some difference of opinion between the Colonial Office and the Treasury, whereas, in fact, there was none.

This file and the other two files referred to by the D.C.A. in the margin at the end of his minute

minute of the 7th October should be sent to him when action has been taken.

W. Allen

22/10/31

[Signature]
23/10/31

W. Allen 24.10.31

9 To Sec Tel No 32 (4 and) = 24/10/31

10 To Treas - ltr 9 - 3/10 - 26 OCT 1931

11 H. Cr. for Transport Conf. 30th September

In view of the important decision conveyed in No. 2, and the financial position confronting the Transport Services, solicits consideration of the problem, with a view to finding some means whereby the financial burden now resting on the Railways may be eased. Can only suggest at the moment the conversion of the £5,000,000 6 per cent Stock, 1946-56.

Mr. Frantson

As the views of the Kenya Government have not yet been received [see para 21 of (C)] then paper can now be passed to D.C.A. - see last para of minutes of 7.X.31 and 22.X.31.

[Signature]
27.X.31

W. Allen
6/11/31

Returned with thanks

A. J. Harding

21-11-31

Action of
last para of
No. 2
to be taken
6.17.31
Comm. of
the 1931 Com

C. O.

Mr. Allen 22/10/31

Mr. Haubbell

Mr.

Mr. Tomlinson

Sir O. Bottomley 24. 10/31

Sir J. Shuckburgh

Sir G. Grindle

Perm. U.S. of S.

Parly. U.S. of S.

Secretary of State

R-26OCT
26

No. 82

Your despatch

(No. 4) 7th September No. 151 after consulta

tion with Treasury I agreed that

Governments of Kenya and Uganda

should not be called up at this

stage to make good prospective de

ficits but it will be recognised

that necessity for such assistance

may arise later if shortage of cash

should occur. A liability to

contribute to Renewals on basis al

ready laid down will continue any

deficits will have to be made good

from future profits and therefore

in order that position may be clear

proper course will be for unavoid

able deficits to be shown in balance

sheet as accumulated deficit in

instead of deducting them from

balance of Renewals Fund. Extent

DRAFT

Tel. for conson. v. minutes.

Copy to Treasury 26 OCT 1931

Higson, Nairobi.

Copy to Treasury

instead

to which savings are being effected
is noted with satisfaction and with
concurrence of Treasury I approve
of realised deficit for 1931 so far
as it cannot be met from Reserve

Fund being carried to balance sheet

as a deficit. Also on the under-

standing that every possible means

of reducing prospective deficit

will continue to be explored I shall

be prepared to agree to similar

treatment of realised deficit, if

any for 1932. Provision for

Renewals at rate of 2 1/2% should

of course be shown in 1932 Estimates.

Telephone No.: VICTORIA 1234.

RECEIVED

17 OCT 1931

89

Any reply to this letter should be addressed to
THE SECRETARY,

TREASURY,
WHITEHALL, LONDON, S.W.1,
and the following number quoted:

COL. OFFICE

TREASURY CHAMBERS.



16 October, 1931.

S.32902/03/7.

17 OCT 1931
COL. OFFICE

Sir,

nos.

I have laid before the Lords Commissioners of His Majesty's Treasury Mr. Allen's letter of the 21st September, 1931, (No. 17221/31) with the accompanying copy of a despatch from the High Commissioner for Transport, Kenya and Uganda, with regard to the financial position of the Kenya and Uganda Railways and Harbours, and they direct me to request you to convey to the Secretary of State for the Colonies the following reply.

My Lords note that, on the basis of contributions to the Renewals Fund at the rate of 2%, it is anticipated that the deficit in respect of the Railways and Harbours for the present year will amount to 2205,239, and that a further deficit in the neighbourhood of 100,000 is likely to be incurred in the year 1932. They agree that the Governments of Kenya and Uganda should not be called upon at this stage to make good the deficits, but it might become necessary

later

The Under Secretary of State,
Colonial Office.

later for these Governments to provide assistance if the deficit cause a shortage of cash in the Transport Administration.

My Lords note with satisfaction the extent to which savings have been effected on the Expenditure Estimates, and they agree that the realised deficit for the year 1931 should, so far as it cannot be met from the Reserve Fund, be carried to the Balance Sheet as a deficit. That course would, in their opinion, be preferable to deducting the net deficit from the balance of the Renewals Fund. On the understanding that every possible means of reducing the prospective deficit will continue to be explored, My Lords will be prepared to agree to similar treatment of the realised deficit, if any, for the year 1932. Provision for Renewals Fund Contribution at 2 1/2% should be secured, as in the 1931 Estimates.

I am, Sir,
Your obedient servant,

A. V. Nield *Asst. Secy*

C. O.

LC 17221 431

10

Mr. *W. H. C. 9/10*

Mr.

Mr.

Mr. Tomlinson.

Sir C. Bottomley. *10.10 fr.*

Sir J. Shuckburgh.

Sir G. Grindle.

Perm. U.S. of S.

Parly. U.S. of S.

Secretary of State.

O.D.
R. 10 OCT
D. 12 "

12 Oct 1931

Handwritten initials

Dear Skewington

In letter of the

DRAFT.

(6)

2001: (S. 32902 10/3/7)

*F. Skewington Esq
M.B.E.
Treasury*

*regarding the prospective
deficits on the working
of the Kenya Uganda
Railways & Harbours*

*we agree that
the realised deficits
shall be shown as such
in the Balance Sheet
to be
deducted from the
Renewals Fund. In
fact this is what
has to be done*

the an/ (letter) as did not go

into details accounting details

regard saving (& this ^{is in accordance} ~~means~~ ~~the~~

^{with} ~~point~~ as the last ~~part~~ paragraph

of your letter) that the actual liability at the rate of 2 1/2%

should be shown as a working

expense in the Estimates for

1932. The liability ^{to be} ~~was~~ ~~shown~~

in full in the letter for 1931

of the anticipated loss

~~is~~ in these ~~loss~~ can be

charged to the Reserve Account

until that is exhausted

the balance would then

be charged to a deficit account.

James Sumner
(Signed) H. T. ALLEN



TREASURY CHAMBERS,
WHITEHALL, S.W.1

In reply
please quote Regd. No.

S. 32902/03/7.

2nd October, 1931.

Dear Allan,

Colonial Office letter of 21st September, 1931.
(17821/31), seeks authority for meeting the expected deficit
of the Kenya and Uganda Railways and Harbours for 1931, and
any unavoidable deficit for 1932 from the Renewals Fund.

In asking that Treasury sanction should be sought
before any recourse is had to the Renewals Fund to meet any
emergency for which the funds in reserve are insufficient
we did not wish to imply that to raid the Renewals Fund
would be the proper method of meeting any unavoidable deficit.
Our concern in fact was to safeguard the Renewals Fund from
unnecessary raids.

In our view any unavoidable deficits (after
exhausting the Reserve Fund) ought to be shown in the
Railways and Harbours Balance Sheet as an accumulated deficit.

It

H. T. Allen, Esq.,
Colonial Office.

611

N015

Handwritten notes:
Rout...
to the...
to the...
111

12

It would then be clear to the local planters that there existed a deficit on past working which would have to be made good out of profits before any question could arise of reducing rates on the ground that rate reductions could be afforded. It would almost certainly be more difficult to bring home that fact and the sanctity of the Renewals Fund contributions if deficits were deducted from the balance of the Renewals Fund, even though the nature of the deduction was clearly shown in the Balance Sheet.

The Transport Administration appears to be tackling with commendable vigour the problem of reducing Railways expenditure, and provided all possible means of reducing the prospective deficits continue to be explored we shall have nothing to say.

We should not wish to question the view that the Governments of Kenya and Uganda should not at this stage be called upon to meet the deficits. It would be preferable that the Transport Administration should be regarded as a self-supporting undertaking, liable to make good any deficits

out

out of future profits. It may, however, happen, especially if the depression continues much longer, that the accumulated deficits will produce a shortage of cash and that the two Governments will be bound to come to the rescue.

Before we reply officially I should be glad to know whether you see any serious objection to the realised deficits being shown as such in the Balance Sheet and not deducted from the Renewals Fund.

The 1932 Estimates should, of course, be framed on the basis of providing a 2% Renewals Fund contribution, and the estimated deficit then arising should be shown as a deficit.

Yours sincerely,

J. Praeger

53

C. O.

Mr. Allen 21/9/31

Mr.

Mr.

Mr. Tomlinson.

Downing Street,

21 September, 1931.

X Sir C. Bottomley 21.9.31

Sir J. Shuckburgh.

Sir G. Grindle.

Permt. U.S. of S.

Partly. U.S. of S.

Secretary of State.

IMPORTANT.

C. D.
R 21 SEP
D 21

SV

Sir,

With reference to paragraph

DRAFT.

(No. 13 of 16250/30)

THE SECRETARY,
TREASURY.

Hand. G.

Car. r. minute.

*Fr. H. Cr. No. 151 7th Sept 1931
(No. 4)*

*Fr. H. Cr. No. 126. 28 Sep 1931
(duple has with)
rel. h. 24*

7 of the letter from this Department of the 28th of January, I am directed by Mr. Secretary Thomas to transmit to you, to be laid before the Lords Commissioners of the Treasury, the accompanying copy of a despatch from the High Commissioner for Transport Kenya and Uganda, with regard to the financial position of the Kenya and Uganda Railways and Harbours.

2. It will be seen that, on the basis of contributions to the Renewals Fund at the rate of 2½ per cent, it is anticipated that the deficit in respect of the Railways and Harbours for the present year will amount to £205,239,

and

and also that a further deficit in the neighbourhood of £100,000 will be incurred in the year 1932. The High Commissioner therefore asks that sanction may be obtained for charging these prospective deficits to the Renewals Fund. Their Lordships will recollect that it was agreed that their sanction should be sought before any recourse is had to the Renewals Fund to meet any emergency for which the funds in reserve are insufficient.

3. The Secretary of State concurs in the view of the High Commissioner that, having regard to the financial position of the Governments of Kenya and Uganda, it is out of the question to call upon those Governments to meet the prospective deficits, and, in the circumstances, there is, in his opinion,

no alternative to asking the Lords Commissioners to agree to the proposal that they should be met from the Renewals Fund. So far as the Secretary of State is in a position to judge, the savings referred to in paragraph 4 of the High Commissioner's despatch, which represent approximately 20 per cent of the original estimate of expenditure, show that the local administration has made a real effort to grapple with the problem, but if the sanction now sought is given, it would, of course, be on the understanding that every possible means of reducing the prospective deficits would continue to be explored. Further, the Secretary of State would propose to ~~lay it down as~~ ^{make it} a condition that the liability to contribute to the Renewals Fund on a ^{the} 21 per cent basis

A copy of the despatch from the Director ^{with} dealing with the economies referred to in para 7. The present despatch is also enclosed.

Already laid down

basis of the value of existing assets must continue, and that any sums taken from the Fund in respect of realised deficits in either 1931 or 1932 should be replaced as soon as the finances of the Administration permit. In addition the Secretary of State considers that in agreeing in principle to the proposal in regard to 1932 it should also be laid down that the ^{actual} liability ~~of~~ ^{at that} 24 per cent should be grown as a working ~~basis~~ ^{reference} in the Estimates for 1932 that no definite amount should at present be allocated to meet the anticipated deficit in that year; and that the extent of any further recourse to the Renewals Fund should be determined by and limited to the amount of the deficit which in the result may be found to be unavoidable after every

effort

effort has been made to balance the accounts of the year.

4. As the High Commissioner is anxious for an immediate decision the Secretary of State trusts that the Lords Commissioners will see their way to inform him at an early date that they concur in the proposals in this letter.

I am, etc.

Sydney H. Allen

BY AIR MAIL.



16 H

HIGH COMMISSIONER FOR TRANSPORT.

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

No. 151

RECEIVED
17 SEP 1931
COL OFFICE

17th September, 1931

Sir,

No. 3 of 14143/A/31.
(Attachment)
In view, no def.
available.

In paragraph 7 of my despatch Transport No. 126 of the 28th of July, 1931, I indicated the probability that the financial results of working the Transport Services for the year 1931 would not admit of the contributions to the Renewals Fund being made on the scale laid down by your predecessor, the shortage at the time I forwarded that despatch being estimated at between £100,000 and £150,000.

2. I have again had an opportunity of examining closely the latest estimate of the probable financial results of working the Railways and Harbours, in consultation with the General Manager, and it now appears that the Revenue and Expenditure of the Administration is likely to be:-

22 SEP 1931
copy to Treasury

Amud. Feb. 20/32

Railway Revenue		£	2,000,000
Railway Working Expenditure:			
Ordinary Working Expenditure	£		1,269,801
Contributions to Renewals Fund on 2 1/2% basis			<u>307,860</u>
			<u>1,577,661</u>
Estimated Balance available to meet Loan Fund Charges			422,339
Loan Fund Charges			609,368
Less Miscellaneous Receipts Net Revenue Account			<u>25,000</u>
			<u>584,368</u>

Leaving...

THE RIGHT HONOURABLE
J.H. THOMAS, M.P.,
SECRETARY OF STATE FOR THE COLONIES,
DOWNING STREET,
LONDON S.W.1.

Leaving an estimated Loss in respect of the Railways of.....	£. 162,029
To the foregoing has to be added the loss on the Port which is now estimated at.....	<u>50,000</u>
Making the loss for 1931, if these Estimates are realised.....	222,029
There is a balance in the Reserve Account of.....	<u>16,790</u>
so that the total estimated shortage in respect of the Railways and Harbours for the year 1931 is now.....	<u>£205,239</u>

3. This estimated loss of £222,029 is based on the Railway Earnings reaching £2,000,000, an estimate which rests largely upon the Uganda cotton crop prospects being so favourable shortly as to produce imports in anticipation of its disposal. Failure of that anticipation may substantially increase the estimated loss above the figure given.

4. The estimated Working Expenditure of £1,269,801 represents a saving of £328,611 on the original estimate and follows from the drastic economies that have already been introduced.

5. Two courses are open to the Administration for the purpose of financing the actual 1931 loss:-

- (a) to call upon the Governments of Kenya and Uganda to meet it; or
- (b) to withdraw the amount from the Renewals Fund.

In the present financial position of these territories the first alternative is out of the question.

6. In the communication addressed by your predecessor on the 28th January, 1931, to the Secretary to the Treasury (No. 16250/30) an assurance was given to the Lords Commissioners that their sanction would be obtained before any recourse was had to the Renewals Fund balance...

No 13 ch 16250/2c

balance for the purpose of meeting such an emergency as has now arisen. The position confronting these Transport Services is such that, in my opinion, there is no alternative but to seek that sanction.

7. As indicated in my previous despatch, Railway Council will, at its next meeting, consider the draft Estimates of Revenue and Expenditure for 1932. Allowing for a full contribution to the Renewals Fund on the scale laid down by you, these draft Estimates at the moment disclose an estimated loss, on the basis of a Railway Revenue of £2,150,000, of £118,174 and a loss on the Harbours of £45,336, making a total estimated loss of £163,510. This sum will be reduced by the amount represented by the additional economies which have been tentatively approved by you, subject to consideration of Railway Council's recommendation, and the effect of these economies, as well as certain other savings not provided for in the draft Estimates as they appear at the moment is likely to reduce the estimated loss of £163,510 to a loss in the neighbourhood of £100,000 which, should it materialise, I also propose should be met by a temporary withdrawal from the Renewals Fund.

*Draft of the
Despatch
has been
sent to
the
R. C. Secy
for
approval
W.M.*

8. I trust, therefore, that you will see your way to securing from the Lords Commissioners of the Treasury their sanction to financing the 1931 loss in the manner proposed and to make similar provision in the 1932 Estimates for the estimated loss which, after Railway Council has considered those Estimates and I have had an opportunity of studying their advice, it is agreed should be provided for.

9. The net result of these proposals will be to reduce the contribution to the Renewals Fund from

£307,860.....

£307,860, the amount required on a 2 1/2% basis of the value of wasting assets, to £102,621 in 1931 and to approximately £200,000 in 1938.

10. In all the circumstances it is considered that this method will meet the situation in a time of grave financial difficulty with least hardship to all concerned and with least damage to the Transportation Organisation.

11. I need hardly assure you that every possible means of reducing expenditure is being explored, but, in common with all other railways in the world, the fall in revenue makes it almost impossible to balance the Transportation budget without calling to some extent upon Reserve Funds in the manner suggested above.

12. I should be glad to receive your early concurrence with these proposals, as the draft Estimates are now under consideration.

I have the honour to be,

Sir,

Your most obedient,

humble servant,

H. J. G. G. G.

HIGH COMMISSIONER.

C.O.

22 JUL 1931
244

20

17226/31

Mr. Eastwood 1677

Mr. Parkinson 2077/31

Mr. A. Campbell 1077/31

Downing Street,

27 July, 1931.

Sir C. Bottomley 21.7.31 fs

Sir J. Shuckburgh.

Sir G. Grindle.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

Hand. R. in 170207/31

Sir,

DRAFT.

(y)

I have the honour to acknowledge

the receipt of your confidential despatch of the 11th May, in which you dealt with

the provision to be made for renewals and

reserves in the accounts of the Railway

Administration and with various other financial matters.

2. As regards ^{renewals} renewals, the position

is fully set out in paragraph 5 of the

letter to the Treasury of the 28th January,

of which a copy was enclosed in my despatch

No. 15 of the 5th February, and, having

3. ~~The determining factor is~~ regard especially to the liability for the repayment of

the original cost of the Uganda Railway to

His Majesty's Government in 1914. In the

~~of maintenance. I feel that I do not feel~~

justified

TRANSPORT

KENYA-UGANDA

CONFIDENTIAL

High Commr.

copy. Video. 28 JUL 1931

~~Copy of the copy of the letter to the Treasury of the 28th January, of which a copy was enclosed in my despatch No. 15 of the 5th February, and, having regard especially to the liability for the repayment of the original cost of the Uganda Railway to His Majesty's Government in 1914. In the of maintenance. I feel that I do not feel~~

16250/30.

Q.A. (with 1/5 219)

[See Station base after return]

justified in re-opening the question
with the Treasury ^{and} The arrangement

agreed with them must therefore be re-

garded as definite; ^{and} provision ~~must~~ ^{should}

accordingly be made at the rate of 2½

per cent in 1932 and ⁱⁿ 1933, and ⁱⁿ the

absence of any further arrangement,

~~thereafter~~ at the full "life" rate -

the short provision in the earlier years

also being made good.

23. I note from paragraph 8 of your
despatch that you see no immediate pros-
pect of placing £200,000 a year to reserve,
as well as 2½ per cent to renewals. In

the agreement reached with the Treasury,

however, it was ^{suggested} ~~pointed out~~ that no assurance

could be given that the sum of £600,000

would actually be accumulated by the end

of 1934, and the ^{L.C. are satisfied that} Treasury ~~stated that they~~

~~would be content if instructions were~~ ^{given}

given for the Reserve Fund to be raised

to that figure as rapidly as circumstances

allow,

allow, and if possible by the end of 1934,
on the understanding that their sanction
~~will~~ ^{will} be sought before any recourse is had
to the Renewals Fund to meet any emergency
for which the ~~resources~~ ^{fund in reserve} are insufficient.

Such instructions were conveyed to you in
paragraph 4 of my despatch No. 24 of the 9th
March. If, therefore, your administration
~~makes~~ ^{is well} every endeavour to build up the
reserve accordingly, that is the most that
is required at the moment.

^{It is suggested} In paragraph 9 of your despatch,
you said that ^{is well} additional loan expenditure
for the Kedowa-Kericho and Thika-Donyo Sabuk
branch lines has been sanctioned. I would
~~obviously~~ ^{point out} that this is not strictly
~~speaking~~ correct, since in the case of the
Kedowa-Kericho branch, the inclusion of
the service in the loan programme has been
agreed only in principle, and subject to
further investigation.

16 on 16250/30.



allow, and if possible by the end of 1934,
on the understanding that their sanction
~~will~~ ^{will} be sought before any recourse is had
to the Renewals Fund to meet any emergency
for which the ~~Reserve Fund~~ ^{fund in reserve} is insufficient.

Such instructions were conveyed to you in
paragraph 4 of my despatch No. 24 of the 9th
March. If, therefore, your administration
~~makes~~ ^{is made} every endeavour to build up the
reserve accordingly, that is the most that
is required at the moment.

^{It is suggested} ~~You said~~ that additional loan expenditure
for the Kadowa-Kericho and Thika-Donyo Sabuk
branch lines has been sanctioned. I would
~~point~~ ^{observe} out that this is not strictly
operating correct, since in the case of the
Kadowa-Kericho branch, the inclusion of
the service in the loan programme has been
agreed only in principle, and subject to
further investigation.

16 on 16250/30.

5.6. As regards the remaining loan expenditure recommended for transport purposes, the position is that the expenditure was sanctioned on the condition that effect is given to the agreement with the Treasury regarding the renewals and reserve ^{funds,} and also that fresh capital expenditure (which includes the expenditure in question) will be deferred as far as possible until the traffic outlook improves.

6.7. In paragraph 10 of your despatch, you expressed the hope that repayment of the cost of the original Uganda Railway has not been accepted as a definite liability against either the Transport Administration ^{and Uganda} or the Government of Kenya. Although ~~as stated in 1914,~~ the Acts do not contemplate repayment, it was, on the other hand, definitely stated by Mr. Churchill in the House of Commons on the 6th August, 1907, that if the then arrangements were continued,

~~the~~
 the 23 April 1914
 House of Commons on
 the 23 April 1914



1. make copies of the Questions & Answers in the House of Commons during 1907, for comparison of reference.

(i.e. the Committee's own estimate in 1925)

the Railway would belong to the Imperial Government when the debt was paid off. But ~~the~~ the liability was ~~not~~ ^{has} necessarily ^{been} admitted. It has been agreed that the question of whether repayment should actually be made should be ~~has been~~ postponed until 1934, and I am unable to anticipate the ultimate decision on the matter by any further ^{statement} ~~statement~~ at the present time.

I have, etc.
 (Signed) PASSFIELD

16100/30 Kenya

DOWNING STREET,

9. March, 1931.

CONFIDENTIAL (3)

Sir,

I have the honour to confirm the telegram in the following terms which I sent to you on the 5th March (Confidential No. 75) regarding the loan requirements of the Government of Kenya and the Kenya and Uganda Railways and Harbours:-

Your confidential despatch 17th June 1930 No 91 loan requirements. With concurrence of Treasury I now approve proposals to the extent and subject to the conditions indicated in the correspondence enclosed with my confidential despatches of 24th September 1930 and 5th February 1931. Despatch follows"

Pr. Treas.
24th Feb.

2. I enclose a copy of the reply which has been received from the Home Commissioners of the Treasury to the letters from the Colonial Office of the 24th January, copies of which accompanied my confidential (2) despatch of the 5th February.

3. It will be convenient to summarise the position briefly:

The figures given in paragraph 4 of Sir Richard Grieg's confidential despatch No 91 of the 17th June 1930 were as follows:-

Approved services	£3,804,100
Further requirements	99,874,600

In

GOVERNOR,
BRITISH GENERAL
SIR JOSEPH A. BYRNE, K.C.M.G., F.R.S., C.B.
etc. etc. etc.

In submitting the proposals to the Treasury, the figures were revised as follows:-

	£	£
Approved services	3,264,140	
Add for Branch lines	<u>48,100</u>	3,307,240
Further requirements	2,274,605	
Deduct (Nairobi Town Planning) 30,000		
Branch lines <u>400,000</u>	<u>430,000</u>	<u>1,844,605</u>
		5,151,845

of which £3,495,954 represented Colony services and £1,657,891 transport services.

The adjustments referred to in paragraphs A(1) and B(1) of Mr. Moore's confidential telegram No. 693 of the 18th November, 1930, had the effect of increasing the Colony services by £165, and reducing the Transport services by £12,000, with the result that the total of the agreed services to be met from advances pending the issue of a further loan is now £1,775,146 calculated as follows:

	Total Services	Services pro- vided in Schedule of Ordinance	Services unprovided
	£	£	£
Colony	3,494,107	2,281,971	1,202,136 (a)
Transport	<u>1,645,891</u>	<u>1,132,881</u>	<u>513,010</u>
	<u>5,139,998</u>	<u>3,364,852</u>	<u>1,775,146</u>

(a) This figure is also arrived at by deducting from the amount of £1,331,595 referred to in paragraph 4 of the

Treasury

Treasury letter of the 24th February, the sum of £69,459, representing services originally included as "further requirements" for which provision has been made in the schedule of the recent loan.

4. This additional loan expenditure has been approved on condition that effect is given to the arrangements set out in paragraphs 2 and 3 and paragraphs 6 and 8 of the Treasury letter of the 24th February, which deal respectively with the questions of

- (a) the surplus balances of the Colony; and
- (b) the provision to be made for Renewals and Reserve in the accounts of the Kenya and Uganda Railways and Harbours.

I have addressed you separately on these matters in (a) my Kenya confidential ⁽²⁾ despatch of the 9th March, and (b) my Transport despatch No. 24 of the 9th March. One copy of each of these despatches is enclosed for ready reference.

5. I would also invite your attention to the further conditions referred to in paragraphs 4 and 9 of the Treasury letter of the 24th February:

- (1) that until the revenue outlook is brighter, the Colonial Government will proceed slowly with fresh capital expenditure not directly and immediately productive.
- (2) that the fresh capital expenditures on Transport services will be deferred as far as possible until the traffic outlook improves, and
- (3) that the programme of capital expenditure on Transport services will be regarded as final until 1932, except in abnormal circumstances.

6. The Lords Commissioners of the Treasury have agreed to exclude from the last stipulation the two extensions Kedowe-Kerocho (Jamji) - £300,000 - and Thika-Donyo-Sabuk £50,000, included in the provision of £400,000 for branch lines. Provision for the third extension to Betere - £50,000 - was made in the schedule of the recent loan. As regards the Kedowa Jamji extension, I would refer you to my confidential telegram No. 32 of the 30th January and my confidential despatch of the 4th February. Mr. Moore's confidential despatch No. 175 of the 3rd December, 1930 regarding the extension to Donyo Sabuk is receiving consideration, and I shall communicate with you on the subject in due course.

7. The remaining item excluded from the programme submitted by Sir Edward Grigg is the sum of £30,000 in respect of Nairobi town planning. In this connection, I would refer you to paragraph 10 A(ii) of the letter to the Treasury of the 26th August, 1930, a copy of which accompanied my confidential despatch of the 9th September, 1930. I shall be glad to receive in due course an estimate of the liabilities ultimately involved in this scheme.

8. I have also to invite your attention to the second point raised in the last paragraph of the above-mentioned letter to the Treasury, I request that when you are in a position to formulate them you will furnish your views as to the final loan proposals of the Government

till 1934, but I have no doubt that you will agree that it is now not merely desirable but imperative that any additional proposals for loan expenditure should be confined to really essential services and as far as possible to services which are directly and immediately productive.

9. In paragraph 11 of his despatch confidential No. 91 of the 17th June, 1930, Sir Edward Grigg submitted certain proposals as regards the power of virement. The position is, however, altered with the passing of the recent specific loan Ordinance No. 49 of 1930, section 3 of which governs virement between items in the schedule to that Ordinance. I see no objection, however, to Sir Edward Grigg's proposals so far as concerns the schedule of approved services now covered by issued loans.

10. I shall address you in a separate despatch with regard to the question of the purchase of the Kenya Protectorate; in the meantime, no public reference should be made to this matter.

I have the honour to be,

Sir,

Your most obedient,
humble servant,

(Signed) PASSFIELD.

UGANDA RAILWAY.

MR. WEDGWOOD (Newcastle-under-Lyme): I beg to ask the Under Secretary of State for the Colonies, with reference to the Uganda Railway Government strip, whether these lands are in the position of a security for the money advanced by the Imperial Government to build the railway; and, if so, whether he will make arrangements that no more of this land be alienated without the sums realised or accruing being allocated specially to the reduction of this debt; instead of being used as at present for current expenditure of the Colony.

The UNDER SECRETARY OF STATE FOR THE COLONIES (Mr. Churchill, Manchester, N.W.): The zone or strip originated in the days when the future status of the railway was still undetermined, and the principle was then laid down that the receipts therefrom should be set off against the capital cost of construction. Now that the railway has become a branch of the Protectorate Administration the retention of the zone as a separate estate is anomalous and administratively inconvenient; and so long as the Protectorate is not self-supporting the appropriation by this country of the profits on the zone does not secure any real repayment to the British Exchequer. In these circumstances His Majesty's Government have decided that the question of repayments on account of the capital cost of the railway shall be deferred until the Protectorate can dispense with an Imperial Grant-in-aid; and that the railway zone shall cease to be treated as a separate estate; the revenue derived therefrom being treated in the same way as the receipts accruing from other lands in the Protectorate.

Copy Copy from book 27 Jun 1961

18
29

Extract from House of Commons Debates of 17th June, 1907.

UGANDA RAILWAY.

MR. HAROLD COX (Preston): To ask the Under Secretary of State for the Colonies what is the indebtedness of the Uganda Railway on account of the sums borrowed upon the credit of the United Kingdom; at what rate of interest those borrowings were made, whether any portion of that interest has ever been paid out of the earnings of the railway; if not, what would be the addition to the indebtedness of the railway up to 31st March, 1907, if compound interest had been charged upon all interest not paid out of the earnings of the railway; what would be the sum due this year from the railway by way of interest upon its total indebtedness; and how much of that sum he hopes to be able to pay to the Chancellor of the Exchequer.

(Answered by Mr. Churchill.) The total sum borrowed for the construction of the Uganda Railway is £5,502,592, of which £2,466,000 was borrowed at 2½ per cent interest per annum and the balance at 3 per cent. As the hon. Member was informed on the 28th of February, the debt is being repaid by means of annuities of which the last payment will fall due on the 15th of November, 1925 but no portion of the payments of principal and interest in connection with these annuities has been drawn from the railway. If no part of the principal sums had been paid off, and the interest had been allowed to accumulate, the additional debt in respect of arrears of interest would have amounted to about £1,177,000 on the 31st of March, 1907, and the interest due this year on the whole debt would have been £192,683. The revenue of the railway is merged in the

Copy to be made by 27 JUL 1931

general

general revenue of the Protectorate, and as that revenue requires a considerable grant from the Exchequer in order to balance the expenditure, there is at present no prospect of meeting the charges on the debt out of such revenue.

UGANDA RAILWAY ANNUITIES.

MR. FELL (Great Yarmouth): I beg to ask the Under-Secretary of State for the Colonies if the instalment of annuity of £319,112 to be paid to the National Debt Commissioners for the Uganda Railway will be payable in full each year until the debt for the construction of that railway is extinguished, or will the annuity be reduced by the amount of any annual profits which may be earned by the railway; and to whom will the railway belong when the debt is paid off.

MR. CHURCHILL: The annuity will be payable in full for the present as it is considered that the interests both of the British taxpayer and of the East African and Uganda Protectorates will be better served by applying the annual profits to the development and extension of the railway with a view to increasing still further the profits derived from it. If the present arrangements are continued, the railway will belong to the Imperial Government when the debt is paid off.

Copy to Mr. Hansard - 27 JUL 1931



HIGH COMMISSIONER FOR TRANSPORT.

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

CONFIDENTIAL.

No. 6

RECEIVED 8 JUN 1931 COL. OFFICE

11th May 1931.

My Lord,

No. 16 in 16280/30

I have the honour to refer to Your Lordship's despatch TRANSPORT No.24 of the 9th of March, 1931, on the subject of the provision to be made for renewals and reserves in the accounts of this Administration.

No. 1A

No. 3

No. 14

2. Before the arrival of this despatch, I had communicated to the Railway Advisory Council the terms of Your Lordship's despatch TRANSPORT No.15 dated 5th February on the same subject, and also a memorandum to me by the General Manager dated 31st March which dealt with the question of the provision for renewals and reserves and particularly General Hammond's letter dated 10th November, 1930, a copy of which was forwarded with Your Lordship's despatch No.15. A copy of this memorandum by the General Manager is enclosed.

The Railway Council at their meeting on the 8th April, after a consideration of these papers and a discussion of the subject, passed the following minute :-

"Council noted from the correspondence placed before it that the Secretary of State proposes to issue instructions that the contribution to Renewals Fund shall be at the rate of 2 1/2% with the possibility of increase to 3% at a later date, while at the same time the Reserve Account is to be increased to £600,000.

"Council desires to re-affirm its resolution (4) embodied in Minute 520 of the meeting of Council held on April 28th/29th, 1930, which reads as follows :-

"That in the opinion of Council, based upon the report of the Departmental Committee and the General Manager's memorandum, dated 29th March.....

Copy files. 28 JUL 1931
Hammond. Conf. 27 JUL 1931

THE RIGHT HONOURABLE LORD PASSFIELD, SECRETARY OF STATE FOR THE COLONIES, DOWNING STREET, S.W.1.

March, 1930, addressed to the High Commissioner for Transport, and subject to review ten years' hence, a case has been established for the retention of the 2% contribution to the Renewals Fund on account of depreciation of wasting assets, as regards the Railway, and that, as recommended by the General Manager, an adjustment should be made in the Estimates for 1930 by transferring the sum of 256,594 to the credit of the Interest Reserve Fund."

"Council hopes that the High Commissioner will consent to address further representations to the Secretary of State in this matter and that His Excellency will transmit to the Secretary of State the memorandum prepared by the General Manager replying in detail to the arguments advanced by General Hammond."

3. I have approved of this minute and forward it to Your Lordship together with a copy of the memorandum prepared by the General Manager. I have examined this subject carefully and on the advice which has been tendered to me consider that a 2 1/2% contribution to the Renewals Fund for the years 1931-33, a contribution which has to be raised to a higher rate in 1934 when the short provision for the years 1931-33 will also have to be made good, is too high for an expanding administration in young and developing countries when Sinking Fund is also being paid and other reserves built up. It appears to me that such a contribution which would make provision for more renewal expenditure than will be required, as is shown in the figures given in the General Manager's memorandum, might be desirable if these territories were fully developed and enjoying prosperous years, but in existing circumstances will penalise the present generation too heavily. In my opinion a less contribution is in present circumstances adequate and the whole situation could be reviewed again in, say, 10 years' when the position in these territories will have been stabilised.

4. At the present time the universal economic depression, combined with certain local difficulties, is having a serious effect on the revenue of this Administration.

It.....

It appears, however, from such information as is available that this Administration is, at present, in no worse straits than many others in this respect. If, at such a time, notwithstanding the fact that provision for Sinking Fund is made, contributions on a full life basis of assets have to be paid to the Renewals Fund, although they will never all be required for this purpose, while in addition the rate of contribution to the Reserve Account is to be at a high rate, the standard of maintenance will be reduced since the necessary money will not be available to maintain it. That is to say, assets will deteriorate more rapidly than they should do and thus make increased demands on Renewals Fund.

5. I am informed that neither the Nigerian Railways nor the Sudan Railways contribute to Renewals Funds at a 3% rate and at the same time provide for Sinking Funds and build up their Reserve Fund to an amount proportionate to £600,000, while I observe from General Hammond's last report on the Tanganyika Railways that no Renewal Fund there has yet been started and that though he recommends the formation of such a Fund by contributions on a life basis for assets, that Fund will pay Sinking Fund charges. It is presumed that full contributions to Renewals Fund and Sinking Fund in addition to large contributions to Reserve Funds have not been made by these Railways in the past owing to the difficulty of making the necessary provision in their annual budgets at a time when both the railways and the territories served by them were developing, although during this period there was no general financial depression, and not because General Hammond has calculated that their requirements for unforeseen obsolescence or any similar cause are likely to be less than on this Administration.

6. I agree with the General Manager in thinking that the purpose for which the Renewals Fund is intended is fully understood and that if money is accumulated in that Fund, additional to the actual calculated requirements for renewals, it will in no way remain as a hidden reserve, but attempts are likely to be made to raid that portion of this Fund referred to by the General Manager as Surplus Renewals Fund in time of shortage of money. Whether reserves ~~would be~~ less likely to suffer from attempted raids if included in a Reserve Account, as is the opinion of the General Manager, I am unable to say, but I agree with the General Manager in thinking that the Reserve Fund should be built up more rapidly. Provision could be made for protecting contributions to this Fund by an arrangement that a certain sum, say £50,000, should be required to be paid in annually, even in bad years, as a first charge after interest charges and Renewals Fund contributions until a certain minimum had been reached, and further, that when in good years a surplus revenue obtained this could be credited to the reserve account or Renewals Fund in an agreed proportion.

7. It will be noted that the General Manager does not now wish to press his original suggestion that rolling stock might be purchased out of Surplus Renewals balance. In connection with this, I invite attention to the fact that even if this arrangement were made it would not allow the General Manager to incur capital liability without reference to higher authority, as stated by General Hammond. The Order in Council defines the powers of the High Commissioner in respect of railway and harbour works and services and the General Manager's powers in this respect have been laid down by the High Commissioner. In all cases, the General Manager's demands for new rolling stock and recommendations for allocations of cost for such stock would be submitted for the consideration of the Railway Advisory Council and then to me before being ordered.

8. I note the conditions on which the approval of the Lords Commissioners of the Treasury of the proposed additional loan expenditure on Transport Services has been given, and make the following remarks on the positions of the Renewals Fund and Reserve Account. As stated in para.12 of my despatch No.57 of the 31st March, 1931, the sum of £56,594 was not transferred from the Renewals Fund to the Reserve Account in the 1930 Account: the Renewals Fund, therefore, was credited with a 2½% contribution last year and arrangements are now being made, in accordance with the terms of Your Lordship's despatch, to credit it with 2½% this year.

16345/30
(Estimate)
In view of despatch

The Reserve Account as shown in my despatch No. 57 dated 31st March, at the 31st December last contained the sum of £16,790 and under the revised Estimates for 1931 now being worked to, and allowing a 2½% provision for contribution to the Renewals Fund, a sum (if the revised Estimates prove to be accurate) of approximately £40,000 only will be available for the Reserve Account, making a total of £56,790 in this account at the end of this year. It is impossible to forecast the railway budget up to the end of 1934, but I see no prospect in addition to making the 2½% contribution to Renewals Fund of placing the sum of approximately £200,000 a year during each of the next three years to the Reserve Account, so as to build up that account to £600,000 by that year.

16345/30

9. I understand from Your Lordship's despatch, Confidential (3) of the 9th March 1931, to the Governor of Kenya, that notwithstanding the fact that the Treasury conditions as regards the Renewals Fund and the Reserve Account are not likely to be fulfilled by 1934, that the additional loan expenditure which has been recommended for the Kedowa-Kericho branch and the Thika-Donyo Sabuk branch has been sanctioned. As Your Lordship is aware, a detailed survey of the Kedowa-Kericho line is now being made and a

16100/30
(Colonial Loan)
In view of despatch

similar.....

similar survey is being made for the Thika-Donyo Sabuk branch and when these have been completed, I am arranging for the detailed estimates to be again examined by the Railway Council with a view to ascertaining whether the existing present depression has in any way changed their views as to the need for the construction of these lines and as to whether the Administration should still agree to construct without a guarantee. I am, however, not clear as to whether the other transport expenditure recommended is sanctioned in view of the fact that the Treasury's conditions will probably not be implemented in full and should be glad to be informed as to what the position is.

No. 6 on 18694/29

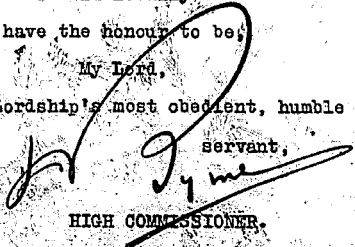
10. I do not at present wish to discuss the case of the liability in respect of the cost of the original Uganda Railway, but, with reference to the correspondence forwarded with Your Lordship's confidential despatch TRANSPORT, KENYA-UGANDA, dated 17th June, 1929, I trust that this does not mean that the question of repayment has been definitely accepted as a liability against either this Administration or the Governments of Kenya and Uganda. Locally, the view has always been held that the question was an open one for discussion without prejudice in 1924 and particular reliance has always been placed on the Secretary of State's statement in the House of Commons as reported by Hansard on the 23rd of April, 1914, that 'No repayment has been made by British East Africa in respect of these advances (original cost of Uganda Railway), and no such repayment is contemplated under the Acts.' A statement which appears to support the view held locally.

I have the honour to be,

My Lord,

Your Lordship's most obedient, humble

servant,



HIGH COMMISSIONER.

GENERAL MANAGER'S OFFICE,
N A I R O B I.

31st March, 1961.

THE HIGH COMMISSIONER FOR TRANSPORT.

PROVISION FOR RENEWALS.

Despatch from the Secretary of State, No. 15, dated
5th February, 1951.

It is noted from the enclosures to the above despatch that prior to reference to General Hammond, the financial advisers of the Colonial Office were inclined to support the recommendations contained in your despatch No. 86 of the 22nd May, 1950.

2. In his letter to General Hammond, dated the 13th October, 1930, the Secretary of State states, in connection with the relation of Sinking Fund to Renewals, that loans have to be repaid by fixed dates and the funds required to repay them must be available unless Government is prepared to take the undesirable risk of being able to raise fresh loans covering the repayment at these dates.

3. This appears to have been written under a misapprehension. The Sinking Fund provided in respect of certain of our loans will not be sufficient to cover redemption in full, as is shown by the following statement:-

D	LOAN	TRANSPORT PROPORTION	LATEST DATE OF REDEMPTION	ESTIMATED ACCUMULATED SINKING FUND AT LATEST DATE OF REDEMPTION	ESTIMATE BALANCE REQUIRED FOR REDEMPTION		
					RAILWAYS	HARBOURS	TOTAL
		£		£	£	£	
	£5,000,000 (1921)	4,245,386	15.9.1956	3,868,083	252,192	125,111	377,303
	£5,000,000 (1927)	5,000,000	15.1.1958	2,583,555	2,141,568	274,877	2,416,445
	£3,500,000 (1928)	2,840,331	1.5.1950	838,994	1,505,040	496,297	2,001,337

4. Presumably the fact that it will be necessary to raise further loans to complete redemption was not lost sight of by the financial advisers to the Secretary of State at the time the foregoing were floated and short term loans were decided upon in the hope and expectation that when the time for redemption arrived it would be possible to obtain further loans on more favourable terms. This was certainly the position as it was understood locally. Provision for the redemption of capital at the usual rate of one per cent per annum is substantial and reasonable. No higher rate could be contemplated in normal circumstances, although the 1921 Loan allowed for a Sinking Fund at 1.5 per cent; on the other hand, no suggestion has ever been made that the Sinking Funds prescribed by Loans Ordinances should be interferred with in any way whatever.

5. In connection with the above Table, it should be explained that the figures differ considerably from those forwarded by the Colonial Office under the heading "Uganda Railway Loans", as the latter have dealt with the Railway share only, while the figures contained in the above Table include of necessity the Harbours' share.

6. In paragraph 6 of his letter to General Hammond, the Secretary of State recognises that contributions based on a full "life" basis is eminently orthodox and safe. He further recognises in the next two paragraphs that such a system does in fact provide more money than is required for "Renewals" and that it is definitely not to the advantage of the country or Railway to impose heavier burdens on the present generation than are absolutely necessary to maintain a sound financial position.

We were dealing with the Renewals in relation to the Sinking Fund - J.M.

7. The latter point is dealt with in paragraphs 14 and 15 of my memorandum, dated the 29th March, 1930, and this contention forms the whole basis of the argument that the Renewals contribution should be kept down to the minimum. It is quite obvious that if there was no need to stimulate development by keeping rates as low as possible; that if none of the rates bore hardly on any industry; that if the two territories served by the Railway Administration were in fact in a flourishing and prosperous condition, then, I agree, there would be no need to study this matter so carefully and that the accumulation of heavy reserves would be quite legitimate.

8. That, however, is not the position. These territories, particularly in such times as the present, are struggling for existence. I believe every legitimate relief that can be given without imperilling the financial position should be given and that such relief will in the long run be to the financial advantage of the Railway itself. I therefore consider that a case has been made out on general grounds, in the interests of the Railway itself, and taking the long view, for the closest examination of what minimum contributions are possible while still guaranteeing a perfectly sound financial position.

9. In General Hammond's very able memorandum, I feel that this aspect of the matter has not been given due weight. In order to be sure that no financial risks are being run, it appears necessary to demonstrate more clearly than was done in my first memorandum that contributions on a full life basis do in fact result in collecting under the name "Renewals" a sum of money that is greatly in excess of the amount required for such purpose.

10. The following further explanation is therefore given in the hope of definitely proving to the satisfaction of the High Commissioner that this statement is correct. To avoid confusion, I will call this surplus sum, accumulated under the guise of a contribution on account of depreciation, the "Surplus Renewals Balance".

11. Surplus Renewals Balance.

Since on any given date some portion of our assets would be in a partly worn out condition, a Renewals Fund built up on a full life basis would carry as part of its balance an amount that would never actually be required to pay for replacements.

12. This amount is referred to hereafter as the "Surplus Renewals Balance".

13. For example:-

Two machines, costing £100 each, one purchased 1919, the other 1924 - "Lisc" - 10 years.

	1920	'21	'22	'23	'24	'25	'26	'27	'28	'29
1st machine depreciation.	£10.	10.	10.	10.	10.	10.	10.	10.	10.	10.
2nd machine depreciation.						10.	10.	10.	10.	10.
Total contributions to Renewals Fund	£10.	20.	30.	40.	50.	70.	90.	110.	130.	150.
Replacements										100.
Balance of Renewals Fund	£10.	20.	50.	40.	50.	70.	90.	110.	130.	50.

Obviously there is £50 in this fund that will never be required since although a machine will have to be renewed at 5 year intervals from 1929 onwards, in every period of 3 years commencing from 1925 the two machines between them will contribute sufficient to the Renewals Fund to purchase this new machine, leaving the balance of £50 untouched.

14. The above example demonstrates in a simple manner the fact that there is a Surplus Renewals Balance, when contributions are made on a full life basis.

15. In order that there should be no doubt about this, I enclose as Appendix A. a statement showing how two sections of line built at 15 years' interval actually provide a balance of £20,700 that will never be required for the purpose of carrying out renewals. This statement covers a period of 465 years and it is clear that if it were carried to infinity, the result would be the same. The average rate of contribution on a "life" basis of the assets shown would be 2.7 per cent. The incidence of the 'Surplus Renewals Balance' would admit of a reduction of contributions to the extent of 1% for 40 years.

16. I trust the above examples will clearly demonstrate to the satisfaction of the High Commissioner the fact that, on a full life basis, there will be a certain sum contributed that will not be required for the purpose stipulated.

17. It should further be noted that once this surplus Renewals Balance has been withdrawn, friling further surpluses resulting from contributions in respect of non assets contributions must be made on a full life basis.

18. The question now remains as to what would be the surplus Renewals Balance, provided by contributions on a full life basis, in respect of the whole of our existing assets, as they stood at December 31st, 1928.

19. The Departmental Committee plotted the position of the Fund over a period of 100 years. Our assets have such varying "Lives" (the longest is 100 years) and have been acquired on so many different dates that the Departmental Committee's tables would have to be extended through centuries to ascertain that balance with exactitude. At some

point the lowest balance would recur as it does in the years 2063, 2213 and 2363 in Statement A.

20. It is clear from the Departmental Committee's report, however, that this "Surplus Renewals Balance" would be something over £2,000,000. This can be confirmed from a practical point of view since it is clear that we could never carry out renewals fast enough to reduce the balance much below this figure which implies that our assets at the time would be equivalent to 80 per cent new.

21. The Tables on pages 37 to 43 of the Departmental Committee's Report show that contributions on a life basis would steadily increase the balance of the Renewals Fund until it reached £2,963,733 in 1945 and that from that date onwards we should have a surplus that would never fall below £1,986,118 (in 1959). The lowest balances occurring in long periods of years after that date are £2,539,780 in 1991 and £2,780,252 in 2028.

22. The lowest balance in each period shows an increase as compared with its predecessor. This is mainly due to the diminishing effect of arrears of depreciation. In this connection it is pointed out that the Departmental Committee has taken advantage of the "Surplus Renewals Balance" in making its recommendations, since it does not require assets to contribute in respect of the portion of their life that had expired by 1924. For example, a locomotive purchased in 1913 would have to be renewed in 1938 after having contributed in respect of only a portion of its life. This matter of arrears of depreciation further complicates the question of ascertaining the exact "Surplus Renewals Balance" referred to in para. 10.

23. Enough, however, has been said to demonstrate that on a full life basis, a sum of more than £2,000,000 will be surplus to requirements so far as Renewals are concerned. I trust the High Commissioner will have no difficulty in accepting this fact.

24. It now remains to consider to what uses this surplus renewals balance can legitimately be put. These may be summarised as follows:-

- (a) To remain in the Fund to balance actual depreciation of fixed assets and so keep the original capital in-tact.
- (b) To provide working capital.
- (c) To provide a "hidden" reserve.
- (d) To meet cost of renewals due to obsolescence.
- (e) To provide a good balance sheet for the purpose of raising loans.

25. As pointed out in paragraph 7, if these territories and the Transport Administration were rich, it would be legitimate to make very generous provision for all the foregoing, even though such were much in excess of any probable requirements. Under the conditions that necessarily exist in new and struggling countries, it would be a short-sighted policy to saddle the present generation with more than is absolutely necessary to maintain a sound financial position. It is, therefore, from this point of view that this question has been examined and on the conclusions so come to that my recommendations were based.

26. Examining each of the above "uses" to which the Surplus Renewals Balance can be put with the object of reducing the contribution where it can be demonstrated to be sound to do so in view of local conditions, the following may be stated:-

(a) The need for maintaining the original capital intact by making the Renewals Fund balance the actual physical depreciation of assets is of value to a private company, but for the reasons already explained in my memorandum of March, 1930, is not essential so far as a Government Railway is concerned. (It is, I think, unnecessary to elaborate this point further, as it will be generally accepted.)

(b) The amount of working capital required in normal times is about £1,000,000. Of this sum £450,000 is provided by "Working Capital Stores" and a minimum of nearly £250,000 rapidly increasing after 1933, would be provided by the Renewals Fund, if contributions were limited to 2% (vide Appendix B. to which I refer later) leaving a maximum of £300,000 to be provided by Betterment Fund and Reserve Account. In normal times the balance of these funds would be ample for this purpose while in times of depression, when expenditure is reduced to a minimum, requirements for working capital automatically decrease while the available Renewals balance automatically increases.

(c) A "hidden" reserve has certain advantages, as it is perhaps less liable to be raided than an open Reserve. It is, I think, this consideration which largely colours General Hammond's reluctance to agree to a reduction of the contribution. It should, however, be borne in mind that this "reserve" is now no longer "hidden". It is well known in certain circles locally and is frequently discussed in the technical press. It is therefore certain that unless some definite use can be made of this reserve, sooner or later it will be raided. In fact I may state that because it is known to be an unallocated reserve, the suggestion has already been put forward to utilise it for some other purpose. It is precisely this difficulty that led me to suggest that this available sum should be put where it can be justified, i.e. in the general reserve. It is true that in the existing organisation the General Manager is the sole buffer between the users of the Railway who press for Rate reductions and the State which owns the Railway. It is obvious for various reasons that, speaking generally, the Railway Council and the High Commissioner must be influenced by a strong desire to reduce rates, and that the curbing power found in Companies where the Board of Directors, being under a necessity to meet the demands of shareholders for dividends strenuously opposes any measures involving the giving up of revenue, is entirely absent, yet, as General Manager, with that duty to perform, I feel it is casier to prevent a raid where a reserve is established on some definite basis for some strictly defined purpose, than where an unallocated surplus is known to exist.

(d) Obsolescence must, of course, be allowed for and to a large extent this has been done in the "life" that has been recommended. As explained in my earlier memorandum, the "life" of assets is a matter that requires constant examination.

27. Taking our previous history into consideration and also the experience of other Railways during the past 100 years, I believe the lives recommended by the Committee to be reasonably conservative and to be ample to cover ordinary obsolescence and no undue apprehension need be felt on this score.

28. There remains, however, the question of special obsolescence due to new inventions of a drastic nature. While there is no reason why such inventions and alterations of method should not evolve in future, Railway experience during the past 100 years does not suggest that they are likely to be so revolutionary and to mature so quickly as to take us by surprise, particularly in view of the fact that a Railway such as this would only adopt proved new inventions and methods after prolonged experiment and test elsewhere, and, in consequence, would normally be able to arrange for their introduction to a great extent as the lives of existing assets expired. A further consideration in

this country is that our railways are in different stages of development. The equipment of the main line must of necessity be far more up-to-date than that of branches and since main line and branches are both developing, it is found in practice that there is a ready use on branch lines for equipment which is no longer up to main line requirements.

29. There is the further safeguard that such betterments should justify themselves on their merits by ensuring lower costs and improved operating results and that the issue of new capital, provided out of Loans or Betterment for such purposes can be approved for these reasons. The large electrification schemes, for example, recently adopted by many Railways have been financed on this basis.

30. I feel that General Hammond has somewhat overstressed the whole question of obsolescence and has given it a prominence that it hardly deserves, in this country at all events.

31. The final point is with regard to the needs for a good Balance Sheet, as affecting the rate at which money can be obtained. While this is of general importance, particularly should the Transport Administration ever have to raise its own loans, up to the present it has not influenced the position to any extent. Neither does it appear that it is likely to in the future, since it is not general Railway practice to balance annual depreciation with Renewals Fund or Reserves. While, therefore, I do not deny the advantage of a good Balance Sheet, I do not feel that its economic justification is sufficient to warrant the retention of a special sum for this purpose, at the expense of development.

32. It will, I think, be clear from the above arguments that many questions must be settled before it can be agreed that contributions to a Renewals Fund should be based on a full life basis. References to a proper life basis would, therefore, appear to be somewhat out of place, as it is open to argument whether a full life basis is a proper one in all the circumstances.

33. Having demonstrated that there is, on a full life basis a Surplus Renewals Balance, and having explained in what way such a balance can be used, and having emphasised the fact that, if not allocated and justified, it is just as likely to be raided as any other Reserve, I will now deal with the criticism that my proposals will not in fact provide sufficient funds and that a subsequent General Manager will have to adopt a stricter financial attitude than I now recommend.

34. It will be seen from the foregoing that it is not proposed to withhold from the Renewals Fund any contributions that will at any time be required for the purpose of renewals. General Hammond, in certain circumstances, is prepared to recognise the legitimacy of reducing contributions to a Renewals Fund by reason of the fact that contributions are being made to a Sinking Fund. While I agree with him in this connection, my proposals do not go so far as this. The £2,000,000 which it is proposed to withhold from the Renewals Fund will never be required for the purpose of renewals.

35. The proposal to contribute at the rate of 2% involves a reduction on the "full" life basis of £126,621 per annum. That rate could be maintained for a period of about 16 years without exhausting the £2,000,000. It is not, however, proposed to exhaust the whole of the £2,000,000 at this rate, but to withhold the amount of £126,621 for ten years, i.e. £1,266,210 in all, still leaving a surplus renewals balance of £733,790.

36. Assuming that no additional assets were acquired and that in consequence no further surplus renewals balances accrued, we should then have to face the necessity of increasing our contributions to the Renewals Fund until they reached a life basis. This could be done by allowing the rate of 2% to continue for a further period of six years, thus exhausting the £2,000,000 and then raising contributions to a life basis (i.e. increasing the annual amount by £126,621 per annum) and meeting the increase from the surplus revenue arising through the reduction of £160,600 per annum in Loan charges.

37. The Secretary of State could, of course, ensure that surpluses arising through relief from Loan charges were not mortgaged in advance for some purpose other than to meet the increased liability for renewals, even if there were any inclination locally to do such a thing, a contingency I cannot imagine.

38. The argument put forward that by the time existing loans are redeemed there will probably be further charges to meet in respect of new loans has no bearing on the point. Such loans would be in respect of new and increased services and the charge on same could be relieved by the Surplus Renewals Balance of the new assets in the same way that present Loan charges can be relieved by the Surplus Renewals Balance of existing assets.

39. General Hammond has drawn attention to the fact that renewals during the period 1930-45 will be on a low scale and that after that period Renewals expenditure will be heavier; that fact is recognised and has been dealt with in the foregoing, at no time during and after the first ten years period would there be any shortage of funds for the purpose of renewals.

40. In actual fact, having regard to the present rate of development and the probable rate of development in the future, the rate of 2% is likely to suffice for a very much longer period. This is demonstrated by a Table which has been prepared and attached as Appendix B. The figures shown in Columns 1 to 6 are based on the Departmental Committee's Report and a reduction of contributions to 2% on assets as they existed on 31.12.28, throughout a period of 30 years. Column 7 shows the contributions which would be provided (at the rate of 2%) by new assets, already sanctioned, or for which sanction has been sought. Column 8 shows accumulated

relief from Loan charges and Column 10 the balance that should be lying in Renewals Fund and Reserve Account in addition to any contributions to the latter which are at present contemplated. It is not pretended that this statement is a complete or accurate forecast, but it is designed to give an indication of future probabilities.

41. General Hammond has stressed an objection to what he calls an arbitrary percentage basis. His objections could be readily accepted if the percentage was in any sense "arbitrary". The figures quoted in this memorandum and my previous one should, however, clearly show that the percentage has been fixed only after the most careful calculation;

42. He further suggests that the present proposals are the result of insistent demands for reductions in rates. The real reasons are the direct contrary. Unless the full needs as regards Renewals and Reserve Funds are known and appreciated, it is difficult to resist raids on what appear to be unnecessary surplus balances. The more clearly the full requirements of each particular reserve are known, the less easy is it for such funds to be raided. The fact that my recommendations do not produce any reduction in the total contribution to Reserve Funds, but only a re-distribution into more closely defined compartments, should make this point clear.

43. General Hammond refers to a vital difference between creating a hidden reserve through an excessive rate of contribution to a Renewals Fund, chargeable to working expenditure and creating a general reserve by contributing fluctuating amounts depending upon the result of the year's working. This is a most important point and one that must

be fully safeguarded. There would, however, be no difficulty in laying down a minimum annual contribution to the Reserve Account and making this rank as a definite charge against Revenue, ranking in priority after the service of Loans and contributions to the Renewals Fund. Any further contribution to the Reserve Account could be left to be considered after the result of the year's working is known.

44. The size of the Reserve Account has been mentioned and it has been laid down by the Secretary of State that £600,000 should be the figure aimed at. With this, I am in full agreement, but it must be realised that in times of world-wide depression such as the present, it is only possible to make minimum contributions to the Reserve Account, and not maximum.

45. As the High Commissioner is aware, it has been necessary this year to cut down maintenance to the absolute minimum and as a result the standard will to some extent be lowered. It would appear unwise and unsound to reduce the standard of maintenance still further mainly to contribute on a higher scale to a fund that will never require the money for renewals purposes.

46. A Reserve Account of £600,000 should provide sufficient funds for an extended period of severe depression such as the present, but great care must be taken not to deplete such reserves by subsidies and grants as was authorised last year. If assistance of that nature must be allowed for, a further additional reserve for such a purpose must be created.

47. It will be seen, therefore, that I am in full agreement with General Hammond with regard to the need for adequate reserves. As stated by him, in private Railways the General Manager has the backing of the Board and the shareholders in fighting against the demand for uneconomic rates. On a State

Railway, however, the General Manager has to bear the brunt of the fight, frequently without the support of the Railway Council and the Government. His reserves must be well protected, but our sole difference of opinion lies in the fact that I want the various reserves defined and justified, whereas he, because it is a direct charge on working, ranking before the service of Loans, would like to see a hidden reserve held in the Renewals Fund.

48. Summarising the position, it is contended:-

- (i) As a principle, contributions to Reserve Funds, during the early stages of a developing country, should be no higher than necessary to maintain a sound financial position.
In this connection it may be stated that the Uganda Railway itself could never have been built if a condition of its construction had been that in addition to paying ordinary Working Expenses, it should set aside 3% for depreciation, 1% for Sinking Fund and pay 5% Interest charges. All this would be most prudent and wise, but impracticable.
- (ii) The various Reserve Accounts should be clearly defined and justified for their particular purpose.
- (iii) Contributions to a Renewals Fund on a full life basis provide "hidden" reserves that are now known and discovered and cannot be defended on the score of "Renewals" alone.
- (iv) That this Surplus Renewals Balance can be withheld without danger to the Renewals Fund, while allowing for all that can be anticipated in the way of obsolescence, higher cost of replacement, etc. etc.
- (v) Owing to the system of Sinking Fund payments, funds can be definitely ear-marked to raise the contributions to the full life basis, if and when required.
- (vi) For the reasons explained, the 2% contribution for the next ten years will provide fully for all renewals and, if necessary, it can be raised in due course to a life basis without affecting the finances of the Administration.
- (vii) That the Reserve Account should be built up as rapidly as circumstances permit to £600,000.

- (viii) The minimum contribution to this Account to be a charge against Revenue, ranking immediately after the service of Loans.
- (ix) That a further contribution, depending on Working results should be made whenever possible.
- (x) If subsidies and assistance to industries is to be provided, a special Reserve Account (which might be called a Subsidy Account) should be opened for this purpose, which is an entirely different one to that of the Reserve Account.

49. In none of the above arguments has an attempt been made to utilise the fact that we do provide a Sinking Fund in addition to a Renewals Fund. It can, however, be argued and is so argued by many competent authorities, that where a Sinking Fund is provided there is no need, in fact it is definitely an unfair tax to provide a Renewal Fund in addition.

50. My proposals do not go as far as that, partly because the Sinking Fund contribution is not sufficient to amortize loans during the average life of assets, and partly because of the trouble and cost of raising capital funds for renewal purposes, making such a course undesirable. I only refer to this point to emphasise the ample safety that exists in the present proposals.

51. Finally, the suggestion that we should be allowed to purchase rolling stock out of the Surplus Renewals Balance will not be pressed. The mathematical argument put forward by General Hammond is fully appreciated, but if there is a Surplus Renewals Balance it would appear to be one way of investing it so that it could be usefully employed. Such a procedure does not, however, as suggested by General Hammond, allow a General Manager to incur Capital Liability without reference to high authority.

The authority required for expenditure, whether of a capital nature or otherwise, is clearly laid down and is not in any way dependent upon the source from which funds are obtained. It was never contemplated that additional assets should be purchased from the Renewals Fund without the specific sanction of the Secretary of State.

52. Mention has been made of the fact that in 1934 the question of repayment of the original grant will come up for consideration.

There are many reasons why this liability, if it is finally decided to call for repayment, should not have to be met in full by the Railway Administration. It will be remembered that the original land grant, specifically set aside for this purpose, has been taken up by Government, together with all the surplus earnings of the Railway until the end of March, 1921, while the railway itself was handed over to this Administration in such a neglected and depreciated condition as to necessitate the immediate expenditure of vast sums upon renovation and renewals. I do not, however, wish to go into details at the present time, as to where the responsibility for repayment lies since it has no bearing on the question of the provision necessary to enable us to carry out renewals. What it would affect is our capacity to contribute to betterments and reserves.

53. My proposals amount to nothing more than withholding from the Renewals Fund an amount which can be mathematically demonstrated to be surplus to the requirements of the Fund. Such amount, if contributed, would

certainly be withdrawn at some time for a purpose unconnected with renewals. My contention is that it should be applied to relieve Revenue during the period that Revenue is meeting heavy loan liabilities in respect of the self same assets instead of being left for appropriation after these liabilities have been liquidated.

G. D. Rhodes

GENERAL MANAGER.

Year	1899-1913.	1914-1928.	1929-1943.	1944-1948.	1949-1963.	1964-1973.	1974-1988.	1989-1998.	1999-2003.	2004-2013.	2014-2018.	2019-2033.	2034-2048.	2049-2063.
CONTRIBUTION MAIN LINE.														
(a) Rails.	7,200	7,200	7,200	2,400	4,800	2,400	4,800	7,200	4,800	2,400	4,800	2,400	7,200	7,200
(b) Sleepers.	13,500	13,500	13,500	4,500	9,000	4,500	9,000	13,500	9,000	4,500	9,000	4,500	13,500	13,500
THIKA BRANCH.														
(a) Rails.		7,200	7,200	2,400	4,800	2,400	4,800	7,200	4,800	2,400	4,800	2,400	7,200	7,200
(b) Sleepers.		13,500	13,500	4,500	9,000	4,500	9,000	13,500	9,000	4,500	9,000	4,500	13,500	13,500
Total.	20,700	41,400	41,400	13,800	27,600	13,800	27,600	41,400	27,600	13,800	27,600	13,800	41,400	41,400
RENEWALS MAIN LINE.														
(a) Rails.				24,000				24,000					24,000	
(b) Sleepers.		27,000			27,000		27,000					27,000	27,000	
THIKA BRANCH.														
(a) Rails.					24,000					24,000				24,000
(b) Sleepers.			27,000			27,000			27,000			27,000		27,000
Total.		27,000	27,000	24,000	27,000	24,000	27,000	24,000	27,000	24,000	27,000	27,000	51,000	51,000
Balance to end of	20,700	35,100	49,500	39,300	39,900	29,700	30,300	44,700	48,300	35,100	38,700	25,500	39,900	30,300

Operations on renewals and over a period of 465 years in respect of 30 miles of track laid 1898 in Nairobi District and 30 miles of track laid 1913 on Thika Branch. Life of rails 50 years. Cost 2800 per mile. Life of sleepers 50 years. Cost 2900 per mile. Operations are grouped in periods of years each ending with the renewal of some portion of the track. Cost, dates, etc. are not intended to be strictly accurate but to serve as an illustration.

2064-2078.	2079-2093.	2094-2098.	2099-2108.	2109-2113.	2114-2123.	2124-2138.	2139-2148.	2149-2153.	2154-2163.	2164-2168.	2169-2183.	2184-2198.	2199-2213.	2214-2228.	2229-2243.	2244-2248.
7,200	7,200	2,400	4,800	2,400	4,800	7,200	4,800	2,400	4,800	2,400	7,200	7,200	7,200	7,200	7,200	2,400
13,500	13,500	4,500	9,000	4,500	9,000	13,500	9,000	4,500	9,000	4,500	13,500	13,500	13,500	13,500	13,500	4,500
7,200	7,200	2,400	4,800	2,400	4,800	7,200	4,800	2,400	4,800	2,400	7,200	7,200	7,200	7,200	7,200	2,400
13,500	13,500	4,500	9,000	4,500	9,000	13,500	9,000	4,500	9,000	4,500	13,500	13,500	13,500	13,500	13,500	4,500
41,400	41,400	13,800	27,600	13,800	27,600	41,400	27,600	13,800	27,600	13,800	41,400	41,400	41,400	41,400	41,400	13,800
		24,000					24,000					24,000				24,000
27,000			27,000			27,000				27,000				27,000		
				24,000					24,000				24,000			
	27,000				27,000			27,000			27,000					
27,000	27,000	24,000	27,000	24,000	27,000	27,000	24,000	27,000	24,000	27,000	27,000	51,000	51,000	27,000	27,000	24,000
35,100	39,500	39,300	39,900	29,700	30,300	44,700	48,300	35,100	38,700	25,500	39,900	30,300	20,700	35,100	49,500	39,300

	2259- 2263.	2264- 2273.	2274- 2288.	2289- 2298.	2299- 2303.	2304- 2313.	2314- 2318.	2319- 2333.	2334- 2348.	2349- 2363.
000	2,400	4,800	7,200	4,800	2,400	4,800	2,400	7,200	7,200	7,200
000	4,500	9,000	13,500	9,000	4,500	9,000	4,500	13,500	13,500	13,500
000	2,400	4,800	7,200	4,800	2,400	4,800	2,400	7,200	7,200	7,200
000	4,500	9,000	13,500	9,000	4,500	9,000	4,500	13,500	13,500	13,500
500	13,800	27,600	41,400	27,600	13,800	27,600	13,800	41,400	41,400	41,400
000			21,000					24,000		
		27,000				27,000		27,000		
	24,000					24,000				24,000
		27,000			27,000			27,000		27,000
000	24,000	27,000	27,000	24,000	27,000	24,000	27,000	27,000	51,000	51,000
900	29,700	30,300	44,700	48,300	35,100	38,700	25,500	39,900	30,300	20,700

Estimated Position of Renewals Fund and Reserve Account, Assuming that Contributions to the former were made at the rate of 2% until 1960 and that no additional assets were acquired in that period beyond those already contemplated.

Col.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Year.	Balance as per Report of Departmental Committee.	Adjustment of Arrears of Replacements.	Balance of Renewals Fund if contributions were made on a full life basis.	Reduce contributions by 1.1% (Reduction in balance).	Balance of Renewals Fund (existing assets) if contributions were made at the rate of 2%.	x. Increase by contributions @ 2% on additional assets net due for renewals by 1960.	Total balance of Renewals Fund on 2% basis.	Accumulated relief from Loan Charges (all services)	Total balance Renewals Fund and Reserve Account (excluding normal contributions to Reserve Account)	
	£.	£.	£.	£.	£.	£.	£.	£.	£.	
1931.	Dr. 322690	700000	377310	126621	250689	12635	263324		263324	
1932.	Dr. 107735	600000	492065	253242	238823	35908	274731		274731	
1933.	134869	500000	634869	379863	255006	72925	327931		327931	
1934.	446305	400000	846305	506484	339821	124037	463858		463858	
1935.	754303	300000	1054503	633105	421398	177149	598547		598547	
1936.	1047669	200000	1247669	759726	487943	235161	723104		723104	
1937.	1366390	100000	1466690	886347	580343	295173	875516		875516	
1938.	1682754	...	1682754	1012968	669786	357185	1026971		1026971	
1939.	1910530	...	1910530	1139509	778941	421197	1200138		1200138	
1940.	2208236	...	2208236	1266210	942026	487209	1429235		1429235	
1941.	2328409	...	2328409	1392831	936578	585221	1490799		1490799	
1942.	2437249	...	2437249	1519452	917797	625233	1543030		1543030	
1943.	2594967	...	2594967	1646073	948894	697245	1646139		1646139	
1944.	2700343	...	2700343	1772694	927649	771257	1698906		1698906	
1945.	2863733	...	2863733	1899315	1064418	847269	1911687		1911687	
1946.	2957906	...	2957906	2025936	931970	925281	1857251		1857251	
1947.	2913379	...	2913379	2152557	760822	1005293	1766115	160600	1926715	
1948.	2990719	...	2990719	2279178	711541	1087305	1798846	321200	2120046	
1949.	2300715	...	2500745	2405799	144546	1171317	1366263	461800	1848063	
1950.	2571012	...	2671012	2532420	130392	1297329	1366921	642400	2038321	
1951.	2731781	...	2731781	2659041	72740	1345341	1418081	849200	2267281	
1952.	2839081	...	2839081	2785662	73407	1435353	1508760	1065592	2574352	
1953.	2937311	...	2937311	2912283	69036	1527365	1598401	1281984	2878385	
1954.	3051189	...	3051189	3038904	19202	1621377	1680579	1480376	3138955	
1955.	3077643	...	3077643	3165525	Dr. 37802	1717338	1625507	1717753	3342275	
1956.	3111111	...	3111111	3292146	" 447752	1818401	1676449	1931130	3298809	
1957.	3111111	...	3111111	3418767	" 770314	1919413	1145069	2177552	3292621	
1958.	3111111	...	3111111	3545388	" 1363548	2019425	653876	2363944	3017820	
1959.	3111111	...	3111111	3672009	" 1636891	2121437	435546	2730336	3168082	
1960.	3111111	...	3111111	3798630	" 1668730	2227446	533719	3066728	3665447	

x. The following have been taken into account in addition to those already approved by Secretary of State.

General Encouragements	160,000
Holding Stock	300,000
Worship Council	300,000
Yacht Council	380,000
London Convention	271,375
Contributions at the rate	