1935. Kenya.

No. 38179/5.

SUBJECT CO 533/460

Kenya-Uganda Railway and Harbours.

Provision for renewals.

Previous
23029/34.
Subsequent
1936. See 38179/16/35. (1936 Estimates).

FILE C.

(1211) Wt.35484/338 5,000—3/44 N.P.Co. G.882/10

C.S.
Rly.
KUR Representation

1. To Sir J. Byrne & Sir B. Bourdillon s/o —— 18 Dec. 34
(Draft on 23236/34)

2 To Sir J. Byrne (s.o) (extract) —— 24 Dec 34

3. To Gov. Tel. (Personal) — cons —— 8 Jan. 35.
(Draft on 23335/34)

4. Governor Byrne Tel (P&P) —— 29 Jan. 35

Considers that no useful purpose would be served by forwarding figures for Uganda imports & exports & internal traffic especially in view of air mail letter dated 23 Jan which explains position.

5. Sir J. Byrne (s.o) (Air Mail) —— 23 Jan. 35.

States No 2 has been discussed with Sir B. Bourdillon & furnishes his views on reduction in the contribution to renewals & on ways in which money thereby made available might be used.

(Note. The minutes under 29 on 23029/34 are still incomplete).

No. 5 hereon represents the agreed views of the two Governors. They have completely misunderstood the purport of para. 2 in Sir Cecil Bottomley's letter of the 18th of December, and have assumed, quite without justification, that the Treasury have agreed, not only to reducing the current Renewals rate from 2½ to 2 per cent., but also to the retrospective transfer to a General Reserve Fund of the proceeds of the additional ½ per cent. for the past five years. Fortunately this misunderstanding does not seriously affect the argument of the letter, which may be summarised as follows:-

No. 2

(a)

(a) The use of surplus railway earnings for direct budgetary relief to the two Governments is indefensible. (para. 4).

(b) Such surplus should be applied to rate reductions, as soon as the financial position of the railway itself has been adequately secured.

(c) Such security can only be achieved when a General Reserve Fund of £1,000,000 has been built up.

Up to this point the views of the Governors are in harmony with those of Sir Godfrey Rhodes, whose memorandum is a model of clarity and acumen. But, whereas General Rhodes urges that the ½ per cent. from Renewals should go to the new Reserve Fund, the Governors, on the mistaken hypothesis that that fund will start off with a credit of £300,000 (i.e. the excess contributions to renewals since 1930) are prepared to use it, (together with the interest on ~~excess~~ cash balances,) for immediate rate reductions.

(Passenger & freight earnings in 1933 were £2,038,279)

The amount estimated to be available in this way is ~~£100~~ £100,000 per annum; i.e. enough to reduce the average rate per ton mile from 11.8 to 11.2 cents (see para. 38 of the General Manager's memorandum).

Under the Governors' scheme the Reserve Fund can be built up only from windfalls in the shape of unexpected working surpluses, but, as the General Manager points out (para.13) a bad cotton season in Uganda would inevitably result in a deficit. Moreover, the Governors, in

They don't say so — they have on the answer
H

in para. 11 of the letter, recognise the force of General Rhodes's view that the proposal to use for immediate rate reduction the amount released by lowering the renewals figure would very reasonably strengthen the Treasury's opposition.

Sir Godfrey Rhodes's proposals for extinguishing the ~~[illegible]~~ 1921 loan in 1946 without further borrowing savour of an excess of financial purism, and are tantamount to placing on the shoulders of the present generation a burden which properly belongs to posterity.

But with the exception of No. IV, his recommendations, as summarised in para. 34 of the memorandum, give practical form to a wise and long-range policy, the adoption of which would ensure the ultimate prosperity of the railway and of the communities in whose economic existence it is the main artery.

We are now in a position to re-open the question with the Treasury. [illegible] send them a copy of the General Manager's memorandum, saying that it has been discussed and, as regards its main features, adopted by the Governors of Kenya and Uganda. Say that, as regards paras. 1 to 26, the S. of S. is not prepared to endorse Sir Godfrey Rhodes's suggestion for the extinction of the 1921 loan in regard to which he has, as Their Lordships are aware, other possibilities under his consideration. With this exception, the S. of S. is impressed with the far-sighted prudence which underlies Sir Godfrey Rhodes's proposals and trusts that Their Lordships will concur in his approving their adoption.

A

A reply to Sir Joseph Byrne's letter can wait till we have heard from the Treasury.

C B Freeston
2/1

Sir G. Rhodes's memo. is clear and intelligent as one would expect.

Like Mr Freeston I think we need not consider the proposal to build up a supplementary sinking fund so as to abolish the 6% & 5% loans right out. They are proper objects for conversion by a new loan at lower interest when the time comes.

A General Reserve is another matter and is attractive. My only doubt is whether the Railway won't be over-loaded with Funds. Interest Charges, Sinking Fund Charges, Renewal Fund, Betterment Fund, and now Reserve Fund make a formidable total. But the principle is right.

I can't see the Treasury agreeing to <u>retrospective</u> reduction of the Renewal Contribution from 2½% to 2%. We hope they will agree to 2% but it will only be for the next ten years.

As regards immediate reductions in rates the Governors appear doubtful. If they the retrospective ½% of the Renewal Fund is not forthcoming (and I don't think it will be) then there will be no General Reserve nest-egg of £300,000 and I do not suppose they would wish to start any reductions without a substantial nucleus of a General Reserve. To do so would be rather foolish as circumstances might easily ruin the whole structure.

? As proposed

J L W Hood
2.2.

I agree to the action it is proposed to take. The salary levy should I think be abolished:--and that relatively minor point could be made.

2. The crux of the thing-apart from the debt repayment proposals which are not being recommended here-is the establishment of a reserve fund which will permit of permanent rate reductions, with safety to the general structure. The inadvisability of possible but small, and necessarily piece-meal, rate reductions

is a technical point on which all the local people are agreed. I'd accept their view as to that. The memo: furnishes most useful and cogent arguments to meet the objection that the ry: is enhancing rates in a time of deep depression. It has effected relatively large rate reductions since 1929, by enforcing a policy of rigid economy, and the elimination of uneconomic and unessential services; and good crops have rendered this rate reduction possible--and, frankly, have prevented disaster.

3. The issues are perhaps too large to be suitably dealt with by minuting. A discussion may be advisable? The 4th: February 1935.

Campbell
4/2/35

I agree that discussion will be advisable and, so far as policy is concerned, I only add that I should be willing to support Sir J Campbell's recommend=ations, with the obvious rider that a rate reduction which can be shown to be wise need not be put off till a substantial reserve has been formed.

Apart from policy, there is the form of my letter of 18 Dec — which had the merit if no other, of catching the air mail.

No 1 (i) The presumption that the Treasury had been "squeezed" as at [illegible] with what I wrote. It is quite inconsistent [illegible] is founded on my statement that "we had every reason to believe that it would be possible to vary the arrangements" the S. of S. had had general discussions with the Chancellor from which I derived the impression that the door was open to variations.

(ii) I do not think that when I wrote I had in mind the utilisation of past Renewals Fund contributions in excess of 2%, but the letter is certainly ambiguous, and "available current balance" in my later letter (2) should have been "available current surplus".

W.C.B. 4/2/35.

For discussion?

Mr. Boyd

[illegible] 4/2

[illegible] 4/2

We must discuss this.

I am bound to say it staggers me. We are to pursue a policy of piling up reserves so that in 1946 there may be a reduction of loan charges and a large reduction of rates. Sir Rhodes even suggests that present railway users shd. find the balance of capital to repay the loan.

I sh. think it is politically almost impossible to transfer all surpluses to Reserve after end adhering to reduce rates. I shd have thought that at least ½ surplus sh. go to reduction of rates, or to a special account earmarked for rate reduction.

I don't see how we can establish the policy long unless there is some reduction of rates or transfer to a rate reduction account.

P.R.L.

5/2/35

Draft herewith, based on S of S's instructions at the discussion on Thursday last.

[illegible]

7/3/35

Sir J. Campbell

I think the draft will do. ~~[illegible]~~ An official letter to Treas' may wait till it is known how the Chancellor reacts.

H.R. Hart

8/3

3/3/35

W.C.B. 9.3.35

J.H. 11/3/35

6 To Chancellor of Exchequer o/o. Cons. 14.3.35 15/4

D.M.

I have spoken to Mr. Boyd, who will remind the Chancellor's P.S.

B.U. to me in ten days' time

23/4

When this file next goes to S of S include S file I vide Sir C. Bottomley's minute of 13/3 thereon.

Noted 8/3 D.M.

7. Chancellor of Exchequer. ....26th April, 35.
Submits his views on the question of the annual contribution to be made to the Renewals Fund of the K.U.R.

8. Joint East African Board ——— 18 May 35
Urges the reduction of the contribution to the Renewals Funds from 2½% to 2%.

9. Joint East African Board ——— 18 May 35
Encls. copy of No 8 in order that it may be sent to the Treasury

10. Col. Walker s/o ——— 3rd May 35
States that it is desired that the future financial policy of the Rly. be discussed by the Rly. Council & states it would be helpful if a decision on the renewals question & an answer to No 8 could be given

... decision is reached ... 15/7 on 38015/35 ... 17/4/35

11. Col. Walker (s.o) (Air Mail) ——— 21 May 35
Encls. copy of Gen. Rhodes memo. on the future financial policy of the Railway which is being discussed at the next Meeting of the Rly. Council

Sir C. Bottomley

As this will have to go to the S. of S.

11A I have prepared a memo. showing as shortly as I can what has happened and is happening and suggesting a return to the charge in reply to No 7. Mr Freeston agrees with it so I think it's all right qua facts. It is of course very condensed.

J.E.W. Flood 12.7.35.

Sir J. Campbell.

~~Sir J. Maffey.~~

In sending on the papers about the Kenya Land ~~Settlement~~ Bank and the general economic position of the Colony I suggested that it might be well if the Secretary of State could discuss those matters with us all and I expressed the opinion that, however bad the prospects for the European settler, we cannot afford to let him go out of action until we are ready with some form of economic activity to replace him.

I suggest that this question of railway renewals should be brought up at the same time. In my view it might be desirable to combine the two ~~supposing~~ subjects if ~~is sent~~ a reference to the Treasury, but in any case, I feel that they form part of one picture. The Railways are taking at present more out of the export trade than the producer can afford, in the case of Kenya, certainly, and, if anything happens to cotton prices, in the case of Uganda also.

The/

The reduction of the renewals rate from 2½% to 2% which the General Manager urges, represents only £ 70,000 a year, ~~and~~ but if this could be applied to the relief of the more hardly hit exports, ~~which~~ it would very materially assist the producer.

I am fully aware that the General Manager deprecates haphazard rate reductions of this kind, but the question is whether, while we are building up a reserve with a view to a systematic reduction, we shall not have put out of business many of the people who might otherwise have been kept going.

As regards the debt of £ 5½ million, to the Imperial Government, I agree that if we are presenting a general picture of Kenya's necessities we should bring ~~those~~ that in, but we have not only to persuade the Treasury but also to recognise the difficulty which they would themselves have in relinquishing the claim. Both, while the annual payments (which ~~are~~ were on the Colonial Services' vote) came within the purview of the Public Accounts Committee, and since that time, the matter has attracted Parliamentary attention, and I doubt if ~~the~~ a mere ~~E~~executive decision would be sufficient to settle it.

W.A.S.
13.7.35

I think we would get down to a decision here quicker by discussion than by minuting.

2. I note briefly my tentative views, subject to such a discussion:--

(i) I agree that it is impossible to contemplate a policy where the European settler goes out of action before we can work up something to replace him. For what it is worth, my view is that this will in fact be a gradual process: the European settler will I think tend to disappear--except for specialised products (tea, coffee, mixed farming, dairying, etc.). The country will probably progress on a surer and better basis with increased native production. But I should be very sorry indeed to see the European settler disappear entirely. Any one with tropical experience knows the heavy debt which any predominantly native-populated country owes to European methods, initiative, energy, etc.

(ii) I agree that the " railway" question is mixed up with the " settler" question, as things stand--and as things must for a considerable time continue, in any event.

(iii) There are points in the G M's note which are not at all clear; but broadly I agree with his suggested policy--except that I think he goes too far as regards his supplementary sinking fund.

(iv) As to rates, it will be noticed that--apart from the decision on this renewals question-~~the~~ G M thinks he can arrange in 1936 for rate reductions, on a permanent basis, to about £ 100,000 a year. That should perhaps go a considerable way to meeting Sir C Bottomley's point.

Paras 34-36

(v) I personally do not think we shall get any change out of the Treasury, if we approach them again.

This business has a long history;and they have been adamantine,all through. Undoubtedly they have their 5½ millions in mind--as we had also; and, on the ~~fundamental basis~~ assumption that this money, lent for the construction of the railway, must be repaid somehow, to some extent anyhow, as soon as circumstances admit of that, their letter is reasonable enough,and closely argued. They have in fact put on paper exactly the process of thought we went through here,when considering this matter.

(vi) I would not accept the Chancellor's proposal as regards the General Rserve Fund, because that is indissolubly linked with the condition he imposes. We had much better not ~~to~~ accept that condition.

(vii) I know little or nothing of the history connected with the 5½ million grant; but it seems to me that the wiser course at the moment is to let that question wait; to recognise that we shall get nothing out of the Treasury as to the 2% renewals proposal till the 5½ million loan question is settled one way or the other; to abandon all further attempts to convince the Treasury as to the advisability of adopting the 2% rate; to go on providing for renewals on the 2½% basis,as long as we can; to build up the reserve from surpluses as they occur; to effect the £ 100,000 rate reductions for 1936 which the G.M. envisages,when possible; to be very sticky about the supplementary sinking fund proposals, if and when they do come up; and, at leisure, to work up--and have vetted by the G.M. and the authorities in Kenya--the " case" against accepting any responsibility in respect of the repayment of the 5½ millions.

The 17th: July, 1935..

17/7/35

__Sir J. Maffey.__

The new note and minutes on this paper represent a good deal of reading and it will be necessary if immediate action is to be taken to ask the S.of S. to discuss the matter with us. As you know, the papers about the increase of Capital for the Land Bank in Kenya and about the general economic position of the Colony have already been sent forward with a view to discussion. I have there emphasised my view that we shall have to do something drastic to preserve the European agricultural industry, which not only represents an important proportion of revenue but also goes part of the way towards redressing Kenya's grave adverse balance caused by its large external payments.

If my view is accepted it becomes important to put to the Treasury the __whole__ picture and to combine this question of railway finance and rates with the other. From the point of view of dealing with an emergency it might be possible to get the Treasury to forget about the £5½ million ~~loan~~ debt and to allow us to devote railway surpluses to saving the economic position instead of building up a reserve to be ~~raised~~ used for the good of the home exchequer. So far as the £5½ million debt is concerned, that is all we can hope for, because, as I said in my previous minute, the Treasury are probably not in a position to cancel the debt even if they wished to.

/The

The whole question however is a very large one and it becomes a matter for consideration whether, even if the S.of S. can spare the time to discuss it with us before Parliament rises, we should get much satisfaction out of the Treasury at this time of the year. If it is considered that we cannot hope for an early round-up of all these questions it may yet be possible to come to some agreement among ourselves with regard to the decision on the proposal to increase the Capital of the Land Bank, the other papers being recovered with that object. Alternatively, we should have to tell the Acting Governor that no early decision on the Land Bank was possible.

If this course is decided on, the next step, so far as the railway matter is concerned, would be for us on the East African side to consider with Sir J. Campbell the basis of an agreed recommendation and to put it forward after the holidays.

W.C.B. 18/7/35

[illegible] S. [illegible] will [illegible] to discuss. But [illegible] the Chancellor's letter of 26 April (No 7) [illegible] Sir J. Campbell's comments in [illegible] 17th July above I can see little [illegible] on the railway issue. [illegible] the point again by the [illegible]. [illegible] would perhaps be best [illegible] the Land Bank question.

[illegible] 19/7

12 H. Cmr. Transport 60 ———— 25 June 35

Forwards resolution of the [illegible] Advisory Council regarding contribution to the [illegible] Fund & requests that decision on this question may be ~~forwarded~~ communicated as soon as possible.

This peremptory reminder can only be dealt with by telling the O.A.G. that S. of S. is considering this and other cognate matters in consultation with Sir Joseph Byrne. (Air-mail despatch)

[illegible] 31/7

So proceed

This question was not reached at last night's discussion between the S. of S. & Sir J. Byrne. We arranged to bring it up at the further meeting proposed for August 7th, but in a concrete form Sir J. Byrne was quite in favour of a representation of the general position of the Treasury when we saw him yesterday morning and if it is possible it would be a good thing to bring the matter up in a draft for [illegible]. This

or heads for a draft.

This may not be possible in the time, but at least let us get the substance cleared off for Saturday's air mail and recirculate these papers before ~~them~~ then.

C.W.B.

31.7.35

By air mail 3/8/35

13 To H.C. Tspt & C.O. (12 answd) 2nd Aug '35

Recirc (Freeston)

NB Note at 10.

Mr. Flood.

It was decided in departmental discussions that as a matter of tactics it would be expedient to seek Treasury concurrence for the fresh capital for the Land Bank before re-opening the battle on the Renewals Fund contribution question. We are still in correspondence with the Treasury on the Land Bank but the indications are that Their Lordships will give at any rate a modified approval.

In a private letter to me of October 23rd Sir Godfrey Rhodes wrote as follows:-

"I have appointed a departmental committee to review the Renewal Fund position and to check up on assets, lives, etc. When that is done I propose returning to the attack to get some relief in our payments up to 1946."

In my reply I reminded Sir Godfrey of our difficulties with the Treasury and hazarded

hazarded the suggestion that the Committee now sitting in Nairobi might find it possible to advise the adoption of the basis of calculation recommended by Sir Guy Granet's Commission on the South African Railways (see paragraph 49 on page 13 of the Report No.36 of 1934 in the attached volume) namely, "that the general basis for the annual charge should be the current net replacement cost of the assets in service, divided by the estimated lives of such assets."

This morning I have had the attached reply from the General Manager, from the marked passage in which it will be seen that they propose to adopt the replacement cost rather than the original cost in their calculations.

The discussion can hardly be carried further in semi-private correspondence; and I should propose merely to send an acknowledgment of General Rhodes's letter of the 20th of November, adding that I hope to have the opportunity of discussing the question with him after my arrival in Nairobi next January. It would, however, afford him considerable enlightenment if I could be authorised to send him a copy of Sir Philip Cunliffe-Lister's correspondence with the Chancellor of the Exchequer - Nos. 6 and 7 on this file. Apart from this it seems obvious that the proper course to pursue is to wait for the High Commissioner to re-open the case early next year, as foreshadowed in Sir Godfrey Rhodes's letters.

G.F. Seaton 29/4

Sir G. Rhodes does not realize that when the Treasury have their claws on a Colonial (here the K.U.R.) administration the S. of S. can do nothing without their agreement. Here not only must the Treasury watch the £5½ million but the matter under discussion - altering the renewal Fund and the whole Railway finance - is one of major importance. I don't know what has been the real issue over the Railway land and I don't delay this to find out but the £5½ million can hardly be got out of Kenya funds and Govt. could argue that if the K.U.R. were not independent some of the money would come from the Railway. But all that is academic.

It would I think help a good deal if Mr Freeston were allowed to send copies of 6 & 7 to Sir G. Rhodes for his personal information as he suggests, but in so doing he should make it clear that the "life basis less half Sinking Fund charges" was not agreed to.

J. E. W. Flood

2.12.

Mr: Freeston.

I have'nt much time for these matters nowadays; but there are one or two points here I'd like to call your attention to. My criticisms-or fears-may be unfounded.

1st:. I think it might be well to find out--at leisure--exactly what the position was as regards the £ 5½ mills:! I imagine it will be difficult, in the last analysis, to dissociate the railway from all responsibility as regards the money actually employed in constructing the line.

2nd:. They are putting into effect rate reductions amounting to £ 150,000. I thought that this was being done on the basis of a new " normal" budget:--a budget reasonably normal under conditions now assumed to be fairly stabilised. But it now seems that these rate reductions are ultimately based on:--£ 300,000 in the reserve; and something like £ 450,000-£ 500,000 which Rhodes " considers to be available" from the renewals fund. Surely the Treasury will have something to say as to this? Their argument has been that --with their £ 5½ mills: unprovided for--they cannot hypothecate financial improvement, however arrived at, to rate reductions at this stage. To borrow from the ren. fund to make £ 150,000 of rate reductions immediately possible will seem to them like sacrilege? It appears to be doing at once, and without sanction or discussion, exactly what they strongly object to? ('The money may not be reqrd: in fact: but the objection still seems to remain--rate reductions put into effect, which diminish the sum they could otherwise have counted on.)

Rhodes says " they have been forced to assume that the money (for rate reductions) is available in the general reserve, even though, for technical reasons. the S/S does not appear able to sanction the transfer".

And the rate reductions have I gather been put into effect ? Even the fact of the announcement is practically decisive, I should think, in present circumstances, and in such a matter ?

I don't want to delay this. Yet I feel that the time I can give to it is not enough to warrant me in putting a minute on the file. I am off to the Hague to-morrow, and shall not be back till Monday.

The 4th: November, 1935.

[illegible] 4/12/35

I don't see that we can carry this any further until we have the KUR 1936 Estimates before us. If the Est. shew that Sir G. Rhodes has achieved his £150,000 rate reduction at the expense of the Renewals Fund and/or the 1936 contribution to it, there will indeed be trouble with the Treasury. But it is at least equally probable that he is relying on actual surplus realized in 1935, or anticipated surplus in 1936 – without raiding Renewals.

Meantime ? I may reply to Sir G. Rhodes's letter of 20 Nov. as suggested in my minute of 29 Nov.

[illegible]
4/12

Done [illegible]
[illegible] 10/12

X { Treas 393 05/06 [illegible]
Treas [illegible]

on the financial side

Sir C. Bottomley

I expect Mr Freeston's last probability is right & that we shall find the full renewals contribution (at 2½%) in the K.U.R budget. Treasury may say it ought to have been at the full 3·11% rate – or at the 3·11% less ½ sinking fund contributions – but we can fight them on that on the ground that the whole thing is being examined again.

Meanwhile I think Mr Freeston might send Sir G. Rhodes the corr[ce] as he proposes

J. E. W. Flood
5.12.

we did! J.

X I agree. While I don't quite follow Sir G. Rhodes's "on the security of ...", I see no evidence that the rate reduction is [illegible] and not a "[illegible]" reduction to [illegible] freight.

The public announcement of the reductions makes it impossible to do anything, even if the rather ambiguous information of [illegible] [illegible] officially. In any case I do not think the Treasury would will raise any strong objection to a change which, small in relation to the total sums in which they are interested, may be important locally.

As regards A in Sir G. Rhodes's letter, I have asked Mr. Freeston to have dug out the 1906 or 1907 correspondence about the cessation of the Railway Lands Account. My impression is that the Treasury then definitely maintained their hold on the railway. The 1923-4 corresp[ce] corresp^ce (post the award of recovery till 1934) & that of 1925 or 6 (separation of Railway) probably lurk in the same direction.

Sir G. Rhodes probably knows that [illegible] says is, for working purposes, nonsense; but if as I think it is not arguable he had better know it.

As regards Nos: 6 & 7, I should prefer that the Minister should take out copies and show them to Sir G. Rhodes, on the understanding that Sir G. Rhodes will not use them in any way. They should remain in the Minister's custody.

Noted: copies taken. [signature] 10.12

W.H.S.
6.12.35

With Mr. Gray's help I have identified some of the 1906-7 corresp. in the Register, & the volumes are now being obtained from Canterbury. I fear, however, that I shall have left the Office before they arrive!

[signature]
10/12

Secs. 34395/06 EA!
Secs. 14400/06 EA!

Sir C. Bottomley

We will examine the corr^ce when we get it. We mentioned the point to Mr Burney who of course knows most things about Kenya's attitude & his impression is that the matter has not come up for years but he thinks that the Kenya Govt. would not admit that the K.U.R. is clear of liability. It was rather mixed in his mind with Railway Lands (i.e. land owned & used by the Railway) as to which there is much local argument, so he isn't sure about it.

J.E.O. Flood
11.12

x Nothing! They could quite reasonably argue that the liability was put on to Kenya when they were given the administration of the Railway in 1902 & that it ceased to be theirs when the Railway was taken from them. No doubt they could be called upon to disgorge the 2 £1,400,000 profits which they took.

Wait

W.H.S. [illegible] 11.12

Reverse to Mr Flood for X above

R 80 to file

NB
Noted 24.10

See now minutes & letters to Treas. of 4/2/34 [illegible] on 23324/34

Copy

14

COPY.

TREASURY CHAMBERS,

19634
06.

29th November, 1906.

Sir,

I am directed by the Lords Commissioners of His Majesty's Treasury to acknowledge the receipt of Mr: Antrobus's letter (39395/1906) of the 7th instant, explaining the general policy of the Earl of Elgin in regard to the alienation of land in the East Africa Protectorate. My Lords are glad to note the instructions which have been given to the Commissioner.

As regards the question of the Uganda Railway Zone receipts, I am now to submit the following observations.

The Zone originated, and the principle was laid down that the receipts derived therefrom should be set off against the capital cost of construction, in the days when the future status of the Railway was still undetermined. 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 My Lords would suggest that the question of repayments on account of the capital

cost

The Under Secretary of State,

Colonial Office.

15

cost of the Railway should be deferred until the Protectorate can dispense with an Imperial Grant-in-aid; and that the Railway Zone should 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.

I am, etc.,

(Sgd.) J.H.MURRAY.

COPY.

16

EAST AFRICA PROTECTORATE.

NO. 769.

Downing Street,

7th December, 1906.

Sir,

I have the honour to acknowledge the receipt of Mr. Jackson's despatch No.484 of the 31st of August and to transmit to you, for your information and guidance, the accompanying copy of correspondence with the Treasury relative to the Uganda Railway Zone and incidentally to the alienation of land in the East African Protectorate.

2. I have to inform you that I approve of the suggestion contained in the fourth paragraph of the letter from the Treasury of the 29th of November last, a copy of which is enclosed herewith, and to request that you will cause the control of the Railway Zone to be transferred from the Railway Department to the Land Office and the other Departments of the Protectorate concerned.

3. The Zone will therefore cease to be a separate estate, and the revenue derived from it should henceforward be treated in the same manner as the receipts accruing from similar sources in other parts of the Protectorate.

4. The General Manager of the Railway should however invariably be consulted before any lands or rights over land within the Zone are alienated, and if in the interests of the Railway he takes exception to the proposed alienation the matter should be referred to the Secretary of State for settlement.

I have, etc.,

(Sgd.) Elgin

THE COMMISSIONER

OF THE EAST AFRICAN PROTECTORATE.

K.U.R. 752
Revised 1/35

17

Kenya and Uganda Railways and Harbours

Telegraphic Address:
RAILWAYS, NAIROBI

P. O. Box No. 121

TELEPHONE No. 2601.

GENERAL MANAGER'S OFFICE,

NAIROBI, 20th November 1935.
KENYA COLONY

In reply please quote ref.
No. PERSONAL. and date.

BY AIR MAIL.

L.B. Freeston, Esq., O.B.E.,
Colonial Office,
LONDON, S.W. 1.

My dear Freeston,

Many thanks for your note of the 11th.

I am sure that between us we shall find a suitable house for you and your family.

With regard to the Renewals question, I note the Treasury point of view; this causes me some alarm from several points of view.

[illegible] 10.12.35. ([illegible] not on record)

A

To begin with, the Railway is not interested in the re-payment of the £5½ million Loan, which I note you label as the 'K.U.R. debt'. You will remember that in the early days a special area of land was set aside on either side of the Railway, to be used in due course to assist to liquidate this debt. This land, as you know, has been taken over by the Colony of Kenya, together with approximately £1½ million in cash, which they had managed to collect during the period the Railway was under their control.

In these circumstances, you will, I think, agree that the Colony alone is liable to meet this debt, if the Imperial Government should make up its mind to recall it.

The second point is that the question of transferring a sum of money by a temporary borrowing from the Renewals Fund into a General Reserve seems to have no bearing whatever on the question of the re-payment of the debt. As you know, the building up of a Reserve Fund is essential before rates reductions can be accomplished.

A third point is that surely the Secretary of State for the Colonies can decide his own policy, after, of course, considering the Treasury point of view but not necessarily following it. The Treasury has the interests of the home tax-payer at heart, while the Secretary of State for the Colonies has, or is supposed to have, the interests of the Colonial tax-payer at heart and the development of the Colonial assets.

18

In all these circumstances, I have great difficulty in appreciating why the Secretary of State for the Colonies is unable to accept our recommendation. As a matter of fact, in considering possible rates reductions for the coming year, I have definitely recommended reductions to the extent of £150,000, based on the security of the actual money that will be in the general Reserve Fund by the end of this year, which will probably be in the neighbourhood of £300,000, and the amount which I consider to be available in the Renewals Fund, which may be taken at something approaching £450,000 to £500,000.

You will see, therefore, that we are within reasonable reach of the £1,000,000, which has been accepted by all parties as the sum that we should aim at, on the assumption that borrowing to the extent referred to above from the Renewals Fund will be permitted. The Railway Council have accepted my recommendation, which has also been approved by the High Commissioner, and the Governor is making an announcement to this effect this morning at the opening of the Legislative Council.

You will see, therefore, that we have been forced to assume that the money is available in the general reserve, even though, for technical reasons, the Secretary of State does not appear able to sanction the transfer.

The departmental enquiry into the Renewal position is proceeding satisfactorily and we propose to adopt the replacement cost of the asset as the basis of our calculations rather than the original cost as before. This, together with other adjustments due to the fact that many assets which we assumed to be in existence have long ago disappeared, will undoubtedly have some effect in a downward direction in the amount of the contribution required. This does not in any way affect the principle of a transfer temporarily of money not required in the immediate future to a General Reserve, to be repaid at a convenient date later.

You will, I hope, realise that the strict adherence to the Secretary of State's ruling that such a transfer cannot be allowed would have inevitably postponed the introduction of rates reductions next year. I propose re-opening the whole question of the Renewals Fund after the report of the departmental Committee is available, but you will gather that the non acceptance of our recommendation in this respect has caused considerable disappointment, not only to us, but also to the general public, so far as they understand the position.

We shall all look forward very much to seeing you and your family out here in the not too distant future.

With kindest regards.

Yours sincerely,

G.D. Rhodes

GDR/MED.

38039/35.

Inspection Section
Air Mail of 3rd August
But top to be recirculated to Mr Freeston before Saturday 3rd Aug

C. O.

Mr. Grossmith. 31/7
Mr. Freeston 31
Mr.
Sir C. Parkinson.
Sir G. Tomlinson
Sir C. Bottomley.
Sir J. Shuckburgh
Permt. U.S. of S.
Parly. U.S. of S.
Secretary of State.

C.D.
31 JUL

DRAFT.

TRANSPORT
KENYA-UGANDA.

NO. 60

HIGH COMMISSIONER.

Downing Street,

~~July~~, 1935.
2 August.

(12)

Sir,

I have etc. to acknowledge the receipt of your despatch No.60 of the 25th of June transmitting a copy of a resolution of the Railway Advisory Council, in which they drew attention to the fact that no decision had yet been received from the Secretary of State with regard to the rate of contribution to the Renewals Fund, and asked that you should again press for an early decision on this matter.

2. In this connection I would invite reference to the fifth paragraph of my despatch No.52 of the 5th of July. I can only add that I am considering this and cognate matters in consultation with Sir Joseph Byrne, and I shall be obliged if you will cause

No 9
38126/35

FURTHER ACTION.

the

the Railway Advisory Council to be informed

accordingly.

I have, etc.

(Sgd.) MALCOLM MacDONALD

RECEIVED
29 JUL 1935
C. O. REGY

20 12

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

TRANSPORT

KENYA-UGANDA.

NO. 60

25th June 1935.

Sir,

I have the honour to refer to your telegram No. 2 dated the 30th January 1935, which approved the Estimates of this Administration for the current year with the exception of provision for renewals with regard to which it was stated that a further communication was being forwarded, and to inform you that at a Meeting of the Railway Advisory Council which was held last week, the future financial policy of the Administration was discussed.

No 9
23324/34

2. In this discussion the rate of contribution to the Reserve Fund and the amount to which the Reserve Fund should be built up was examined in detail, and in this examination attention was drawn to the relationship between the Renewals Fund and the Reserve Fund and with regard to the Renewals Fund Council unanimously adopted the following Resolution :-

Encl (13)

> "Council also wished to draw attention to the fact that no decision had yet been received from the Secretary of State with regard to the contribution to the Renewals Fund and asked that the High Commissioner should again press for an early decision on this matter."

I have on several occasions urged that the contribution to the Renewals Fund should be at a reduced rate of 2% until the year 1945 when the position should be re-examined, or 1940 if the position then appears to require

reconsideration/

THE RT. HON. MALCOLM MACDONALD, M.P.,
COLONIAL OFFICE,
DOWNING STREET,
S.W.1.

re-consideration, and in forwarding for your information the Resolution of the Railway Advisory Council quoted above, I request that a decision on this question may be forwarded as soon as possible.

I have the honour to be,

Sir,

Your most obedient, humble servant,

A. L. Wade

HIGH COMMISSIONER.

It is somewhat difficult to know where to begin in consideration of the Kenya-Uganda Railway and its finance, especially in re-opening the matter from the beginning. Shortly, the position is this.

The original Kenya-Uganda Railway was built by money advanced by H.M.G. between the years 1896 and 1900 to the amount of, in round figures, £5½ million. Since then further sums of money have been expended upon it, of which just under £14,000,000 has been produced by loans floated by Kenya and Uganda, Kenya's total being £13,000,000 odd and Uganda's £935,897. Further capital to the amount of £2,332,000 has been found directly from revenue or through Betterment Funds and through a Marine Insurance.

The Railway is called upon to pay interest and sinking fund on the £14,000,000 of loan debt, which it manages to do to the tune of ~~£848,180~~ ~~£600,000~~ a £829,259 rising to £848,180 a year. The result of this is that the general taxpayer of Kenya does not bear any burden in regard to that proportion of Kenya's debt which is sunk in the Railway.

But apart from this comes the question of railway finance generally. With the separation of railway finances from the general Colonial budgets, it has always been held that Colonial railways should make satisfactory provision out of their own receipts for betterment (which [illegible] such new works as [illegible] can properly be charged to the [illegible]), Renewals and Miscellaneous items

It is ver[illegible]

[illegible] controvers[illegible]

being taken as to the amount to be placed to a Renewals Fund each year, it was considered that the appropriate amount should be calculated on the degree of waste that might be expected to be incurred by the different assets of the Railway, so that when any one asset wore out there would be enough money in the Renewals Fund to replace it, and by the time everything had worn out, it would all have been replaced without coming on the public or the general taxpayer for more capital. The calculation of the precise amount is a matter of considerable difficulty and no little guess-work, but an all-in figure of 3.11% was arrived at as the basis. The Railway was accordingly required to place to Renewals a contribution of well over ~~£300,000~~ £400,000 a year (the figure in 1934 ~~[illegible]~~ would be £456,793) and the total amount standing in the Renewals Fund at the end of December, 1934, ~~was~~ is £1,780,434.

and a 2½% figure was agreed upon. Even this could not be met in full (It comes to about £330,000 a year)

~~[illegible]~~ The Railway did not earn enough to enable the full contribution to be placed to the Renewals Fund and they opened a Deficit Account to indicate the balance which ought to have been put into the Renewals Fund on the 2½% basis, but wasn't there. They have now earned enough money to close the Deficit Account completely, so that the Renewals Fund now stands at its full figure (on a 2½% basis), and in addition, there is a balance of £26,708 with which it is proposed to restart a Reserve Account.

The figure of 3.11% has never been accepted by the Kenya-Uganda Railway Authorities and the contribution paid by the Railway has been at the rate of 2½% only.

It was I think accepted as a proper basis [illegible] though not [illegible] [illegible] in fact [illegible]. [initials] 17/7/35

The

The 3.11% would require ~~[illegible]~~ £454,793. a year, and the 2½% requires, ~~[illegible]~~, £336,047.

The General Manager of the Kenya-Uganda Railway is anxious to see two things happen :-

(i) To get down the overhead debt charges which mainly turn on the existence of two loans carrying high interest (6% and 5%), the first of which is not due for repayment until 1946 at the earliest.

(ii) To build up an adequate Reserve Fund so as to supply a general equalizing pool which will enable him to reduce rates on the Railway. With things as they are in Kenya, any general rate reduction would undoubtedly be a material advantage to the struggling agricultural community, and would also help the Uganda cotton crop and enable the native population to improve their standard of living by cheapening the up-country prices of imported goods.

In order to achieve the latter ~~project~~ object, the General Manager urges that the Renewals charges should be reduced from 2½% to 2%, at any rate until 1946, when the position can be again reviewed. He points out that the Renewals Fund as it stands is amply sufficient, with the reduced contributions which will be made, to meet any possible calls that can arise up till 1946. Then in 1946 two things can happen. First, the 6% loan can be paid off, resulting in a reduction on the Railway's debt charge of about £350,000 a year, and second, the wasting assets can be revalued and an appropriate Renewals contribution calculated. This contribution may be at some higher rate even than 3.11% since, if that sacred figure was accurate, it might be expected that Renewals contributions would have to be slightly increased after ten years at a lower figure. On the other hand, it may not be as much as 3.11, and time alone and a revaluation can tell.

The

The commercial community in Kenya, strongly supported by the Joint East African Board, are pressing for a reduction of the Renewals contribution to 2%. We here agree that it ought to be done, and in order to get an immediate large sum into the Reserve, it has been proposed that the reduction should be made retrospective for the past five years. This would involve taking out of the existing Renewals Fund as it now stands a sum equal to the odd ½% and charging it to Renewals.

All this was put to the Chancellor of the Exchequer by Sir Philip Cunliffe-Lister in his letter of the 14th of March, which was answered at the end of April, but the Chancellor's letter, which, of course, is pure Treasury, gives no hope of yielding.

The reason why we have to go to the Treasury for approval is because of the liability of £5½ million for the construction of the original Railway. This sum is claimed by the Imperial Government and unfortunately the claim was admitted by Mr. Winston Churchill when Secretary of State. In 1924 it was agreed to defer the question of the payment of this liability for ten years and two years ago it was agreed to defer it again until 1936.

I think it will be recognized that if there is to be any talk about "developing the Empire" such a proposal as that the unfortunate Kenya-Uganda Railway, which, of course, really means the struggling agricultural community of Kenya and Uganda, black and white alike, should be called upon to repay a sum of £5½ million advanced forty years ago for purely political purposes (the suppression of the slave trade and the control of administration in Uganda), should be firmly negatived. True, it was admitted in 1921, and since then it has been more or less tacitly recognized, but there is no reason why it should not be reopened on the very good ground that, with the collapse of the economic structure of Kenya, as it has collapsed, to call upon them to meet such a liability would be morally and politically unjustifiable. I cannot believe that the Imperial Government ever expected to get the money back when they paid it out originally, and I should like to try the effect on the Treasury of telling them that they must face the fact that the debt has not been and will not be ever repaid since the communities served by the Railway are not in a position to do it otherwise than by being called upon to pay too much for the services rendered by the Railway, so that the Treasury can just abandon hope of it.

The Chancellor is very kindly prepared to agree that anything earned by the Railway after the Deficit Account has been cleared off may be put to General Reserve, which is not to be used or hypothecated (by which I suppose they mean that rates may not be reduced) without Treasury sanction. We can accept this kind offer so far as it goes to the institution of a General Reserve, but I think we should return to the charge on the subject of the 2% Renewals even if we can't get it retrospectively. I may mention here that in the Kenya Council the prospect of reduction of railway rates was mentioned, and

and further, that the unofficial population are getting extremely restive under what they regard as an undue burden. Struggling as they are, it is impossible not to sympathize with this point of view.

There remains the allied question of 2½% or 3.11% Renewals. The Railway is carrying on at 2½% and the Treasury is producing a proposal that the contribution to Renewals should be calculated not at 3.11, and not at 2½, but at 3.11 less half the Sinking Fund payments. This would involve an extra contribution to Renewals of about £84,000. With the abolition of the Renewals Deficit Account it would mean an additional burden on the Railway, and further, to accept it would be an agreement that the 3.11% figure is the right one. The late Secretary of State was not prepared to accept that, nor am I.

H 17/7/35

As regards action, it would I think be inadvisable to take a violent line in regard to the £5½ million, though I have to admit that I should like to try the effect of it. What I think should be done is for the S.of S. to inform the Chancellor that he has now gone into the matter with a fresh mind, that he wishes to press the proposal that renewals should be reduced to 2% from 2½% on the express understanding that the position will be thoroughly re-examined in 1946, in which

/year

year part of the burden which the Railway now bears may be expected to have disappeared. That it may well be found on such an examination that a Renewals contribution at a higher rate than ~~had somehow been calculated that~~ 3.11% will be necessary, or possibly that ~~That it may well be that a~~ the further 10 years' experience will show that 3.11% or even 2½% is on the high side. Also ~~to~~ say that the S.of S. and his advisers are all in agreement that if possible Railway rates should be revised and reduced if the whole community of Kenya is to be given a fair chance. That this (reductions) to be effective, can only be done on broad lines as proposed by the General Manager, and to enable him to do this the S.of S. agrees that the institution of a Reserve is desirable. Point out that the Deficit Account has now been closed and that there is a small balance on the right side, and say that the S.of S. gladly accepts the proposal that such sums should be placed to a General Reserve.

See above as to that. It'll have nothing to do with this proposal

H 17/7/35

Then I think it would be well to ~~write~~ invite the Chancellor to consider seriously whether it is possible to ~~condemn~~ abandon the claim against Kenya for the £5½ million. Say that we know it has been admitted but that in present circumstances there is no hope of getting it and that it is a matter for serious consideration whether the claim ought not to be dropped and the people of Kenya allowed to face the future without this sword of Damocles hanging over their heads. This however may well wait till 1938 & there is no need to raise it now if the Treasury will agree to the 2%

J.W. Hood
12.7.

BY AIR MAIL.

R.297 2611

TELEGRAMS:— "CONFGOV, NAIROBI"

OFFICE OF THE
CONFERENCE OF EAST AFRICAN GOVERNORS
P.O. Box 601,
NAIROBI, KENYA

REF. No. T/Fin/J.2.

PERSONAL.

RECEIVED
31 MAY 1935
C. O. REGY

21st May 1935.

Recd 30.5.35

Dear Bottomley,

In continuation of my personal letter No. T/Fin/J.2. of the 3rd May 1935, I enclose herewith a copy of Rhodes' memorandum on the future financial policy of the Railway which is being discussed at the next Meeting of the Railway Council. This is the memorandum to which I referred in paragraph 2 of my letter of the 3rd May.

No 10

No 10

You will see that this memorandum is very much on the lines of the one forwarded to you by Sir J. Byrne with his letter of the 23rd January.

No 5

We have recently had very good rains in Kenya, so politics may possibly be damped down a bit while the crops grow.

Yours sincerely,

C. G. Gallers

SIR CECIL BOTTOMLEY, K.C.M.G., C.B., O.B.E.,

COLONIAL OFFICE.

MEMORANDUM FOR RAILWAY COUNCIL ON THE FUTURE FINANCIAL POLICY OF THE KENYA AND UGANDA RAILWAYS AND HARBOURS ADMINISTRATION

HISTORY OF DEPRESSION:

Before outlining what I consider should be the future financial policy of the Kenya and Uganda Railways and Harbours Administration, it would be as well to review briefly the history of the recent depression, so far as it affected the working of the combined Services (Railways and Harbours).

2. The following table is of interest in this connection:-

Year.	Gross Revenue.	Gross Expenditure including Depreciation.	Net Revenue.	Loan Charges Refunds etc.	Deficit or Surplus.
1934.	2,685,877	1,511,964	1,173,913	829,259	344,654 (Surplus)
1933.	2,569,136	1,514,921	1,054,215	821,379	232,836 (Surplus)
1932.	2,172,946	1,522,729	650,217	839,605	189,388 (Deficit)
1931.	2,246,837	1,808,844	437,993	816,177	378,184 (Deficit)
1930	2,611,229	1,966,805	644,424	727,634	83,210 (Deficit)
1929	2,867,932	1,895,049	972,883	685,516	287,367 (Surplus)

3. The following additional points should be specially noted :-

(a) The Gross Revenue for 1929 is the highest so far received;

(b) At the end of 1929 the Interest Reserve Fund, or Reserve Account, amounted to £100,000;

(c) By December, 1930, the Reserve Account stood at £16,790, while by December, 1931, this had been converted into a deficit of £361,394;

(d) The deficit reached a maximum of £550,782 at the end of 1932;

(e) Expenditure was also a maximum in 1930;

(f) Public Ton Mileage moved in 1929 was 300,763,341;

(g) Public Ton Mileage moved in 1933 was 308,338,673, the maximum to date.

(h) Expenditure was a minimum in 1934.

28

4. With the rapid falling away of traffic in 1930, it became clear by the end of the year that a serious depression had commenced. Immediate and drastic steps were taken to reduce expenditure, with the result that by the end of 1934, an annual reduction below the 1930 figure of £454,841 had been achieved.

5. It should be made clear that this sum refers to annual recurrent working expenditure and is exclusive of all reductions in expenditure on Betterment. (Equivalent to Expenditure Extraordinary in Government accounting).

1934 RESULTS:

6. While the gross earnings are still below the earnings of 1929, they are slightly above the earnings for 1930, hitherto the next best year. The gross expenditure, however, as already shown is much below the expenditure for the latter year, resulting in the largest surplus so far recorded. (This surplus, it may be of interest to note is, however, less than the highest recorded deficit for any one year).

7. In consequence, the deficit has been eliminated and a small contribution has been made to the Reserve Fund. It will be clear that as revenue is still below the peak year of 1929 this satisfactory result is due almost entirely to the reduction in working expenditure recorded in recent Annual Reports.

RATES CHANGES:

8. While several hundreds of thousands of pounds were remitted to the users of the Railway by reductions in rates during the years 1923 - 1929, as shown in the Annual Report for 1929, the present position has been obtained without withdrawing more than comparatively few of these concessions. In fact, it is estimated that the rates increases introduced during this period, (partly to obtain further revenue and partly to discourage uneconomic movement) account for some £84,000 only.

9. While this point should be given due prominence, it must be admitted with regret that, owing to the complete absence of a General Reserve or a Rates Equalization Fund, it has not been possible to assist industry during a time of severe depression, when even a small reduction in the cost of transport would have been of benefit.

10. Consideration of these facts will, I think, show that it is usually a mistake to lower rates during periods of prosperity, thereby reducing the reserves that could prove so helpful during periods of economic difficulty.

NEED FOR GENERAL RESERVE: 1st OBJECTIVE:

11. It is, therefore, generally appreciated that the need to build up adequate reserves is extremely urgent and that nothing should be allowed to interfere unduly with this process

29

12. As regards the amount of Reserve that is considered adequate, it is interesting to note that the Rhodesian Railways, after their recent experience, have decided that their reserve should be at least $2\frac{1}{2}$ times their Loan Commitments and that in addition they should build up a Rates Equalization Fund. It is, however, felt that in our case £1,000,000 should be the amount to be aimed at to form a general reserve which will also act as a Rates Equalization Fund.

13. The present rates structure is designed to produce a balanced budget, with average crop yields. With good yields, an annual surplus of £200,000 to £250,000 may be anticipated, which will be available for building up the Reserve, i.e. contributions are made to the Reserve in good years only. In this connection, the only crop requiring particular attention is the cotton crop of Uganda. A bad cotton crop in any one year will, on the present rating basis, result in a deficit for that year. The present satisfactory position is due to the fact that we have had three good cotton crops in succession. This cannot always be the case and it will be realised that the margin of safety is not great and is dependent very much on such uncertain factors as rainfall and market prices.

14. Examination of the "Z" diagrams in the Annual Report for 1934 will show that, from the transport point of view, the bottom of the depression was reached in 1932. The figures for 1934 would appear to indicate that we are now well on the way to what may be described as a boom period, though no doubt on a very much lower scale than the 1928-29 boom. It would appear, therefore, that with reasonable care we should be able to realise our required Reserve before the next depression is due. This is our first and immediate objective. We must be secure when the next depression hits us, if we are to be of assistance to the country when most required.

REDUCTION IN RATES: 2nd OBJECTIVE:

15. The second objective is, of course a substantial reduction in Rates. Our lower rates are already reasonably low, but it will be agreed that at present our top rates are very high. It is necessary to reduce these rates as soon as possible, firstly, because they are too high and unduly put up costs to the public in many directions, and, secondly, because of road - and possibly air - competition. Reasonable regulation of road and air transport will be required by these industries themselves for protection against each other, but prohibition in the case of road competition, as at present, can only be justified so long as the country cannot face a complete revision of the Railway tariff system. Such a revision has in fact been prepared and is available for immediate introduction should prohibition of wasteful road competition be withdrawn. It is, however, believed to be in the interests of these territories as a whole that the existing legislation be maintained until such time as the top rates can be reduced without raising the lower ones. It is suggested that both Governments should be asked to give an undertaking to this effect.

16. The factors chiefly controlling the revenue position are:-

(a) Operating Costs.
(b) Loan Charges.

30

Operating Costs:

17. At the present time our working expenditure, exclusive of depreciation, is below 50% of our revenue. This is very satisfactory, as it means not only that costs are being kept within reasonable limits, but also, and this point is frequently forgotten, that unremunerative and uneconomical services have virtually been eliminated. In this connection, the continued co-operation of the public is necessary and services demanded must be confined to essentials only.

18. The temptation to Governments and the public to press for extravagant and uneconomic services must be resisted firmly, otherwise we shall gradually drift back to the position in which we found ourselves four years ago.

19. Full details of our operating results have been published in the Annual Reports and it is unnecessary to repeat them here. Suffice it to say that on both the locomotive running and traffic sides, the results obtained are most satisfactory, many of them being the envy of much larger railways.

Loan Charges:

20. Owing partly to heavy capital expenditure in advance of the general development of the country, and partly to the high rates of interest which have to be paid, the Loan Charges form a high proportion of our total revenue. The first cause can be removed only by more intensive development of the countries served, and the second only by the amortisation of loans as early as possible.

21. At the present time no way has been found to deal with the difficulty caused by the high rates of interest. In the normal way no relief from the loan burden can be obtained until the Kenya £5,000,000 Loan of 1921 can be redeemed in 1946. The transport share of that Loan is £4,245,386, but in 1946 the Sinking Fund available will amount to £1,800,000 only, leaving £2,445,000 to be found to redeem it in full. It is a matter for serious consideration how much of this balance should be found by additional contributions to the Sinking Fund and how much should be left to a new loan.

22. If in 1946 money is as cheap as it is at present, which presupposes a depression equal to the present one, it will be economic to raise a new loan. If, however, there happens to be a boom in 1946 and the price of money is high, it may be extremely inconvenient to have to raise a fresh loan, when we or the Colonial Governments may also be in the market for money, to meet new development.

23. It is impossible to give a considered opinion at the present time but the matter should be brought up for review as soon as the general reserve reaches the figure already suggested as reasonable and safe. This too is in accord with the recommended policy of building up a reserve as rapidly as possible and by every reasonable means in our power. At this stage, it is perhaps sufficient to suggest that, after the Reserve has been obtained, all "fortuitous" revenue not earmarked for rates reductions should be credited to a Supplementary Sinking Fund.

RENEWALS FUND:

24. It has repeatedly been pointed out to the Secretary of State that the present rate of contribution to the Renewals Fund will provide more money than will be spent on Renewals up to 1946, though the whole of it will be required after 1946. It has therefore been suggested that the rate should be reduced temporarily to 2% and then in 1946, when the loan position is eased, increased again to make up for the reduced contribution to a life basis, which it is expected will be about 3.2%. The relief afforded by this temporary borrowing, amounting to approximately £66,000 per annum would be credited to the Reserve Fund until the latter reaches the required total, thereby expediting the date when the sum required from General Revenue as contribution to the Reserve Account is no longer needed for that purpose and becomes available for rate reductions.

25. The £66,000 relief from Renewals Contributions which cannot under any circumstances be used for rate reductions can then until 1946 quite properly be diverted to a Supplementary Sinking Fund, together with any other "fortuitous" Revenue which may become available.

26. It is regrettable that the Secretary of State has not yet been able to persuade the Home Treasury to agree to this temporary relief, which, while in no way jeopardising the position of the Renewals Fund would afford a welcome addition to the Reserve Fund at the time when it is most required. If this principle is eventually accepted from the date originally recommended, i.e. 1930, a sum of approximately £400,000 will be available for transfer to the Reserve.

DEPRECIATION OF SECURITIES:

27. At the present time, following the instructions of the Secretary of State, the practice is to value our securities on December 31st each year and any increase or decrease is credited or debited to the Net Revenue Account. During the last two years substantial credits have been received which have had a considerable influence on the surpluses shown. This will not, however, always be the case. From 1935 onwards it is considered that no further amount on account of appreciation of securities should be credited to revenue. It should be placed in a special fund, which, if necessary, should be added to by small annual contributions until reasonable and probable depreciation has been provided for.

WRITE-OFF OF DEAD ASSETS

28. There are a number of assets which are no longer required and which will not require replacement. Among these are obsolete vessels and shore equipment on Lake Victoria, old abandoned quarters distributed over various parts of the line and sundry old assets in Capital Account which have been non-existent for some years. The sums required for such write-offs must be found partly from the Renewals Fund and partly (i.e. when the amount set aside in the Renewals Fund is insufficient) from General Revenue. The sums so released are placed to the credit of Capital Account and are available for further capital expenditure as required. While undue haste is not necessary in writing off dead assets the process should not be unduly delayed. This question is now being examined and will be dealt with in conjunction with the review of the Renewals Fund position and the question of contributions to the Marine Renewals Fund which have been temporarily suspended, which will be undertaken during the present year

32

THE GENERAL RESERVE:

29. We may now examine the position with regard to the building up of the General Reserve, a matter which, as we have seen, is considered to be of the first importance. We have in the Reserve Account at the present time some £25,000 only. We have also in the Renewals Fund a sum of approximately £400,000 available for transfer to the Reserve, if our proposals are accepted. If our proposals are not accepted, we may, I think act as if that sum were available and reduce the total to be shown in the Reserve accordingly. Also we have a temporary excess annual contribution of £66,000 from the Renewals Fund, either agreed to, or if not agreed to, available in that Fund. Any further contribution to the Reserve must come from surplus revenue.

RATE OF CONTRIBUTION TO RESERVE:

30. The problem to be decided is at what rate should this contribution be made, the alternative presumably being the setting aside of part of the surplus towards reductions in rates. This aspect of the matter requires careful examination and an analysis of the surplus earned in 1934 will be of interest in this connection.

31. As members of Council are aware, it is the settled policy of the Administration to estimate revenue on very conservative lines. As already stated, unsuitable weather in any one season may easily reduce our revenue to such an extent as barely to balance expenditure and even to leave a deficit. The importance of the Uganda cotton crop in this connection has already been stressed.

32. A careful examination of crop prospects and resulting traffic earnings, shows that the normal recurrent goods revenue, based on 1934 figures, can be accepted at about £1,769,000. Actually during the year in question, owing principally to a record cotton crop, we earned some £200,000 above this figure. This additional sum, however, cannot always be relied upon and may be treated for estimating purposes as non-recurrent. In addition, there are other non-recurrent items such as levy, £23,000, appreciation of securities, £35,000, making a total of £258,000, or say £260,000, which can only be described as non-recurrent, or fortuitous revenue, and therefore until our Reserve is built up not available for rate reductions. This leaves some £80,000 which might be considered as "available" for rates reductions, leaving the building up of the reserve to be found solely from the additional revenue accruing from crops above the average, or a general improvement in trade.

33. Against this possible figure of £80,000 must be placed the probable increase in the Renewals Fund contribution on Marine assets, which, as Council will remember, has been discontinued until the end of the present year. The final position with regard to the Renewals Fund will not, however, be known until later in the year, on the conclusion of an enquiry which is to be carried out as soon as the necessary data has been collected.

34. Assuming that this enquiry reveals the fact that no additional payment to the Renewals Fund is necessary it may be stated that as a result of the improved prospects of the present year and provided traffic prospects do not deteriorate again before the end of the year, a sum of £100,000 can be made available for rates reductions from January 1st 1936.

35. While I believe relief to this extent can safely be given a decision on this point can only be taken after mature deliberation later in the year and, if accepted, on the distinct condition that reductions be applied only where present rating is unsound or unduly high.

36. Briefly this condition restricts reductions to :-

(a) defects in individual rates already noted for consideration, and

(b) reduction in the top classes which, as already explained, are unduly high.

SUMMARY:

37. It will be convenient now to summarize the recommendations outlined above.

(i) All surpluses should be credited to the Reserve Account until the total of that account (plus any sum available from the Renewals Fund) has reached £1,000,000.
NOTE: On the Reserve Account reaching this figure, a further £100,000 will become available for rates reductions.

(ii) Maintenance of working expenditure at a minimum involving elimination of all wasteful and extravagant and uneconomic services.

(iii) The question of instituting a Supplementary Sinking Fund to provide the additional money required to redeem the 1921 Loan, to be left for future consideration.

(iv) Renewed efforts to be made to obtain authority to reduce the Renewals Fund contribution to 2% until 1946, crediting the amount to the Reserve Fund until completed and then to the Sinking Fund for the redemption of the 1921 loan.

(v) To open a special account to cover variations in value of securities.

(vi) Write-off of dead assets to be carried out as due.

(vii) Non-recurrent or fortuitous revenue is not available for rate reductions until the Reserve is built up. The claims of the Sinking Fund must not then be overlooked.

(viii) Rate reductions when approved must be restricted to the elimination of existing defects, i.e. they must conform to sound rating principles.

And in 1946

(i) Redemption of £5,000,000 loan by utilizing the Sinking Fund, and borrowing from the Reserve

Account and from the Renewals Fund to the full extent permissible, supplemented if necessary by additional borrowing on the public market.
NOTE: The redemption of the loan in full without borrowing would release a further £200,000 for rate reductions.

(ii) Increased contribution to the Renewals Fund to bring up to life basis.

A provisional statement based on the above proposals, assuming no set back in revenue occurs, is attached as an appendix.

GENERAL CONSIDERATIONS:

38. It will be noted from the above that the policy now recommended aims at certain definite rates reductions of considerable benefit to the community at certain definite intervals when permanent savings become available. Premature or excessive rate reductions beyond those now suggested would almost certainly have to be cancelled later on and probably supplemented by further increases, as in the last crisis, at a moment when the community is least able to bear additional burdens. In this connection, it is pertinent to point out that as expenditure has now been reduced to a minimum there are no large possible savings to fall back upon, as there were in 1931 and 1932.

39. While it is considered that the policy outlined herein should be rigidly adhered to, this will not prevent additional minor adjustments being made where genuine hardship is being caused, or other alterations in the tariff designed to encourage greater movement, bringing about an improvement in the net revenue position. All such cases will, of course, be sympathetically considered.

40. It may perhaps still be argued that although this policy provides considerable relief in the very near future, this relief is insufficient, as no hope is held out of any further reductions before say 1939 or 1940, when the Reserve account may be full. While that fact is regretted, it results directly from the policy followed in previous years when substantial rates reductions were made in a boom period, giving up hundreds of thousands of pounds, when no one needed them. The results of that policy cannot be escaped. They must be faced and we must avoid making the same mistakes again. However the relief now suggested is very much greater than seemed possible or likely less than a year ago.

41. It is also permissible to point out in this connection, that the average rate per ton mile charged to the public in 1933 was 11.8 cents, while in 1929 it was 13.3 cents, or a difference of 1.5 cents. Expressed in money this means that the public paid £231,254 less for the work done in 1933 than they would have paid for the same work in 1929. In addition, the work has been done more speedily and more efficiently in every way. In all these respects, the users of the Railway have in fact received the equivalent of very substantial reductions in rates. If similar comparisons are made with previous years, the results are even more striking.

42. Furthermore, there is one other hope available to present users. All these proposals are based on the assumption that there will be little increased development in the next three or four years. It is wise to estimate on conservative lines. Should, however, it turn out that considerable additional traffic is in fact brought to the Railway - and there are possibilities of increased native production, mining development, bamboo pulp manufacture, etc., - such increases will tend to shorten the period until adequate reserves are established, will provide in full for loan redemption and, provided a strict control over expenditure is maintained, make further substantial rate reductions possible.

43. The most helpful of the above possibilities lies in increased native production. A real advance in this direction will not only provide the traffic so urgently needed by the Railway but may also be the means of putting these territories once more on their feet, lightening the burden of taxation and so benefiting equally all sections of the community.

44. The preparation of this memorandum serves to draw attention to the fact that while Mr. Gibb's suggestion for a Railway Board in London has been turned down, little has been done to strengthen the admitted weakness in financial control that at present exists. The need for formulating a long range financial policy and for establishing some strong and continuous form of financial control to ensure that such a policy is carried out, is self-evident, if only from a consideration of the serious mistakes of the past ten years. Under the present system, even if a long range policy is accepted today, there is no certainty that it will continue tomorrow. It is at the mercy of changing High Commissioners, Advisory Councillors, General Managers, Chief Accountants etc., and the moment there appears a change for the better, there is a scramble for the spoils. Demands at once arise for immediate decreases in rates and even for the sharing out of such reserves as may have been accumulated. When it is remembered that sickness, or absence on leave at the beginning of 1931 of one or two executive officers would, of necessity, have led to the adoption of a hesitating and weak policy, and that with such a policy we should have been bankrupt in 1932, the danger of the present organization will be appreciated. Mr. Gibb saw this danger clearly and suggested a remedy. That remedy has not been accepted, in my view rightly, but nothing else has been substituted.

45. Consideration of the policy now submitted and its acceptance in this or a modified form will at once raise the question as to how the continuance of such a policy is to be ensured.

G.D. RHODES.

GENERAL MANAGER.

General Manager's Office,
NAIROBI.

14th May, 1935.

Appendix to General Manager's Memorandum dated 14.5.1935, on Financial Policy.

ESTIMATED REVENUE POSITION. 1935 - 1947.

	£	£	Estimated Balance of Reserve Account.	Supplementary Sinking Fund 1921 Loan.		Accumulated Sinking Funds - 1921 Loan.	
Reserve Account 1.1.1935.		26,000					
1935.							
Temporary withdrawal of Renewals Contribution - 1930-35.	400,000						
Estimated surplus 1935.	250,000	650,000	31.12.35. £676,000				
1936.							
Reduction of ½% in Renewals Contribution.	66,000	66,000					
Estimated surplus 1936.	150,000						
LESS RATE REDUCTIONS 1936.	100,000	50,000	31.12.36. £792,000				
1937.							
Reduction of ½% in Renewals Contribution	66,000	66,000					
Estimated surplus.		80,000	31.12.37. £938,000				
1938.							
Reduction of ½% in Renewals Contribution.	66,000						
Estimated surplus.	100,000						
Credit Reserve Account. £ 62,000							
Supplementary Sinking Fund. £104,000		62,000	31.12.38. £1,000,000	£104,000			
1939.							
Reduction of ½% in Renewals Contribution	66,000			£ 66,000			
Estimated surplus.	100,000						
LESS RATE REDUCTIONS 1939.	100,000						
1940-1946.							
Reduction of ½% in Renewals Contribution at £66,000 per annum.				£462,000	£632,000 -	Supplementary £750,000 Ordinary £1,800,000	(Including Interest) £2,550,000
1947.							
Estimated surplus.	50,000						
.x. Saving in Loan charges 1921 loan.	194,000		31.12.47. £1,000,000				
	244,000						
LESS RATE REDUCTIONS 1947. £100,000							
Increased Renewals Contribution on a life basis, say £144,000	244,000						

.x. Annual saving in Interest and Sinking Fund charges on 1921 Loan from 1947.

Redemption of £2,550,000 @ 7% per annum =	£178,500
Reduction of say 1% on borrowings in respect of unredeemed portion of Loan =	£ 15,500
	£194,000

NOTES: (1) Proposed Rates Reductions - January 1936 - £100,000
January 1939 - £100,000
January 1947 - £100,000

(2) an improvement on the position as indicated herein will permit the 1939 reduction to come forward to 1938.

(3) Reduction in Renewals Fund Contribution is available only for transfer to
(a) Reserve Fund
or (b) Supplementary Sinking Fund.

By air mail Rec. 13/5

37

TELEGRAMS:—
"CONFGOV, NAIROBI."

REF. NO. T/Fin/J.2.

OFFICE OF THE
CONFERENCE OF EAST AFRICAN GOVERNORS
P. O. Box 601,
NAIROBI, KENYA.

31 MAY

PERSONAL.

3rd May 1935.

Dear Bottomley,

Would you refer to Sir J. Byrne's personal letter to you dated the 23rd January, on the financial position of the railway, but dealing particularly with the Renewals Fund, with which was enclosed a memorandum by Rhodes on the financial policy of the railway, dated the 2nd January.

No 5

2. Rhodes wants the future financial policy of the railway to be discussed in detail by the Railway Council, so that it can then come up to the High Commissioner (Sir J. Byrne agreed with this before he went on leave), and for that purpose he is preparing an exhaustive memorandum. I imagine that this question will be discussed in the first instance, at the Railway Council Meeting in June and probably come up again for final discussion at the next Meeting.

3. It would be very helpful if we could have from you before this discussion takes place, a decision on the Renewals question, (your last communication on this matter was telegram No. 2 dated the 30th January), and also an answer to Sir J. Byrne's letter of the 23rd January, so that we may be in possession of the Colonial Office views before this question of the future financial policy is discussed.

23124/34 Estimates same No 3

Extended ... under the consultation

4. There is also another question on which it would be helpful if you could give an early decision,

and that/

SIR CECIL BOTTOMLEY, K.C.M.G., C.B., O.B.E.,

COLONIAL OFFICE.

38

and that is the Joint High Commissionership, the Confidential despatch regarding which was sent home on the 14th March 1935. If the Joint High Commissionership is going to be inaugurated, it would be helpful if the Governor of Uganda could be consulted by the Railway as Joint High Commissioner, before anything final is done as regards next year's estimates or the future financial policy of the railway, which would involve the size of the Reserve to be built up, any general rate reductions which might be contemplated etc.

Yours sincerely,

C. G. Bottomley

9

JOINT EAST AFRICAN BOARD.

TELEPHONE:
WHITEHALL 9389.
CABLES:
"JOINTBOARD," LONDON.

GRAND BUILDINGS,
TRAFALGAR SQUARE,
LONDON, W.C.2.

18th May 1935.

RECEIVED
20 MAY 1935
C. O. REGY

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

Sir,

Referring to my letter of today's date on the subject of the Kenya and Uganda Railways, I have been instructed to enclose an extra copy of this letter, and to express the hope that you will see your way to send it to the Treasury, and convey to them that the feeling of those concerned in East Africa, and of those in this country connected with East Africa, is very strong in regard to this matter.

No 8

The Board hopes that the matter will have early and favourable consideration by you and by the Treasury.

I am, Sir,

Your obedient servant,

R. B. Harvey

SECRETARY.

JOINT EAST AFRICAN BOARD

39

TELEPHONE WHITEHALL 9389

CABLES "JOINTBOARD." LONDON

GRAND BUILDINGS
TRAFALGAR SQUARE
LONDON W.C.2

COPY

18th May 1935.

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

Sir,

KENYA AND UGANDA RAILWAYS

I have been instructed to inform you that the Board has been in correspondence with its associated bodies in Kenya and Uganda in regard to the question of the desirability of reducing the allocation to the Renewals Fund in the accounts of the Kenya and Uganda Railways from 2½% to 2%. The Association of Chambers of Commerce of Eastern Africa have informed the Board that the Railway Advisory Council of the Kenya and Uganda Railways have been pressing for this reduction for many years; and the Association have asked the Board to bring this matter before you for your consideration.

The burden of annual charges, such as loan interest, sinking fund, etc., as well as depreciation, borne by the Railways is very heavy, and the Board feels that something should be done if possible to lighten this burden. The Board understands that the amount involved in a reduction from $2\frac{1}{2}\%$ to 2% in the rate contributed by the Railways to their Renewals Fund would be some £60,000 per annum.

The Board would not advocate such a reduction if it believed that 2% was insufficient for the purpose of providing for depreciation, but the Board understands that 2% is considered amply sufficient by those connected with the Railways.

I am, Sir,

Your obedient servant,

R.B.H

SECRETARY.

41

JOINT EAST AFRICAN BOARD

TELEPHONE: WHITEHALL 8383.

CABLES: "JOINTBOARD." LONDON

GRAND BUILDINGS
TRAFALGAR SQUARE,
LONDON. W.C.2

18th May 1935.

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

Sir,

KENYA AND UGANDA RAILWAYS

I have been instructed to inform you that the Board has been in correspondence with its associated bodies in Kenya and Uganda in regard to the question of the desirability of reducing the allocation to the Renewals Fund in the accounts of the Kenya and Uganda Railways from 2½% to 2%. The Association of Chambers of Commerce of Eastern Africa have informed the Board that the Railway Advisory Council of the Kenya and Uganda Railways have been pressing for this reduction for many years; and the Association have asked the Board to bring this matter before you for your consideration.

The burden of annual charges, such as loan interest, sinking fund, etc., as well as depreciation, borne by the Railways is very heavy, and the Board feels that something should be done if possible to lighten this burden. The Board understands that the

42

The Under Secretary of State.   18th May 1935.

amount involved in a reduction from 2½% to 2% in the rate contributed by the Railways to their Renewals Fund would be some £60,000 per annum.

The Board would not advocate such a reduction if it believed that 2% was insufficient for the purpose of providing for depreciation, but the Board understands that 2% is considered amply sufficient by those connected with the Railways.

I am, Sir,

Your obedient servant,

3. Harvey

SECRETARY.

43

Copy

TREASURY CHAMBERS,
WHITEHALL, S.W.

1C

26th April 1935.

My dear Secretary of State,

I have looked into the question of the annual contribution to be made to the Renewals Fund of the Kenya and Uganda Railways and Harbour Administration, about which you wrote to me on the 14th March. Your proposal is that the amount of this contribution should be reduced to a 2% basis until 1946, and that this reduction should be made retrospective for the last 5 years, subject to the following conditions:-

(a) that in 1946 the renewals contribution should be brought up to a life basis;

(b) that the money saved by cutting down the renewals provision should be placed to a General Reserve Fund, and that as soon as this Fund has reached a sufficient figure, there should be a re-examination of rates with a view to general and permanent reductions.

You do not, as I understand it, question the view that the proper basis for renewals is the "life" basis,

but

44

but you make the point that the present capital of the Renewals Fund is sufficient to meet replacements during the next ten or fifteen years. This position, however, is only what might have been expected in view of the comparatively recent date at which most of the assets were acquired, and doex not alter the fact that in the long run financial stability can only be assured by making the full provision.

This is another fashion financial idea. H

Your case for a reduction of the renewals contribution rests on the contention that at the present time the Railway Administration is being called upon to bear an unduly heavy burden by way of interest, Sinking Fund charges and contributions to the Renewals Fund. Your proposal is, in effect, to level out the provision for renewals and loan charges combined, by hypothecating part at least of the saving on loan charges which is anticipated from 1946 onwards, to restore the renewals contributions to the proper level. The question therefore largely turns upon whether the anticipated savings in loan charges can be regarded as available for this purpose.

So

45

So far as concerns interest charges, while it is true that the Railway is paying interest on about £4½ millions of capital borrowed at 6%, it must be remembered that the Railway Administration is at present only called upon to pay interest and Sinking Fund charges on just under £14 millions of "interest bearing" capital and that it has not been called upon to pay any interest or Sinking Fund charges on the remaining £8½ millions or so of capital invested in it. It seems to me, therefore, that looking at the position as a whole, the Railway has really been getting off lightly as regards interest charges.

That may be so; but reductions are very necessary all the same
A

Although your letter does not mention it, I assume that you have in mind the fact that, of the non-interest bearing capital, £5½ millions represents sums advanced by the Exchequer for the construction of the Railway 30 or 40 years ago, on which no interest has ever been received. In 1924, after considerable discussion, the Treasury agreed that any profits earned on the Railway after provision for renewals should be put to betterment. At the same time, it was agreed that the question as to

the lot!!
A

when

when and how the liability for the £5½ millions advanced by the Treasury for the construction of the Railway was to be met should be deferred for ten years, and it has since been agreed that consideration of this latter question should again be postponed until 1938.

Neither this liability to the Treasury nor the previous discussions as to how it should be met are alluded to in your letter of the 14th March, but I can not help thinking that your proposals would tend to prejudice our chances of a satisfactory settlement. Thus, your proposal that the annual contribution to renewals should be reduced to a 2% basis until 1946, and that thereafter renewals contributions should be brought up to the revised actuarial basis, suggests that some considerable proportion at least of the relief which we hope will begin to accrue to the Railway in that year, would be earmarked, ten years in advance, for restoring the renewals contributions to a proper basis. Again, your proposals for a General Reserve Fund, to be used as a financial backing for substantial reduction of rates, seems to suggest yet further postponement of a settlement of this long standing liability.

The

The Treasury went some way in the direction you wish when they agreed in 1931 to a temporary arrangement by which the renewals provision was fixed at 2½%. Again this year they agreed that the renewals provision should be made on the life basis less half the Sinking Fund charges on the interest bearing capital. I do not see how I can go further than this.

If, however, you are satisfied that the time has now come to review the 1924 arrangement whereby profits on the Railway were to be put to betterment, I am quite willing to consider proposals for the creation of a General Reserve Fund. The suggestion I have in mind is that as soon as the existing deficit account has been cleared up, any profits earned on the Railway up to 1938 should be put to general reserve, subject to the understanding that this reserve is not to be used or hypothecated without our prior sanction. It is clearly impossible for me to agree to any arrangement extending beyond 1938, when the liability in respect of the £5½ million advances is next due for consideration.

Yours sincerely,
(SD.) N. CHAMBERLAIN.

The Rt.Hon.
Sir Philip Cunliffe-Lister, GBE., MC., MP.

C. O.

Mr. Freeston. 7/3
Mr. Hood 8
Sir John Campbell 8/3/35
Mr. Parkinson
Sir G. Tomlinson
Sir C. Bottomley 9/3
Sir J. Shuckburgh
Perm^t U.S. of S. 11/3
Parly. U.S. of S.
Secretary of State. 13/3

DRAFT.

THE RT.HON.NEVILLE CHAMBERLAIN,M.P.

For the Secretary of State's Signature.

DOWNING STREET.

14 March, 193 .

My dear Chancellor,

For some years past, as you probably know, our Departments have been at variance over the proper contribution to be made annually to the Renewals Fund of the Kenya-Uganda Railways and Harbours Administrations. I have been into the whole question very thoroughly myself, and I am writing in the hope that you will find the time to give it your personal attention.

On the financial side the facts are briefly these:-

(1) Nearly half the capital cost of the Railway was met from public loans raised in that most expensive period 1921/27; £4,~~500~~ 250,000 ~~were~~ was borrowed at 6 per cent. in the former year and

FURTHER ACTION.

£5,000,000 at 5 per cent. in the latter. There are other loans as well; and the total sum required from the Railway for loan services (interest and sinking funds) in 1935 exceeds £846,000.

(2) Concurrently with meeting these loan charges in full, the Kenya-Uganda Railway is in the unique position of having made unfailing annual contributions out of earnings to a Renewals Fund, on ~~of~~ very little short of ~~a~~ "life basis". To be precise, while the "life" figure (obtained by dividing the capital cost of each physical wasting asset - rails, buildings, rolling stock, etc. - by the number of years in its anticipated life) works out, on the current valuation, at 3.11 per cent, the contribution actually made for many years past has been at the rate of 2.5 per cent. The Railway, in fact, is actually providing £366,491 this year ~~annually~~ for Renewals out

C. O.

Mr.
Mr.
Mr.
Mr. Parkinson.
Sir G. Tomlinson
Sir C. Bottomley
Sir J. Shuckburgh.
Perml. U.S. of S.
Parly. U.S. of S.
Secretary of State.

DRAFT.

FURTHER ACTION.

49

out of the £445,91- required on the ~~academic~~ life-basis. The capital fund created already amounts to £1,88?,000 - a sum far in excess of what will actually be needed for replacements during the next ten or fifteen years.

(3) You will see that, of the gross earnings (£2,412,000 in 1935), more than half is swallowed up in provision for renewals and loan charges; and it is only by exceedingly skilful management, and ruthless cutting down of working expenditure, that this almost intolerable double burden has been sustained during the recent years of depression.

As regards the loan charges, the possibility of a conversion scheme has now been very thoroughly explored, with much help from your people and the Bank of England; and we should, I fear, be driven ~~have come~~ to the conclusion that any relief on this score could be achieved only at the expense of piling up a quite disproportionate load on posterity. But in ~~In~~ 1946/8 it will be possible

possible to pay off a substantial proportion of the 5 and 6 per cent. loans from the accumulated Sinking Funds and we ~~shall~~ hope to re-borrow the remainder at a lower rate - say, 4 per cent. ~~[illegible]~~ a year. It is calculated that by 1952 the loan charges will cost the Railway about £274,000 per annum less than at present.

General Manager's Report, 1933, p. 66.

This brings me to the practical proposal which has been put up by the General Manager and fully endorsed by the Governors of the two territories concerned. I should like to reduce the Renewals contribution from a 2½ to a 2 per cent. basis (i.e. roughly from £366,000 to £293,000) until 1946, when the first instalment of loan relief will fall due. This reduction should, I think, be made retrospective ~~of~~ for the last five years. I should attach two conditions to this concession:-

(a)

C. O.

Mr.

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson

Sir C. Bottomley.

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DRAFT.

FURTHER ACTION.

56

(a) that in 1946, after revaluation of the life and cost of the physical assets, Renewals working contributions must be brought up to the revised actuarial basis;

(b) that the money saved by cutting down ~~of~~ Renewals, must not be frittered away on piecemeal rate reductions, but must be placed to a General Reserve Fund, so as to allow of a comprehensive examination of rates with a view to general & permanent reductions etc as soon as the Reserve has reached a sufficient figure.

At present the Railway has no General Reserve; and I am entirely in agreement with the General Manager and the Governors in thinking that the creation of such a Reserve is an essential preliminary to any useful & stable reduction of rates. this follows from the fact that the railway ~~[illegible]~~ revenue depends so largely on the necessarily variable Uganda cotton crop. When this Reserve Fund has accumulated to a reasonable figure ~~(£1,000,000 has been suggested, but I do not wish to commit myself at present)~~ then will be the moment to consider whether the rate system cannot be ~~specially~~ permanently revised in a downward direction.

The

The East African producers in their present desperate condition naturally resent having to pay ~~twice~~ more ~~what~~ than it actually costs the Railway for moving their crops to the coast. Last year ~~most~~ much of the cotton seed from Uganda had to be burned because it could not stand the ~~heavy~~ freight charges to the sea. Maize, sisal, coffee, hides and skins all stand to find a wider and more remunerative market if these transport costs can be reduced. Not long ago the "Times" attacked the (quite unjustly) Railway Administration for having "failed to reduce expenditure at a time when the country is passing through a trying period owing to low prices". I need not remind you of Major Grogan's views.

[illegible]

(ordinary expenditure was reduced by 24% between 1931 & 1933)

The proposals which I have put forward, and which I very much hope that you will accept, will admittedly bring no immediate relief to the producer, but their adoption

C. O.

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

DRAFT.

adoption would at any rate give him the assurance that his troubles are regarded not without sympathy at home, and the hope that tangible relief may be possible in a few years' time, when the Reserve Fund has reached such a figure as will permit of a permanent reduction in the more oppresive rates. It may thus help to forestall the demand, which has already received emphatic expression in certain quarters, that the British Treasury should come to the rescue of the ~~oppressed~~ struggling East African producer.

Yours sincerely

(Sgd.) P. CUNLIFFE-LISTER.

FURTHER ACTION.

AIR MAIL

KENYA

No.

PERSONAL.

GOVERNMENT HOUSE
NAIROBI
KENYA

RECEIVED
-1 FEB 1935
C. O. REGY

23rd January, 1935

My dear Bottomley,

I discussed your personal letter of the 24th December with Bourdillon when at Entebbe last week for the special meeting of the Governors' Conference. Rhodes was also there so that we were able to get his views and we also had had for some days his memorandum on the financial policy of the Railway which I mentioned in my letter of the 31st December; a copy of this memorandum is enclosed.

No 2

2. I understand from your letters that the Secretary of State has now persuaded the Treasury to agree to the recommendation which we have been making for some years (vide correspondence ending with my Transport despatch of the 27th December 1933), that a contribution of 2% to the Renewals Fund until 1945 is sufficient and that the difference between a 2% and 2½% contribution - which is the rate at which we have been contributing - should be made available for transfer to a General Reserve Fund; if this is the case, and the difference between the 2% and 2½% contribution for the last five years can be so used, there would now be available for the General Reserve Fund about £300,000 and a further sum of about £60,000 a year would be available in future.

No 1
230

3. I also understand that the Secretary of State considers that money made available by a reduction in the contribution to renewals might be used in one of two ways:-

(1)....

SIR CECIL BOTTOMLEY, K.C.M.G., C.B., O.B.E.,

COLONIAL OFFICE.

53

(i) by a division of such money between Kenya and Uganda, in some proportion to be agreed upon;

(ii) by some reduction in Railway rates which would benefit both countries.

4. I see insuperable objection to the idea of taking a sum of money from Railway reserves, some of which money has been provided by levies on salaries of Railway servants and dividing that money between the Governments of Kenya and Uganda. I do not believe that this would even be supported by the more reasonable and thoughtful representatives of the Kenya unofficials and it would not only open up the most acute controversy between the two territories as to the division of any such sum but it would, I consider, be a most dangerous and undesirable precedent for the future.

5. As regards (ii), I should like to make a reduction in rates if a reduction could be made which would be of real benefit to both territories but the question is whether the Railway is at present in a sufficiently sound financial position.

6. It appears to me that Rhodes' memorandum explains the position with great clarity and I examined this at length with Bourdillon. We did not agree with Rhodes in thinking the time was ripe for the establishment of any supplementary Sinking Fund but we did think that every effort should be made to build up the General Reserve Fund to a million pounds as soon as possible.

7. On the assumption that the Treasury will agree to the contribution to Renewals being 2% in future and also allow a transference of the excess ½% contribution from the Renewals Fund for the last five years, we consider that this ½% contribution should be transferred at once to the General

Reserve....

54

Reserve Fund, which would mean the placing straight away of about £300,000 in that Fund.

8. As regards the disposal of the ½% in future, although we realise that the sum involved (roughly about £60,000) should, in the normal way, be credited to the General Reserve Fund so that that Fund may the more rapidly be built up and a state of affairs be reached when the financial position of the Railway would really admit of considerable rate reductions being made for the general benefit of the users of the Railway, yet in the present difficult financial position in Kenya we think it might be practicable in future to use the ½% contribution for Renewals and also the interest on cash balances (amounting in all to about £100,000 a year) for rate reductions if this sum will be large enough to admit of rate reductions which will be of real benefit to both territories.

9. The present rate structure is not really satisfactory and is topheavy and we wish to be able to introduce rate reductions - when such are practicable - as will be of real and lasting benefit to the Railway users; we do not wish to introduce rate reductions piecemeal which will be of no real value to the territories as a whole and merely lead to repeated demands for further reductions, many of which would be quite unjustifiable.

10. If the Treasury approve of the reduction in contributions to Renewals, I will then consult the Railway Advisory Council for advice as to what reductions they recommend within the limit of the sum referred to in paragraph 8 of this letter, and any reductions recommended could be brought into effect from January 1936.

11. I should like to say that Rhodes strongly opposes

the.....

the ½% contribution from Renewals being utilised directly for rate reductions and points out that it is the fear which the Treasury have had that the ½% contribution might be so used that has prevented them in the past from agreeing to the proposal that the ½% should be transferred from Renewals to General Reserve. He fears that a suggestion that the ½% contribution should be used for direct rate reductions will strengthen them in their opposition to the ½% from Renewals being transferred to General Reserve, and so delay the time when the General Reserve Fund will be sufficiently large to allow comprehensive rate reductions.

I have shown this letter to Bourdillon and he agrees with its terms.

Yours sincerely

MEMORANDUM ON THE FINANCIAL POLICY OF THE KENYA AND UGANDA RAILWAYS AND HARBOURS ADMINISTRATION.

56

HISTORY OF DEPRESSION:

Before outlining what I consider should be the future financial policy of the Kenya and Uganda Railways and Harbours Administration, it would be as well to review briefly the history of the recent depression, so far as it affected the working of the Services (Railways and Harbours).

2. The following table is of interest in this connection:-

Year	Gross Revenue.	Gross Expenditure including Depreciation	Net Revenue	Loan Charges Refunds etc.	Deficit or Surplus
1933	2,569,136	1,514,921	1,054,215	821,379	328,836 (Surplus)
1932	2,172,946	1,522,729	650,217	839,605	189,388 (Deficit)
1931	2,246,837	1,811,684	435,153	803,337	378,184 (Deficit)
1930	2,611,229	1,966,805	644,424	727,634	83,210 (Deficit)
1929	2,865,581	1,893,698	972,883	685,516	287,367 (Surplus)

3. The following additional points should be specially noted:-

(a) The Gross Revenue for 1929 is the highest so far received;

(b) At the end of 1929 the Interest Reserve Fund, or Reserve Account, amounted to £100,000;

(c) By December, 1930, the Reserve Account stood at £16,790, while by December, 1931, this had been converted into a deficit of £361,394;

(d) The deficit reached a maximum of £550,782 at the end of 1932;

(e) Expenditure was also a maximum in 1930;

57

(f) Public Ton Mileage moved in 1929 was 300,763,341

(g) Public Ton Mileage moved in 1933 was 308,338,673

(h) Expenditure was a minimum in 1933.

4. With the rapid falling away of traffic in 1930, it became clear by the end of the year that a serious depression had commenced. Immediate and drastic steps were taken to reduce expenditure, with the result that by the end of 1933, an annual reduction below the 1930 figure of £489,338 had been achieved.

5. It should be made clear that this sum refers to annual recurrent working expenditure and is exclusive of reductions in expenditure on Betterment.

1934 RESULTS:

6. So far as the results for 1934 are known, it may be stated:-

(a) That Gross and Net Revenue will exceed the amount obtained for 1933;
and
(b) That the surplus will be sufficient to extinguish completely the amount of £317,946 remaining in the Deficit Account and possibly to contribute a small sum to open once more the Reserve Account.

7. As the total revenue earned is still below that secured in 1929, this very satisfactory result is due alone to the reduction in expenditure to which attention has already been drawn and of which full details have been given in the Annual Reports for the years concerned.

RATES CHANGES:

8. While several hundreds of thousands of pounds were remitted to the users of the Railway by reductions in rates during the years 1923 - 1929, as shown in the Annual Report for 1929, the present position has been obtained without withdrawing more than a comparatively few of these concessions. In fact, it is estimated that rates increases which were introduced during this period,

partly to obtain further revenue and partly to discourage uneconomic movement, account for some £84,000 only.

9. While this point should be given due prominence, it must be admitted with regret that, owing to the complete absence of a General Reserve or a Rates Equalisation Fund, it has not been possible to assist industry during a time of severe depression, when even a small reduction in the cost of transport would have been of inestimable benefit.

10. Consideration of this fact will, I think, show that it is usually a mistake to lower rates during periods of prosperity, thereby reducing the reserves that are likely to prove so helpful during periods of economic difficulty.

NEED FOR GENERAL RESERVE: 1st OBJECTIVE:

11. It is, therefore, generally appreciated that the need to build up adequate reserves is extremely urgent and that nothing should be allowed to interfere with this process.

12. As regards the amount of Reserve that is considered adequate, it is interesting to note that the Rhodesian Railways, after their recent experience, have decided that their reserve should be at least 2½ times their Loan Commitments and that in addition they should build up a Rates Equalisation Fund. On such a basis, our Reserve would be over £2,000,000. It is, however, felt that in our case £1,000,000 should be the amount to be aimed at before any general reduction in rates can be contemplated.

13. The present rates structure is designed to produce a balanced budget, with average crop yields. With good yields, an annual surplus of £200,000 to £250,000 may be anticipated, which will be available for building up the Reserve. In this connection, the only crop requiring

59

particular attention is the cotton crop of Uganda. A bad cotton crop in any one year will, on the present basis, result in a deficit for that year. The present satisfactory position is due largely to the fact that we have had three good cotton crops in succession. This cannot always be the case and it will be realised that the margin of safety is not great and is dependent very much on such an uncertain factor as rainfall.

14. For estimating purposes, therefore, we may, I think, reasonably assume that our reserve of £1,000,000 will be obtained by the end of 1939 or 1940.

15. Examination of the Z diagrams in the Annual Report for 1933 will show that, from the Railway point of view, the bottom of the depression was reached in 1932, while the figures for 1934 would appear to indicate that we are now well on the way to what may be described as a boom period, though no doubt on a very much lower scale than the 1928-29 boom. It would appear, therefore, that with reasonable care we should be able to realise our required Reserve by the time the next depression is due. This is our first and immediate objective. We must be secure when the next depression hits us, if we are to be of assistance to the country when most required.

REDUCTION IN RATES: 2nd OBJECTIVE:

16. The second objective is, of course, a substantial reduction in Rates. Our lower rates are already reasonably low, but it will be agreed that at present our top rates are very high. It is necessary to reduce these rates as soon as possible. firstly, because they are too high and unduly put up costs in many directions, and, secondly, because of road - and possibly air - competition. Reasonable regulation of road and air transport will be required by these

industries themselves for protection against each other, but complete prohibition, as at present, can only be justified so long as the country cannot face a complete revision of the Railway tariff system. Such a revision has in fact been prepared and is available for immediate introduction should prohibition of wasteful competition be withdrawn. It is, however, believed to be in the interests of these territories as a whole that the existing legislation be maintained until such time as the top rates can be reduced <u>without</u> raising the lower ones.

17. The factors chiefly controlling the position are:-

(a) Operating Costs,
(b) Loan Charges.

<u>Operating Costs</u>:

18. At the present time our working Expenditure, exclusive of Depreciation, is below 50% of our revenue. This is very satisfactory, as it means not only that costs are being kept within reasonable limits, but also, and this point is frequently forgotten, that unremunerative and uneconomical services have virtually been eliminated. In this connection, the continued cooperation of the public is essential and services demanded must be confined to essentials only.

19. The temptation to Governments and the public to press for extravagant and uneconomic services must be resisted firmly, otherwise we shall gradually draft back to the position in which we found our selves four years ago.

20. Full details of our Operating Results have been published in the Annual Reports and it is unnecessary to repeat them here. Suffice it to say that on both the locomotive running and traffic sides, the results obtained are most satisfactory, many of them being the envy of much larger railways.

6

Loan Charges:

21. Owing partly to heavy capital expenditure in advance of the general development of the country, and partly to the high rates of interest which have to be paid, the Loan Charges form a high proportion of our total revenue. The first cause can be removed only by more intensive development of the countries served, and the second only by the amortisation of loans as early as possible.

22. At the present time no way has been found to deal with the difficulty of the high rates of interest. In the normal way, no relief from the loan burden can be obtained until the Kenya £5,000,000 Loan of 1921 can be redeemed in 1946. The transport share of that Loan is £4,245,386, but in 1946 the Sinking Fund available will amount to £1,800,000 only, leaving £2,445,000 to be found to redeem it in full. Every effort should be made to avoid having to raise a new loan to cover this amount. If at all possible, the sum should be found without fresh borrowing. Redemption in full would mean a saving of £297,180 per annum, which would permit of further very substantial reductions. In my view, this should become the definite aim of the Administration and a supplementary Sinking Fund should be created for the purpose.

Why?

SUPPLEMENTARY SINKING FUND:

23. The first contributions to this supplementary Sinking Fund should be found from interest on our cash balances. This at present is credited to the Net Revenue Account, but is a fluctuating amount and not therefore available for permanent rate reductions. Assuming an average of £70,000 per annum, from 1935 onwards we should have accumulated over £1,000,000 by 1946.

62

24. A further contribution could be made from unlooked for surpluses that accrue from time to time. For example, there are times when the crop yields of both Kenya and Uganda simultaneously reach peak proportions and result in an exception surplus of Net Revenue. Such surpluses, <u>being exceptional, are not available for rate reductions</u> and could not be better employed than in building up the supplementary Sinking Fund. By this means, a further £500,000 might become available by 1946, bringing the total up to £1,500,000, leaving £945,000 still to be found.

25. By that date it should no longer be necessary to retain the sum of £442,347 as Working Capital Stores and this capital should be released for the purpose of redeeming the Loan.

26. By these contributions, the amount still to be found will be within manageable dimensions, and, provided the Reserve Account is intact, stores balances at a minimum, and the balance in the Renewals Fund of reasonable proportions, it should be possible to borrow the amount required from the Reserve Account, in view of the fact that it would be replaced within 2 or 3 years.

27. By these measures, it should be found possible to dispose completely of this very expensive loan, so making it possible to introduce further substantial and permanent rate reductions.

28. In addition to these major factors, there are several matters of less importance than should now be considered.

<u>RENEWALS FUND</u>:

29. It has repeatedly been pointed out to the Secretary of State that the present rate of contribution to the Renewals Fund will provide more money than is

63

actually required for renewal purposes up to 1946. It has therefore been suggested that the rate should be temporarily reduced to 2% and then in 1946, when the loan position is eased, increased again to make up for the reduced contribution to a life basis, which will be about 3.2%. The temporary relief thereby afforded, amounting to approximately £66,000 per annum would be credited to the Reserve Fund until the latter reaches the required total, thereby expediting the date when the sum required as contribution to the Reserve Account is no longer required for that purpose and becomes available for rate reductions.

30. The £66,000 relief from the Reserve Fund can then be diverted to the supplementary Sinking Fund.

31. It is regrettable that the Secretary of State has not yet been able to persuade the Home Treasury to agree to this temporary relief, which, while in no way jeopardising the position of the Renewals Fund would afford a welcome relief at the time when it is most required.

APPRECIATION OF SECURITIES:

32. At the present time, following the instructions of the Secretary of State, the practice is to value our securities on December 31st each year and any increase or decrease is credited or debited to the Net Revenue Account. During the last two years, substantial credits have been received, but this will not always be the case. From 1935 onwards, it is considered that no further amount on account of appreciation of securities should be credited to Revenue. It should be placed in a special reserve, which, if necessary should be added to by small annual contributions until reasonable and probable depreciation has been provided for.

64

WRITE OFF OF DEAD ASSETS:

33. There are a number of assets which are no longer required and which will not require replacement. Among these are obsolete vessels and shore equipment on Lake Victoria, old abandoned quarters distributed over various parts of the line and sundry old assets in Capital Account which have been non-existent for some years. This question is now being examined and will be dealt with in conjunction with the review of the Renewal Fund position and the question of contributions to the Marine Reserve Fund which have been temporarily suspended, which will be undertaken in 1935.

SUMMARY:

34. It will now be convenient to summarise the recommendations outlined above:-

(i) In view of the elimination of the Deficit Account, all normal surpluses should be credited to a Reserve Account until £1,000,000 has been accumulated. It is hoped that this position will have been reached by 1939 or 1940.

(ii) On the Reserve Account being established, approximately £200,000 becomes available for permanent rates reductions. This should be devoted to the reduction of the top classes.

(iii) Maintenance of Working Expenditure at a minimum, involving elimination of all wasteful and extravagant and uneconomic services.

(iv) A supplementary Sinking Fund should be created immediately, to which should be credited:-

(a) Interest on cash balances;
(b) Abnormal surpluses;
(c) Relief from Renewal Fund contribution after Reserve Account has been established.

(d) Any other surplus revenue of a temporary nature not available for rate reductions.

(v) Decrease in contribution to Renewal Fund of £66,000 to be credited to Reserve Account and subsequently to the supplementary Sinking Fund.

(vi) Creation of a Reserve for depreciation of securities.

(vii) Write off of Dead Assets.

5

and in 1946 -

(i) Redemption of £5,000,000 Loan by utilising Sinking Fund and supplementary Sinking Fund, Working Capital Stores, and, if necessary, temporary borrowing from Reserve Account, releasing a further £200,000 for rate reductions.

(ii) Increase in contribution to Renewal Fund to bring up to life basis.

GENERAL CONSIDERATIONS:

35. It will be noted from the above that the policy recommended aims at certain definite rates reductions of considerable benefit to the community at certain definite intervals when permanent savings become available. In the interests of the Railway users, nothing should be allowed to interfere with the building up of an adequate reserve. Premature rate reductions would almost certainly have to be cancelled later on and probably supplemented by further increases, as in the last crisis, at a moment when the community is least able to bear additional burdens. In this connection, it is pertinent to point out that as expenditure has now been reduced to a minimum, there are no large possible savings to fall back upon, as there were in 1931 and 1932.

36. While it is considered that such a policy should be rigidly adhered to, this will not prevent minor adjustments being made where genuine hardship is being caused, or other alterations in the tariff designed to encourage greater movement, bringing about an improvement in the Net Revenue position. All such cases will, of course, be sympathetically considered.

37. It may be argued that the policy outlined herein provides cold comfort for the present users of the Railway in that no hopes of any permanent reductions

are held out before 1939 or 1940. While that fact is regretted, it results from the policy followed in previous years when substantial rate reductions were made in a boom period, giving up hundreds of thousands of pounds, when no-one really needed them. The results of that policy cannot be excaped. They must be faced and we must avoid making the same mistakes again.

38. At the same time, it is permissible to point out that the average rate per ton mile charged to the public in 1933 was 11.8 cents, while in 1929 it was 13.3 cents, or a difference of 1.5 cents. Expressed in money, this means that the public paid £2[illegible],254 less for the work done in 1933 than they would have paid for the same work in 1929. In addition, the work has been done more speedily and more efficiently in every way. In all these respects, the users of the Railway have in fact received the equivalent of very substantial reductions in rates. If similar comparisons are made with previous years, the results are even more striking.

39. Furthermore, there is one other hope available to the present users. All these proposals are based on the assumption that there will be little increased development in the next three or four years. It is wise to estimate on conservative lines. Should, however, it turn out that considerable additional traffic is in fact brought to the Railway - and there are possibilities of increased native production, mining development, bamboo pulp manufacture, etc. - such increases will tend to shorten the period until adequate reserves are established, will provide in full for loan redemption and, <u>provided a strict control over expenditure is maintained</u>, make substantial rate

67

reductions possible at an earlier date.

40. The most hopeful of the above possibilities lies in increased native production. A real advance in this direction will not only provide the traffic so urgently needed by the Railway, but may also be the means of putting these territories once more on their feet, lightening the burden of taxation and so benefitting equally all sections of the community.

41. The preparation of this memorandum serves to draw attention to the fact that while Mr. Gibb's suggestion for a Railway Board in London has been turned down, nothing has been done to strengthen the admitted weakness in financial control that at present exists. The need for formulating a long range financial policy and for establishing some strong and continuous form of financial control to ensure that such policy is carried out, is self-evident, if only from a consideration of the serious mistakes of the past ten years. Under the present system, even if a long range policy is accepted to-day, there is no certainty that it will continue tomorrow. It is at the mercy of changing High Commissioners, Advisory Councillors, General Managers, Chief Accountants, etc., and the moment there appears a change for the better, there is a scramble for the spoils. Demands at once arise for immediate decreases in rates and even for the sharing out of such reserves as may have been accumulated. When it is remembered that sickness, or absence on leave at the beginning of 1931 of one or two executive officers would, of necessity, have led to the adoption of a hesitating and weak policy, and that with such a policy we should have been bankrupt in 1932, the danger of the

68

present organisation will be appreciated. Mr. Gibb saw this danger clearly and suggested a remedy. That remedy has not been accepted, in my view rightly, but nothing else has been substituted.

42. Consideration of the policy now submitted and its acceptance in this or a modified form will at once raise the question as to how the continuance of such a policy is to be ensured.

G. D. Rhodes

GENERAL MANAGER.

GENERAL MANAGER'S OFFICE,
NAIROBI.

2nd January, 1935.

Telegram from the Governor of Kenya to the Secretary of State for the Colonies.

Dated 29th January. Received 8.43 a.m. 29th January, 1935.

Private and Personal.

No 2-f Reference your personal telegram of the 5th January

93335/1. figures for Uganda exports imports and internal traffic can

No 3 be extracted but they will be very misleading. Many items which would be credited to Uganda should also be credited to Kenya and vice versa. After discussion with the General Manager and Bourdillon I do not think that any useful purpose would be served by forwarding these figures to you especially in view of my personal air mail letter dated January 23rd to Bottomley which explains whole position.

10

~~32837/34~~.

Telegram from the Secretary of State for the Colonies to the Governor of Kenya.

(Sent 3 p.m., 5th January, 1935)

- - - - - - - - - - - - - - -

Personal.

5th January following from Bottomley begins. My letter of 18th December railway profits. Secretary of State wishes to know what proportion of railway revenue is contributed by Uganda exports imports and internal traffic. Please request General Manager supply figures and inform Governor of Uganda of the enquiry. My letter of 24th December. Please send copy with enclosures to Governor Uganda as soon as possible requesting him to regard it as addressed to him also. Ends.

171

EXTRACT from a letter to Sir Joseph Byrne dated 24th December, 1934 (on 23335/34 Kenya).

x x x

On other points I may perhaps say, with regard to my letter of last week about the possibility of applying to Colony use part of the available current balance of the railway, the Secretary of State considers it will be found preferable that it should take the form of a distribution of profits, Kenya and Uganda being free to use the money either for revenue purposes or in helping their producers to meet railway charges as they may think fit.

Yours sincerely,

(Signed) W.C. BOTTOMLEY.

Copy draft ... 33356/34

Confidential

72

1? December, 1934.

My dear Bourdillon

Byrne.

You have no doubt seen Grogan's article in the "Times" of the 28th of November and his letter in the "Times" of a few days earlier. The Secretary of State had previously been considering various points which Grogan has in this way brought to a head, and, while I know that he has no intention whatever of taking up the question of a devaluation of currency, he has been exploring the possibility of some relief on the high interest loans which Kenya floated in 1921 and 1927 and he wishes also to go into the question (which would in any case arise if the loans could be converted) of giving Kenya and Uganda some benefit from the successful working of the railway. This is, of course, of special importance at the moment in the case of Kenya.

(2) Apart from loan interest there is the point that the railway has been putting to Renewals amounts far in excess of the practical needs of the moment, and that if things

go

SIR BERNARD BOURDILLON, K.C.M.G., K.B.E.,

8

go on as at present, the renewals Fund will be swollen to an amount which we could not justify to the users of the railway. The present arrangements have been laid down by agreement with the Treasury, but we have every reason to believe that it would be possible to vary them so as to make some part of the amounts paid to Renewals available for other purposes.

(3) The Secretary of State has directed me to write to you and Byrne to ask you to confer together in order to see on what lines we should approach the Treasury. We have to choose between applying this money, which is Railway money, to a reduction of rates with a view to stimulating prosperity, or to a distribution of profits between the Governments of Kenya and Uganda, the Governments which guaranteed the loans from which the railway improvements have been made. In the latter case the difficult question would arise as to the proportion of distribution.

(4) The financial position of the Government of Uganda makes it reasonable to suppose that Uganda would prefer some relief in rates which would benefit the growers of export commodities.

On

On the other hand, Kenya's need for additional revenue is acute and it is for consideration whether a maximum of advantage (to the Government of Kenya) would not be gained by adopting a system of division of profits. From the Railway's point of view it is probable that the arrangement most likely to keep its finances prosperous enough to make relief possible in future years as well as immediately, would lie on the side of rate reduction. But all these points are for your joint consideration.

(5) Probably the most difficult point is the basis on which excess profits, if divided, should be apportioned between the two Governments. Two different bases suggest themselves:-

(1) The proportions in which the Governments are backing the loans for railway and harbour purposes, and -

(2) The value to the railway of the two countries as customers.

We assume that only a little statistical work on the part of Rhodes's staff would be necessary

in

75
end

in order to get a figure under (2), but (1) as it stands seems to need some qualification. There is the Harbour for one thing, which serves Uganda as much as Kenya, but the loans for which are backed entirely by Kenya. Also the line from the Malaba River to Mbulamuti is entirely in Uganda, but the cost is covered by Kenya alone. That section of the line obviously represents a part of Uganda's contribution to the traffic and to a large extent possibly the same might be said of the intermediate portion between Turbo and the Malaba River.

But all these questions will raise themselves in your discussion.

I am writing hurriedly to catch the Air Mail as the Secretary of State is anxious that no time should be lost in our explorations, and I shall hope to hear from you and Byrne as soon as you have had a reasonable opportunity for going into the matter.

Yours sincerely

[illegible]