

1.

H. Omar, Grigg. 86. 22nd, May 30.

encls. not
recd.

Trs comments regarding the provision which
should be made for renewals - with recommendations.

? tel to JTC; & missing

Encl:

ref. 4 (S) in 1877/79

copy sent to Treasury/30

Explains reason that in case
the matter will receive consideration
& further reference be made to J.L.

Explains that we are sending
off a new & bearing a
loan book - referring to
relevant part of previous letter
& Free R loan book as

16/10/30

W. Allen

18/7/30

recd

19/7/30

atones

To H.C. Tel no 9 21 July 30 1931

~~DESTROYED UNDER STATUTE~~

3 To Treas. W/ copy 1 - 26/7/30.

Recd. to
Mr. Allen

4. Treasury 7th. August 30.

A further communication will be sent when the Report and Memorandum have been read and considered. Suggests that the absence of General Hammond be obtained -

Col. Walker for H. Comr. 118. 18th. July 30.

DESTROYED UNDER STATUTE
Spares in
X.E.A.

Encloses 12 copies of the Report of the Departmental Cttee, 12 copies of the Memorandum by the General Manager and 2 copies of the Memorandum by the statistician to the Gov's Conference.

I attach a Note, but

question of the liability of the original
of the Railway does not enter into any
of these calculations, it would seem
extract also to mention that the Treasury
referred to this aspect of the matter, in
connection with the Interest Reserve Fund,
in paragraph 9 of their letter of the 28th
March 1939, an extract from which is regis-
tered as No. 4 in L.C. 1934. In that paragraph
the Treasury said that it is important that
some provision should be made in this respect
(Interest on external reserve) not only to
meet a severe and limited reduction in the
revenue of any one year, but for the purpose
of saving the addition to loan charges in
respect of theoretical capital which may
fall to be made in 1934. Exceptional measures
will be necessary to meet a charge which
may reach £350,000 per annum, and it would
be desirable to anticipate the call on
revenue by maintaining rates and setting
aside the temporary surpluses to tide over
the transition period".

As regards this liability, my
impression is that General Rhodes would argue
that it is a liability which the Colonial
Government should shoulder, since they took (say)
£1,000,000

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I attach a Note, but as the question of the liability of the original cost of the Railway does not enter into any of these calculations, it would seem desirable also to mention that the Treasury referred to this aspect of the matter, in connection with the Interest Reserve Fund, in paragraph 9 of their letter of the 28th March 1929, an extract from which is registered as No. 4 in 11897/24. In that paragraph the Treasury said that "it is important that some provision should be made in this respect (interest or general reserve) not only to meet a severe but isolated reduction in the revenue of any one year, but for the purpose of easing the addition to loan charges in respect of the original capital which may fall to be made in 1934. Exceptional measures will be necessary to meet a charge which may reach £350,000 per annum, and it would be desirable to anticipate the call on revenue by maintaining rates and setting aside the temporary surpluses to tide over the transition period".

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£1,000,000

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Tolson SA

£1,000,000 in profits before the separation of the finances of the Colony and the Railway and also appropriated the mile strip originally allotted for the purpose of meeting this liability. ? In the first instance, sent to Sir John Campbell with a view to discussion with General Rhodes before reference to General Hammond.

W. Miller

10/9/30

Sir John Campbell

See B in the synopsis of papers for discussion with Gen. Rhodes. I think that Gen. Hammond must come into the depreciation question again, whatever may be the local view of his advice. From the point of view of working, it would be welcome if we could reach a compromise in this matter: and the proposal at K in W. Miller's note may enable the Treasury to agree to a lower rate for depreciation than 3%?

As to para 11 of the Dep. in A. 1, believe you have done well to life value of 33 yds. for machine services:

acc. Parkman 12.9.30

MD

Despite the formidable mass of papers, the matters in issue are not complicated.

2. The first point is the question whether we should, in coming to a decision, take into account the possibility that the burdens falling upon the railway administration will be heavily increased in 1934. That is, perhaps, more a question of policy than of finance. My own view is that the sounder course to adopt, all things considered, is to deal with the situation as it now presents itself, without allowing for the fact that heavy additional liabilities may be incurred at that time. To allow for that now is, in a sense, to prejudge the question, and to prejudge it in a manner unfavourable to Kenya. The liability is a contingent one, and admittedly cannot be adequately estimated at ~~the~~ ^{present}. We decided--in the surplus balances case--to ignore this question for the present. I would ignore it here also. But it is very doubtful whether the Treasury will share this view. In deciding this question, one can hardly omit from consideration the very strong local feeling in favour of doing everything possible, in this period of deep depression, to assist the obviously difficult situation in Kenya.

3. The second point relates to the repercussion of the interest and sinking fund charges on the situation. General Rhodes agreed that the debt service should be regarded as outside this discussion. The sinking fund charges are settled, either by legislation or by contractual arrangements; and they have clearly to be provided for. ~~xxxxxxxxxxxx~~ The loans have to be repaid on fixed dates; and the money must be there to

4. We come then to the question of renewals, pure and simple, uncomplicated by any reference to sinking fund charges. And here the obvious consideration is that the line must--for a variety of reasons, physical and financial--be kept in a state of efficiency. The renewals which physical circumstances demand must be made, as they fall due; and money must be provided to meet these demands, as they occur. The discussion is narrowed down to the question of how this should be arranged for.

5. If we accept the "life" and "annual instalment" plan, the result would be that there would always be available, in the renewals fund, the sums required for the renewal of each particular work, as that fell due: further, theoretically at any rate, the value of "the railway" at any given moment, plus the balance to the credit of the renewals fund, would equal the original cost of the wasting assets covered by the fund--with, of course, variations due to changing costs, the cost of labour, errors in estimating the "life", and so on. That is clearly a sound and satisfactory position to attain and keep: it is eminently orthodox and safe.

6. Kenya's criticism is that such a policy imposes, on the present generation, a greater burden than they should be called on to bear. As the "life" of the various classes of

Liability
The figures are interesting - and will appeal to you
See pp 36 etc. of
Report on
Dept. CMA *act*

assets varies, the inevitable result is that the renewals fund, at any given moment, contains not only the sums immediately required for renewals, but also a proportion of the sums so required in future years. ~~There~~ will always be, in the fund, more than the amount required for expenditure at any given ~~point~~ time. That is true--it follows necessarily from the principle of ~~building up~~ ^{on which} the fund ~~is built up~~. Kenya therefore asks that arrangements should be made so that, while the fund will always be adequate to meet the calls upon it, the annual contribution from revenue should be kept as low as possible. 2% is suggested. The plan ~~they~~ ~~suggests~~ ~~that~~ propose is that, as calculations on the 2% basis indicate that all renewals on the "life" basis can be met, and the balance at the credit of the fund will still steadily grow till 1945, 2% should be definitely prescribed as the contribution for the next ten years--to 1940--and that the position should then be re-examined. They support this suggestion by pointing out that, from 1947 onwards, relief will be obtained from the debt charges; and they show that, on the assumption that this relief is applied to renewals, the balance of the renewals fund, on the 2% basis throughout the period, would be £ 1,437,998 in 1960, and would, ^{during} throughout the whole period, have been substantial. The actual figures will be found on page 10 of General Rhodes' minute.

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✓ *see*

7. I would accept this suggestion--coupled, as it is, with the proposal to build up, in the manner explained, a reserve fund. For this, a maximum of £ 400,000 is suggested; but General Rhodes made it clear that he would have no objection to a higher figure, and would even welcome an instruction fixing a higher figure. He suggested £ 500,000. For various reasons, which General Rhodes explained, one cannot get much guidance in suggesting a limit from an examination of the recent financial history of the railway; but, on the data available, it looks as if £ 600,000 ought to see them safely through two successive and exceptionally bad years. I think the limit might therefore be that figure.

8. As regards the 2% suggestion, the essential point is that the detailed calculations--which are made on the "life" basis, starting with the actual position at the moment, and assuming that the overdue renewals are spread over an eight year period-- show that this contribution would suffice to meet all charges during the ten year period, and would lead to a steadily growing balance in the renewals fund.

Further, the future would not be in any way imperilled. The balance would grow ~~steadily~~ ^{steadily} from ~~£ 942,026~~ ^{£ 942,026} with very slight fluctuations in the downwards direction--from £ 942,026 in 1940 to £ 1,064,418 in 1945. A decline would then set in; but by 1947 the funds released by the repayment of the various loans would be available; and they are amply sufficient to cover all reasonable renewals requirements.

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Till 1960, the 2% contribution, with the new money set free by debt repayment, would amply suffice to meet the renewals as they fell due. And summary calculations indicate that, even after that date, there would be ^{still} more than ample resources available.

9. The Kenya proposal, then, provides for all requirements up to 1940; and a continuation of the contribution at the same rate--with the debt money as it became available--would provide for all requirements up to 1960 at least.

I think we are therefore on perfectly safe ground in accepting it. I feel that perhaps an eight year period for the overdue renewals is too long; but that is a technical point, on which my opinion has no value. There are physical difficulties in concentrating overdue renewals within a short period of time.

10. General Hammond should be consulted.

The 24th: September 1930.

*copy
24/9/30*

in Bottamley

*See para B of memorandum
herein. (repared by us & Mr
Jordan discussed with Gen. Rhodes)
wh. summarizes the matter.*

*Gen. Rhodes will be delighted
when he knows what
in /-Campbell has recommended.
But it remains to be seen*

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The 24th: September 1930.

W.P.S.
24/9/30

in 2/10/30

*See para B of memorandum
to be sent (prepared by W.P.S.)
for an discussion with Gen. Rhodes
in connection with the matter.*

*Gen. Rhodes will be delighted
when he knows what
I have done by recommendation.
But it remains to be seen*

6
whether we can satisfy the Treasury who may still yearn for 3 1/2% depreciation. If however we can still show that Gen. Hammond agrees with our view (see No. 4), that should help a lot.

? Dr. Carson's official letter to Gen. Hammond enclosing relevant Mr. In personal regarding the substance of Sir J. Campbell's minute--and enquire whether he concurs in the proposal which would thus be put to the Treasury.

W.P.S.
20.9.30

So proceed.

Apart from the fact that we must not prejudice the decision as to capital cost, I do not think that the Treasury can expect us to build up reserves in bad years.

W.P.S. 27.9.30

6 to Gen. Hammond - ^{7/10}Cons. - 13 Oct '30
(w/c 10 small & Note)

7 See Hammond _____ 10 November
Submits comments on proposals of A. Commission
re provision for renewals and refers to certain
financial points

I attach memoranda, together with

- (a) a statistical Note, and
- (b) a Note regarding the Reserve Fund.

It will be seen that it is necessary to
consider with this paper the recent Treasury
letter relating to Loan requirements.

Clearly the best step is reference to
if the desire is, discussion with Sir
J. Campbell.

J.H. Allen
17/11/30

Accepted
18.11.30

I do not agree with General Hammond's views.
2. We are now faced with the necessity of
placing the renewals arrangements upon a def-
inite, logical, basis, which we can defend, and
which will convince the Treasury. It seems to
me that the line already indicated is correct
and sound. We cannot mix up sinking fund and
renewals:--the former is a statutory or con-
tractual obligation which must be met, the
latter is a physical necessity which must
equally be met. There is no logical or neces-
sary connection between the two.
3. The proposals we were prepared to approve
did in fact provide for the renewals, as fore-
seen on the "life" basis, for ten years; it
was also clear that, on that basis of 2%, and
with the sums which would be available when
the sinking funds were no longer required,
full provision could be made for renewals
till 1960; and the distant future, after 1960,
could also be regarded as fully provided for.
I do not think we can reasonably ask for more
than this. The scheme depends, of course,
absolutely, on the utilisation for renewals
of the sinking funds, as they become available;
that is of the essence of the matter, and the
arrangement could only be approved on that
basis. Is that basis too risky? I think not.
We cannot, in anything, get higher than a definite
arrangement approved by the S/S and accepted
by the local Government. And the S/S will,
presumably, be still here in 1940, armed with
the authority he now possesses.

Copy of memo from A. P. W. to A. P. W. (1930) 5.0. 4/12/30

6 to Gen. Hammond - Cons. - 13th Dec. '30
(w/c is small & note)

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St. Hillier
17/11/30

Reckardman
18. 11. 30

31 on
16100/30.

copy of memorandum to A. P. D. W. (Gen) 5.0. 4/12/30

I do not agree with General Hammond's views.

2. We are now faced with the necessity of placing the renewals arrangements upon a definite, logical, basis, which we can defend, and which will convince the Treasury. It seems to me that the line already indicated is correct and sound. We cannot mix up sinking funds with renewals:--the former is a statutory or contractual obligation which must be met, the latter is a physical necessity which must equally be met. There is no logical or necessary connection between the two.

3. The proposals we were prepared to approve did in fact provide for the renewals, as foreseen on the "life" basis, for ten years; it was also clear that, on that basis of 2% and with the sums which would be available when the sinking funds were no longer required, full provision could be made for renewals till 1960; and the distant future, after 1960, could also be regarded as fully provided for. I do not think we can reasonably ask for more than this. The scheme depends, of course, absolutely, on the utilisation for renewals of the sinking funds, as they become available; that is of the essence of the matter, and the arrangement could only be approved on that basis. Is that basis too risky? I think not. We cannot, in anything, get higher than a definite arrangement approved by the S/S and accepted by the local Government. And the S/S will, presumably, be still here in 1940, armed with the authority he now possesses.

4. The discussion hitherto has been as regards renewals and reserve fund only. I agree with General Hammond--the point was not discussed formerly--that the renewals fund should not be utilised for the purchase of new rolling stock. (Para: 20 of his note). The broad and sufficient justification for that view is that the renewals fund, calculated somewhat closely with reference to renewals only, and provided for renewals only, ought not to be, and cannot in fact safely be, utilised for any other purpose.

5. As regards obsolescence, I agree also, in general, with General Hammond. But we were not discussing that point. And the major difficulty there is that--so far as I know--there is no ascertained basis, either in general practice or otherwise, on which to frame an obsolescence fund. Such funds are, I believe, quite a recent development in commercial practice. They are of special importance, and are perhaps created only in the newer industries, which work in rapidly changing conditions. For example, aircraft, chemical industries, electrical industries. Railways are much more stabilised. We cannot foresee the future; but I think that, in the case of the K U Ry., obsolescence will have to take its chance, and will have to look to the betterment fund, fed from the annual surpluses, for its financial provision. But the point is well worth taking up, as a separate issue? I think it would tend to obscure matters if we laid stress on it here and now, and tried to introduce obsolescence provisions into what purports to be

8

a closely reasoned and closely calculated scheme which deals only with renewals.

With things as they are, the suggestion that the renewals fund should be made plenty big enough, to provide an undetermined margin for obsolescence, is hardly likely to commend itself to Kenya?

6. As regards the reserve fund, the proposals made had of course no connection whatever with the loan charges, or with the renewals. The idea was to have a fund, sufficient to provide for two bad years, which would enable the railway to carry on, without the ~~always~~ troublesome and disturbing difficulties caused by rate changes. The reserve fund is intended to act as a balancing reservoir, to avoid the necessity for undesirable shocks to the commerce and industry of the country.

7. If we decide to adhere to the view already taken, perhaps the best plan will be to have a semi-official discussion with the Treasury, and General Hammond? The Treasury would of course be supplied in advance with the necessary papers.

The 20th: November 1930.

W. J. Campbell
20/11/30

As it seems essential to have the discussion with the Treasury I need not rush into this highly technical matter. I may, however, say that I entirely agree with Sir J. Campbell's 4 and 5. The nearest approach to anything analogous to obsolescence that I can foresee would be a sudden change

has been rapid, (quite apart from the fact that it is now followed by a period of trade depression), there is something to be said for making posterity pay for having railways at all.

A discussion with the Treasury should be arranged, but it will be well to work it in with the discussion on the Loan position which is also pending.

to C.S.

26.11.30

at once

8 To A.P. Waterfield — S.O. 4 DEC 1930

(w/c 7 and Sir Campbell's memo of 20/11/30)

9 To Treasury (H. Amos) 4 DEC 1930

(w/c Report. Report on New Works,
Memo by Gen Manager. Memo by
Statistician. Memo by
is for 6-7.

LW

Mr Allen

he replies to Mr. 8 & 9 yet, please.

Thomas

31/12/30

20/11/30 Report on new works & is memo with Treas.

in C.S.

James

Thomas

LW

Thomas J. ...

10

Copy of note of conference at Colonial Office to consider the Renewals; Renew Fund; and surplus balances

10

11 memo. by Mr. Skevington

Sir C. Bottomley:

I am sorry that owing to interruptions, I have not been able to send this on before. I have, however, explained the delay to Mr. Skevington, and told him that I am the culprit. I have lettered certain passages in the minutes.

A. As compared with the life basis, there has been a short provision during 1929 and 1930, and these will have to be made up. I think, therefore, that in this record "1929" should be substituted for "1931" in the line marked 'A'.

B. In view of the facts stated in the attached note, it seems to be quite incredible that they can possibly reach a figure of £600,000 for the reserve by the end of 1934, but you did no more than agree that ^{we} ~~it~~ should aim at that figure. I think the Treasury understand that it is an almost impracticable proposition, and that it is for this reason that they have a

C. Laid down that there should be no raid on the Renewals Fund without the consent of the Treasury. I thought that this requirement related to the reserve, but Mr. Skevington assures me that they mean Renewals, and, personally, I am glad of it.

D. As regards this paragraph, I have a note to the effect that you said that the policy to be laid down, should be that the Colonial Government should, in each year up to and including 1936 provide a surplus of such amount as would

bring

1929 - 2% only.

30 - 2 1/2% only.

No. Skevington thinks we need offer more.

No. 12

old

No. Skevington says that they put Renewals first.

Don't put it in
the minutes, but
because many
something of the
kind (London) in
the letter

bring the total balance up to £1,000,000
at the end of ¹⁹³⁶ that year; that if the Colonial
Government consider that they cannot in any
year estimate for such a surplus, they will
have to show good reason; and that if
during any year experience shows that the
surplus budgeted for is not likely to be
realised, the fact should be reported at once
with proposals for effecting economies, when
the matter could be discussed between the
Colonial Office and the Treasury. I think
you may wish to have something to that effect
inserted in the minutes.

It would not seem necessary
to send the record to Brigadier-General
Hammond, but it would only be courteous in
due course to inform him of final decisions
on the railway questions. Also, I doubt if
you will think it necessary to submit the
record to Sir J. Campbell. Subject to this,
and to amendments on the points I have men-
tioned, if you agree that they are necessary

? I should tell Mr. Skevington
^{to the record} that you agree, and (that we will write to
them on the various points). I will then
draft accordingly. I think it will be neces-
sary, and certainly convenient, to send
separate letters about the Transport and
Colony points.

J. Allen

14/1/31
I think we are putting up drafts of letters
to the Treasury for comment by higher
authority.

W.C. 14.1.31.

alone

to Parkison
to C. Bottomley

Drafts herewith for comment in
accordance with previous minutes
J. Allen

24/1/31

Unfortunately, as I have heard
of you have (he is not very well)
before I could go through these
drafts with him, though I did
go through one & we amended
certain figures. They seem
to me to be in accord with
the minutes of discussion etc.
I think they are correct.

A. E. Parkison
21.1.31

Sir S. Wilson.

These drafts would in any case have gone
forward for approval, but although they are self-
explanatory, I think it necessary to refer specially
to the agreement which we have provisionally come to
with the Treasury as regards the percentage to be
set aside for Renewals on the Railway. (see paras. 3
and 4 of the Railway Draft).

We have previously considered that a 2 per-
cent provision would be sufficient if supplemented in
due time by the annual amounts ^{released on the completion} set aside
for Sinking Fund, but it appeared that the Treasury
considered that those annual sums, when available,
must be applied to the extinction of Kenya's debt in

respec

respect of the capital cost of the original Uganda Railway. General Hammond also was against our proposal, although his arguments were at least disputable, and it would in any circumstances have been difficult to resist the Treasury proposal (embodied with the draft) without bringing up prematurely, and at a time disadvantageous to ourselves, the whole question of the Uganda Railway liability.

I feel sure that the arrangement we propose to accept is the best we can hope for, and it has, at all events according to my interpretation, the advantage that it makes renewals, (and I hope the maintenance of an adequate reserve), a prior charge before any repayment of the capital liability.

C. C. S.
22.1.31.

Rec of Blak

Jayree

J. H. B.

26.1.31

13 To Treasury (1/2 statement above 12) cons 7/3/26 Jan '31
 Herewith of to JTCI sendin all
 Corres^{ce} & promising further comman
 when Treasury rply to No 13.

JTCI Allen

30/1/31

1st 20. 26. 6. 15 - (100 50 (hand note), 2, 6 (1/2 note), 7,
 9 (1/2 note), 15 (1/2 Statement) +
 balance from 31 on 16/100/30.) -
 (Nos. 1 & 5. Answer.)

5 FEB 1931

Handwritten notes on the left margin:
 14 6
 on this paper
 be made

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W.C.S.
22.1.31.

Rec of State

Jagjee
G.H.B.

26.1.31.

13 To Treasury (1/2 statement done 12) cons. 7/3/26 Jan. '31
 Herewith of to JTC's senders all
 Corres^{ce} & promising further answer
 when Treasury ref to No 13.

J.W. Allen
30/1/31

1st 1/2 L. G. Trans. 15. - (1/2 35 (part made), 14, 6 (1/2 state), 7,
 9 (part made), 13 (1/2 statement) &
 balance from 31 on 16/10/30.) -

5 FEB 1881

(No. 1 & 5. Approved.)

144
 14 to
 on the paper
 No. 31 on 16/10/30
 by amended 1/11/31
 3/2

15. Extract from Treasury letter dated 24¹² February 1931 re Renewals and Reserve

~~Letter~~

Draft herewith:

J.W. Allen

2/2/31

Acc Parkman

6.3.31

to ad. 4.3.31

and

16. No. H. G. Hans 24

9 MAR 1931

17. Extract from Treasury dated 4/1/30
Copy of letter from Treasury dated 4/1/30
Original filed No 31 on 16/10/30.

Registered to record
& directed on draft
7/14.

Now see
17221/31

HW

Extract from letter from Treasury dated 3rd November 1930

S.32902/03/3.

8. With regard to the Transport Administration, the question of the basis of the annual contribution to the Railway Renewals Fund to be ~~xxxx~~ settled, and My Lords will no doubt be furnished shortly with the Secretary of State's proposals in this connection. Subject to the settlement of that important question, Their Lordships' anxiety with regard to the financial position of the Administration is centred mainly in the absence of an adequate reserve fund to meet the contingency of reduced traffic receipts in times of depression. In Their Lordships' opinion definite provision should be made to raise the reserve fund to £600,000 by the end of the year 1934, and They feel bound to ask for an assurance that steps will be taken to that end before They can authorise the fresh capital expenditure of £513,010 now proposed.

9. There already exists as the nucleus of the reserve fund referred to the two sums of £100,000 and £50,000 allocated for "Interest Reserve" in the Railway Estimates for 1929 & 1930 respectively, but the figure of £50,000 for 1930 may have to be adjusted if the amount provided for Renewals Fund contribution in the Estimates for that year exceeds or falls short of the proper provision as finally settled. The provisions to which Their Lordships refer for building up the reserve fund would, of course, be after charging Renewals Fund contributions on an adequate basis as approved by Them.

10. If My Lords receive the assurance referred to in paragraph 8 They will wish to stipulate that the fresh capital expenditure to be sanctioned shall be deferred as far as possible until the traffic outlook improves and that the programme of capital expenditure shall be regarded as final until 1932 except in abnormal circumstances

8. With regard to the Transport Administration, the question of the basis of the annual contribution to the Railway Renewals Fund to be ~~has~~ settled, and My Lords will no doubt be furnished shortly with the Secretary of State's proposals in this connection. Subject to the settlement of that important question, Their Lordships' anxiety with regard to the financial position of the Administration is centred mainly in the absence of an adequate reserve fund to meet the contingency of reduced traffic receipts in times of depression. In Their Lordships' opinion definite provision should be made to raise the reserve fund to £600,000 by the end of the year 1934, and They feel bound to ask for an assurance that steps will be taken to that end before They can authorise the fresh capital expenditure of £513,010 now proposed.

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10. If My Lords receive the assurance referred to in paragraph 8 They will wish to stipulate that the fresh capital expenditure to be sanctioned shall be deferred as far as possible until the traffic outlook improves and that the programme of capital expenditure shall be regarded as final until 1932 except in abnormal circumstances

O.

K.16250/30/Kenya.

14
16

Mr. Allen. 2/3

Mr. [unclear] 2/3

Mr. [unclear] 4/3/31

Mr. [unclear]

Sir C. Bottomley. 4/3 fs

Sir J. Shackburgh.

Sir G. Grindle.

Permt. U.S. of S.

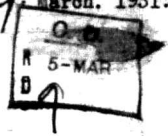
Partly U.S. of S.

Secretary of State

For conson. [unclear]
[unclear] 28/02/30
[unclear] 16/02/30

DOWNING STREET,

9. March. 1931.



Sir,

I have the honour to

refer to my despatch No. 15 of

the 5th February regarding the

provision to be made for

Renewals and Reserve in the

accounts of the Kenya and

Uganda Railways and Harbours,

and to inform you that the

Lords Commissioners of the

Treasury have now agreed

to the proposal submitted to

them in the letter from the

Colonial Office of the 28th

January, a copy of which

accompanied my despatch under

reference.

2. I therefore approve
as an interim arrangement,

an

DRAFT.

TRANSPORT

KENYA AND UGANDA.

No.14.

NO. 24.

High Commissioner.

9 MAR 1931
9 MAR 1931
Can Gov [unclear] on 16/02/30

No.13.

5 copies of 16 20.
Extra copies required to
Home & Treas - 4/3/31
(1400/31)

an annual contribution to the
Railways and Renewals Fund of
2½ per cent of the capital value
of the wasting assets for the years
1931-1933
1931/1932 on the understanding :-

- (a) that the "life" basis is
accepted as the proper one;
- (b) that the snort provisions
during the years 1931/1933 are to
be made good in the later years, on
a plan to be subject to the appro-
val of the Secretary of State and
the Lords Commissioners of the Trea-
sury;
- (c) that acceptance of this arrange-
ment is not regarded as prejudicing
in any way the decision to be taken
by His Majesty's Government in 1934
as regards the liability in respect
of the cost of the original Uganda
Railway.

While I regret that it has not been
possible to agree even as a temporary
measure

measure to the full reduction in the rate of contribution recommended by the General Manager, of the Railway Advisory Council and your predecessor. I feel sure that you will appreciate the reasons for the decision now taken, which are fully explained in correspondence enclosed in my despatch of the 5th February.

(14)

3. I have also to convey to you my approval of the recommendations in paragraph 11 of Sir Edward Grigg's No. 1. despatch, No. 86 of the 22nd May 1930 as to the provision for Renewals in respect of the Marine, Motor Services, and Harbour Services; but I regret that I am unable to agree to the recommendation of the General Manager in paragraph 40 of his memorandum ^{of 27th May 1930} that when the balance in the Railway Renewals Fund becomes adequate the policy of purchasing rolling stock out of ~~a~~ ^{accrued} depreciation should be permitted.

(Enc 6 No 1)

4. In paragraph 9 of his
despatch No. 86 of the 22nd May 1930, (No.1)

Sir Edward Grigg concurred in the
recommendation of the General Manager
that the Reserve Fund should be built
up by annual contributions to a total
of £400,000. I consider, however, that
it would be more prudent to adopt a figure
of £600,000 for this purpose; ^{but} and you will
observe that I have not felt able to give
the Lords Commissioners of the Treasury the
assurance for which they asked that definite
provision will be made to raise the Fund
to that figure by the end of 1934. I have,
however, undertaken to give instructions that
the Fund shall be raised to the amount of
£600,000 as rapidly as circumstances allow, and
if possible by the end of 1934. The Lords
Commissioners of the Treasury have expressed
themselves content with this undertaking on
the understanding that their sanction will
be sought before any recourse is had to
the Renewals Fund to meet any emergency for
which

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despatch No. 86 of the 22nd May 1930, (No.1)

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recommendation of the General Manager

that the Reserve Fund should be built

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Commissioners of the Treasury have expressed

themselves content with this undertaking on

the understanding that their sanction will

be sought before any recourse is had to

the Renewals Fund to meet any emergency for

which

16
which the funds in reserve are insufficient. I have therefore to request that regard may be had to these instructions in framing the Estimates of your Administration for the year 1932 and subsequent years; and that in forwarding the Estimates for each year you will include observations on the existing financial position and the future prospects of the Administration from this point of view.

5. In view of the fact that I have been unable to agree to the reduction of the Railway Renewals rate to 2 per cent, it ^{will} ~~would~~ of course not be possible to give effect to the recommendation in paragraph 2 of Sir Edward Grigg's despatch, No. 86 of the 22nd May 1930, that the sum of £56,594 should be transferred from Railway Renewals to the Reserve Fund. The balance to

No.1.

to the credit of the Reserve Fund
as at 31st December 1931 is shown in
Appendix 1 to the Estimates for the
current year as £256,726; but for the
reasons given in the statement which
accompanied the letter to the Treasury
of the 28th January 1931, it must now
be anticipated that the balance will prove
to be substantially less than the
figure mentioned. I have referred to
this aspect of the matter in paragraph
5 of my despatch No. 16
of 12th Feb regarding the Estimates
for 1931.

Page 114

6
1634/30

6. I have to add that the approval
of the Lords Commissioners of the Treasury
of the proposed additional loan expenditure
on transport services has been given on
condition that the various undertakings
referred to in this despatch will be
implemented.

I have,

etc.

(Signed) PASSFIELD.

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as at 31st December 1931 is shown in
Appendix 1 to the Estimates for the
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reasons given in the statement which
accompanied the letter to the Treasury
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implemented.

I have,

etc.

(Signed) TASSFIELD.

Page 114

6
1634/30

17
Extract from letter from Treasury, dated 24th. Feb. '31.

Original on 16100X 30 K.

32902/03/415

0 X X X X
5. Their Lordships turn now to the question of the provision to be made for renewals and reserve in the accounts of the Kenya and Uganda Railways and harbours.

No 13
6. With regard to the renewals Fund contributions in respect of the railways, my Lords concur in the views expressed in paragraph 4 of the letter under reply bearing the reference number 16250/30 and They are willing to agree, as an interim arrangement, to an annual contribution of 2½ per cent of the capital value of the wasting assets for the years 1931-1933, on the understanding-

(a) that the "life" basis is accepted as the proper one;

(b) that the short provisions during the years 1931-1933 are to be made good in the later years on a plan to be subject to approval by Their Lordships;

(c) that acceptance of this arrangement is not to be regarded as prejudicing in any way the decision to be taken by His Majesty's Government in 1934 as regards the liability in respect of the cost of the original Uganda Railway.

17
Extract from letter from Treasury, dated 24th. Feb. '31.

Original on 16100X 30 K.

5 32902/03/4 15

① X X X X
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No 13

- (a) that the "life" basis is accepted as the proper one;
- (b) that the short provisions during the years 1931-1933 are to be made good in the later years on a plan to be subject to approval by Their Lordships;
- (c) that acceptance of this arrangement is not to be regarded as prejudicing in any way the decision to be taken by His Majesty's Government in 1934 as regards the liability in respect of the cost of the original Uganda Railway.

7. Their Lordships concur in the Secretary of State's proposal to approve the recommendations conveyed in paragraph 11 of the High Commissioner's despatch of the 22nd. May 1930, with reference to the provision for renewals in respect of the marine, motor services and harbour services; also in his proposal to inform the High Commissioner that he is unable to agree to the General Manager's recommendation that when the balance in the Renewals Fund becomes adequate the policy of purchasing rolling-stock out of accrued depreciation should be permitted.

8. My Lords note that Lord Cassfield feels some difficulty in committing the local Transport Administration to a policy of accumulating a Reserve Fund of £600,000 by a fixed date, allowing no margin for the continuance of adverse conditions. They will be content if he gives instructions for the Reserve Fund to be raised to that figure as rapidly as circumstances allow, and if possible by the end of 1934, on the understanding that their sanction will be sought before any recourse is had to the Renewals Fund to meet any emergency for which the funds in reserve are insufficient.

7. Their Lordships concur in the secretary of State's proposal to approve the recommendations conveyed in ~~the~~ paragraph 11 of the High Commissioner's despatch of the 22nd. May 1930, with reference to the provision for ~~the~~ renewals in respect of the marine, motor services and harbour services; also in his proposal to inform the High Commissioner that he is unable to agree to the General manager's recommendation that when the balance in the Renewals Fund becomes adequate the policy of purchasing rolling-stock out of accrued depreciation should be permitted.

8. My Lords note that Lord Massfield feels some difficulty in committing the local Transport Administration to a policy of accumulating a Reserve Fund of £600,000 by a fixed date, allowing no margin for the continuance of adverse conditions. They will be content if he gives instructions for the Reserve Fund to be raised to that figure as rapidly as circumstances allow, and if possible by the end of 1934, on the understanding that Their sanction will be sought before any recourse is had to the Renewals Fund to meet any emergency for which the funds in reserve are insufficient.

C. O.

X.16250/30 Kenya.

Mr. Allen 29/1.

Mr. Parkinson

Mr.

Mr. Tomlinson.

Sir C. Bottomley.

Sir J. Shackburgh.

Sir G. Grindall.

Parlt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

Downing Street,

January, 1931.

5 76

5 FEB 1931

Sir,

for conson:

DRAFT.

TRANSPORT

KENYA-UGANDA

NO. 15.

High Commr.

*5 copies to SW 2
all send
To Treasury 26th July '30.
(No. 3 without encl.)*

*To Treasury 7th August '30.
(4)*

*To Brig. Gen. Hammond 13th Oct.
(6) A folder*

*Extract fr. letter from
Treasury 3rd November '30.
Paragraphs B-10
(31 on 12/00/30).*

*To Brig. Gen. Hammond 10th Nov.
(6-7)*

*To Treasury 4th Dec. '30
(No. 3 without encl.)*

*To Treasury 28th January '31.
and 1/2/31 (a)*

N.B. Spare copies are available of all above enclosures which are marked (a) but 5 copies of the letter of 4th Dec. 1930 are not available.

I have the honour to refer to Sir Edward Grigg's despatches No. 86 of the 22nd May, 1930, and No. 118 of the 18th July, 1930, regarding the provision to be made for Renewals and Reserve in the accounts of the Kenya and Uganda Railway and Harbours, and to transmit, for your information, copies of correspondence on the subject which has taken place with Brigadier-General F.D.

Hammond and the Lords Commissioners of the Treasury.

2. I shall communicate with you again when a reply is received to the letter addressed to the Treasury on the 28th January.

I have, etc.

(Signed) PASSFIELD

A spare copy of the 4th enclosure should be put with 16250/30.

With drafts on 16140/30 and 1608/30.

*(1) 2/10
(5) copy also. Can say (2) on 16100/30.*

C. O.

16250/30/Kenya.

13 20

Mr. Allen. 214

Mr. [unclear] 21. 1. 31

Mr.

Mr. [unclear]

X Sir C. Bottomley. 22. 6. 31

Sir J. Shuckburgh.

Sir G. Grindall.

+ Perm. U.S. of S. 26. 7. 31

Party. U.S. of S.

X Secretary of State. 27/1

Handwritten: 20. 15
Stamp: C. D. 27 JAN 1931

DOWNING STREET,

28 January 1931.

Sir,

I am directed by Lord

Passfield to refer to the letter from this Department of the 24th December 1930, N^o 16250/30, regarding the provision to be made for Renewals and Reserves in the accounts of the Kenya and Uganda Railways and Harbours.

2. These matters have been discussed at a meeting of representatives of the Treasury and the Colonial Office at which Brigadier-General P. D. Hammond was present, and Lord Passfield now desires to submit the following observations for the consideration of the Lords Commissioners.

3. Lord Passfield fully recognises

DRAFT. Carson.

THE SECRETARY.

No. 9.

TREASURY.

5 FEB 1931
Copy (16 Statement) to Mr. [unclear] 15-
Copy also. Com. Conf. (2) on 16/100/30.

(See extra copies to be made)

Statement
(draft there with)
P. [unclear]

d. off. on 16/100/30

recognises the importance of establishing the principle of providing for renewals on a proper basis, i.e., for each wasting asset an annual provision equivalent to the original cost divided by the physical life. On the basis of the existing wasting assets of the Kenya and Uganda Railway the sum of the annual provision required is equivalent to an ^{over} ~~round~~ rate of 3.11 per cent of the capital value of those assets. It is true that provision at a lower rate would meet the actual cash requirements for renewals for some years to come, but the longer the period to be taken the more closely would the provision on a "cash requirements" basis approximate to that ^{on} ~~of~~ a "life" basis. For this reason, and having regard to ~~the~~ ^{the} obsolescence and ^{the} other factors referred to in ^{para 22 of} General Hammond's letter of the 10th November, ^{1930 for allowance} which ^{made} does not appear to have been included in the local calculations.)

provision

No 7

recognises the importance of establishing the principle of providing for renewals on a proper "life" basis, i.e., for each wasting asset an annual provision equivalent to the original cost divided by the physical life. On the basis of the existing wasting assets of the Kenya and Uganda Railway, the sum of the annual provision required is equivalent to an all-~~round~~^{over} rate of 3.11 per cent of the capital value of those assets. It is true that provision at a lower rate would meet the actual cash requirements for renewals for some years to come, but the longer the period to be taken the more closely would the provision on a "cash requirements" basis approximate to that ^{on} of a "life" basis. For this reason, and having regard to ~~the~~ obsolescence ⁱⁿ and ^{the} other factors referred to in ^{para 22 of} General Hammond's letter of the 10th November ^{1930 for allowance}, which ^{made} does not appear to have been ~~included~~ in the local calculations.)

provisio.

407

provision on less than a "life" basis is open to objection as being unsafe. On the other hand, in so far as assets have been acquired out of loans carrying sinking funds, and it is not intended to re-borrow on the repayment of the loans, the Railway ^{is} bearing, during the currency of the loans, interest ^{and} to the sinking fund charges ^{which} ~~would~~ cease on repayment. For this reason there ^{would} ~~appears~~ to be no objection in principle to a reduced provision for renewals during the currency of the loans, provided that the savings on loan charges ~~would~~ ^{be} definitely earmarked for raising ^{the} future annual renewals provision to the proper "life" basis, and in addition ^{for} making good the total deficiency of the renewals provisions in previous years, taking the "life" basis as ^{the} proper one ^{for this purpose also} ~~was the same~~. In the present case, however, the position is complicated by the liability for the repayment to His Majesty's Government of the sums (amounting to approximately

See 45759/24

approximately

approximately ^{£ 6,500,000 ✓} ~~5 1/2 million pounds~~)

expended on the Uganda Railway, under
the Uganda Railway Acts ~~1906 and~~

~~1908.~~ Lord Passfield appreciates

that pending a settlement of the

question, which has been postponed

until 1934, the Lords Commissioners ~~were~~

^{reluctant} feel ~~unable~~ to sanction any arrange-

ment in regard to the provision for

renewals which would involve drawing

in due course on the savings on loan

charges.

4. I am therefore to suggest

that their Lordships ^{should} ~~should~~ agree, as

an interim arrangement, to an annual

renewal provision of [✓] 2 1/2 per cent for

the years 1931 - 1933 on the under-

standing:—

~~(3 1/2 per cent)~~

(a) that the "life" basis is
accepted as the proper one;

(b) that the short provisions
during the years 1931-1933 are to
be made good in later years on a

plan

approximately ~~5~~ ^{£ 6,500,000 ✓} million pounds)

expended on the Uganda Railway under
the Uganda Railways Acts 1906 and

~~1929.~~ Lord Passfield appreciates
that pending a settlement of the
question, which has been postponed

until 1934, the Lords Commissioners *were*
feel ~~unable~~ ^{reluctant} to sanction any arrange-
ment in regard to the provision for
renewals which would involve drawing
in due course on the savings on loan
charges.

4. I am therefore to suggest
that their Lordships ^{Grant's} should agree, as
an interim arrangement, to an annual
renewal provision of 2½ [✓] per cent for
the years 1931 - 1933 on the under-
standing:—

~~£ 2 1/2 per cent~~

- (a) that the "life" basis is accepted as the proper one;
- (b) that the short provisions during the years 1931-1933 are to be made good in later years on a

plan

~~approved~~ ^{accrued} depreciation should be

permitted.

7. As regards the Res. Fund,
the Loras Commissioners ~~xxxxxxx~~
~~xxxxxxxxxxxx~~ have asked in paragraph
8 of their letter of the 3rd November
1930, (S.32902/03/3,) for an assurance
that definite provision will be made
to raise the Fund to £600,000 by the
end of 1934. As stated in the letter
from this department of the 4th December
1930, (16100/30), Lora Passfield feels
some difficulty in committing the local
Administration to a policy of accumula-
tion by a fixed date allowing no margin
for elasticity, and he is confirmed in
~~that~~ ^{his} view by the fact that, as shown in
the accompanying statement, it is now
to be anticipated that the amount to
the credit of the Reserve Fund at the
end of 1931 ~~would~~ ^{will} be substantially ~~and~~ ^{less than}
previously estimated. Lord Passfield

No. ³¹ on 16100/30

No. 54 on 16100/30

is,

~~approved~~ ^{accumulated} depreciation should be permitted.

7. As regards the Reserve Fund, the Lords Commissioners ~~xxxxxxx~~ ~~xxxxxxxxxxx~~ have asked in paragraph 8 of their letter of the 3rd November 1930, (S.32902/03/3,) for an assurance that definite provision will be made to raise the Fund to £600,000 by the end of 1934. As stated in the letter

from this Department of the 4th December

1930, ^{No.} 16100/30, Lord Passfield feels some difficulty in committing the local

Administration to a policy of accumulation by a fixed date allowing no margin

for elasticity, and he is confirmed in ~~that~~ ^{his} view by the fact that, as shown in

the accompanying statement, it is now to be anticipated that the amount to

the credit of the Reserve Fund at the end of 1931 ^{will} be substantially ^{less than} and

previously estimated. Lord Passfield

is,

3/
No. 1 on 16100/30

No. 54 on 16100/30

raise 1/2 600000

is, however, anxious ^{to propose} that ~~as~~ ^{to the extent that a minimum} adequate reserve should be accumu-

lated as ^{early} soon as possible; but, while he agrees that it should be

the aim of the Transport Administration to raise the reserve to the

figure of £600,000 by the end of 1934, he ^{is} quite unable to give

any assurance that it will be possible to achieve that object.

If the Lords Commissioners are content to accept this ^{provision} decision,

Lord Passfield will undertake that the sanction of their Lord-

ships shall be sought before any recourse is had to the Renewals

Fund to meet ^{any} the emergency, ^{for which} ~~the~~ funds in ~~being~~ ^{these} are ~~insufficient~~ ^{insufficient} ○

8. Lord Passfield trusts that their Lordships will see

their way to agree to the proposals in this letter, and to authorise

~~fresh~~ ^{the proposed} capital expenditure and additional

additional

additional loan expenditure on transport services, subject to the stipulation in paragraph 10 of ^{the} ~~their~~ letter of the 3rd

3/ 1 16100/30

November 1930, S.32902/03/3

that this fresh capital expenditure shall be deferred as far as possible until the traffic outlook improves, and that the programme of capital expenditure should be regarded as final until 1932, except in abnormal circumstances. It is presumed that

their Lordships will exclude from the latter stipulation the provision

for ^{the} new branch railway lines ^{includes in the sum of £400,000} referred to in paragraph 2 (d) ii of ^{the} ~~their~~ letter of the 3rd November.

Their Lordships have already ~~in~~ ^{to} their given ^{provisional} agreement ^{(see your} letter of the 15th January, S.32902/

03/04, ⁴ ~~provisionally agreed in~~

No. 9 on 16278/30

^{reference to} ~~principle to the provision~~ of Loan Funds for the construction of ~~the~~

branch

additional loan expenditure on transport services, subject to the stipulation⁴ in paragraph 10 of ^{the} their letter of the 3rd November 1930, S.32902/03/3 that this fresh capital expenditure shall be deferred as far as possible until the traffic outlook improves, and that the programme of capital expenditure should be regarded as final until 1932, except in abnormal circumstances. It is presumed that their Lordships will exclude from the latter stipulation the provision for the ^{two} new branch railway lines ^{included in the sum of £400,000} referred to in paragraph 2 (d) ii of ^{the} their letter of the 3rd November.

Their Lordships have already ^{in their given provisional agreement} in their letter of the 15th January, S.32902/03/04, ^(see your) provisionally agreed in principle to the ^{course to} provision of Loan Funds for the construction of the

branch

31 1 16100/30

17007/30

24
branch line from ^{Kidowa} to Jamji. A despatch has recently been received from the Officer Administering the Government of Kenya regarding the remaining branch from ^{Thika} towards ^{Dojo} Sabuk, and a separate letter will in due course be addressed to their Lordships in regard to this extension.

I am,

etc

(Signed) A. ...

No. 9 on
16278/30

Draft

MEMORANDUM

Reserve Fund, Kenya and Uganda Railways
Harbours

*24: s the memo
to go to the
Finance
JMM
27/1/31*

The balance to the credit of this account at the 31st December 1931 has been estimated at £266,726. This amount is apparently made up as follows :-

	£
Balance at 31st December 1929	100,000
Contribution 1930	50,000
Transfer from Renewals during 1930	56,594

Estimated balance at 31st December 1930	206, 000 ⁵⁹⁴ ✓
---	--------------------------------------

<i>Contribution</i> Transfer 1931	60,132 ✓
--------------------------------------	----------

Estimated balance at 31st December 1931	<u>266,726</u>
---	----------------

Statement to Treasury 28 Dec 1931

The contribution for 1931 represents the difference between provision for renewals at 2½ per cent and 2 per cent. Assuming that the renewals rate is fixed at 2½ per cent this contribution of £60,132 will not be available for the reserve, and for the same reason the transfer of £56,594 in 1930 will not be possible. The credit at the 31st December 1931 will accordingly be reduced to £150,000. ✓

The latest reports as to the results for 1930 indicate that owing to the general trade depression the gross revenue in that year will probably fall short of the original estimates by about £350,000, and that in consequence, and in spite of economies which have been made, it is anticipated that after meeting all loan charges and depreciation, not only will there be no contribution to the Betterment Fund, but there will be no

contribution

*Page 6 to
SM & Speed
with No 4 &
16345730 - also
for a 2 & 1/2 Str
of a. that
Infr.*

Draft

MEMORANDUMReserve Fund, Kenya and Uganda Railways
and Harbours

The balance to the credit of this account at the 31st December 1931 has been estimated at £266,726. This amount is apparently made up as follows :-

Balance at 31st December 1929	£ 100,000
Contribution 1930	50,000
Transfer from Renewals during 1930	56,594

Estimated balance at 31st December 1930	206, 000 ³⁹⁴ ✓
<i>Contribution Treasury</i> 1931	60,132 ✓
Estimated balance at 31st December 1931	<u>266,726</u>

The contribution for 1931 represents the difference between provision for renewals at 2½ per cent and 2 per cent. Assuming that the renewals rate is fixed at 2½ per cent this contribution of £60,132 will not be available for the reserve, and for the same reason the transfer of £56,594 in 1930 will not be possible. The credit at the 31st December 1931 will accordingly be reduced to £150,000.

The latest reports as to the results for 1930 indicate that owing to the general trade depression the gross revenue in that year will probably fall short of the original estimates by about £350,000, and that in consequence, and in spite of economies which have been made, it is anticipated that after meeting all loan charges and depreciation, not only will there be no contribution to the Betterment Fund, but there will be no

contribution

26:5 this memo
to go to the
Treasury
J.M.A.
27/1/31

Statement to Treasury 28 Jan 1931

Para 6 to
S.M.A. report
with No 4 &
16/5/30 - also
for a 2 & 11/31
of a - that
para.

contribution to the Reserve Fund, and it may in fact be necessary to draw on that fund to balance the accounts *1930*.
~~This indicates that the balance to the credit of the Reserve Fund at first December 1931 will not be more than, and may be less than, £100,000.~~

Not to be altered
1931
62

Position of the Reserve Account,
Kenya and Uganda Railways and Harbours.

The total shown in the Estimates for 1931 to the credit of this account is £266,000. So far as I can make out, this amount is made up as follows:-

Balance at 31st December, 1929	100,000
Contribution, 1930	50,000 (a)
Transfer from Renewals during 1930	56,000 (b)
Balance at 31st December, 1930	206,000
Contribution, 1931	60,000 (c)
Balance at 31st December, 1931	<u>£266,000.</u>

(c) represents the equivalent of ½ per cent Renewals, and will now have to go to Renewals instead of Reserve. Also, in view of the decisions as regards Renewals (b) cannot be transferred to Reserve Account, but will have to be left in Renewals. Also, there is reason to doubt whether it ^{was} ~~will be~~ possible to make the contribution at (a) during 1930. It therefore seems that the amount to the credit of the Reserve Account at the end of 1931 may be no more than £100,000, and even that may be a somewhat optimistic figure.

11 28
Memo by Mr Skewington
handed us the copy
HWN
16/1

UGANDA RAILWAY: RENEWALS FUND.

1. It is essential for any Public Utility undertaking to provide, as a charge against receipts, for the renewal of wasting assets; and the charge should be sufficient to provide for the renewal of the assets during their effective life.

2. This applies whether the capital for the acquisition of the assets was provided by the proprietors or borrowed.

3. A Railway is, of course, an aggregation of assets wasting at different rates. In the case of the Uganda Railway it has been calculated locally that if the renewal of each wasting asset is provided for by an equal annual charge over its estimated life, the total of the annual charges for all the wasting assets amounts to 3.11% of the total capital value of the assets.

4. On the basis of these calculations, if the assets were required in perpetuity, i.e. to be renewed whenever and as often as they become useless, it would be necessary to provide for renewals that fall ^{the full} 3.11% per annum.

5. At any particular point of time, however, an annual renewals provision on that basis (called the "life" basis) would provide cash in excess of the amount needed to pay for renewals already required, since full provision would have been made for all assets which had required renewal, and some provision would have been made for assets not yet due for renewal. But the longer the Railway continues the more closely would an annual renewals provision on the "cash requirements" basis approximate to the annual provision required on the "life" basis.

According

According to the Table on page 36 of the Report of the Departmental Committee, the Uganda Railway Renewals Fund cash surplus or deficit at the end of 100 years, for different percentages of capital value (£11,407,266) as annual renewals provisions, would be as follows:-

Percentage of capital value:	Surplus: £	Deficit: £
3.11	3,026,083	-
3.	1,770,283	-
27/8	344,383	-
2½	-	1,081,517
2½	-	3,933,317
2¼	-	6,785,217
2.	-	9,657,017

6. If the capital for the Railway is borrowed, and the loan carries an annual sinking fund calculated to repay the loan after a specified number of years, then at the end of that period, if the sinking fund instalments have been provided out of revenue, the Railway, or what is left of it, has been acquired out of revenue. And if, in addition, an annual renewals provision on a "life" basis had been provided out of revenue, the proprietors would have the equivalent of a new Railway (i.e. the Railway as it stands plus a Renewals Fund equivalent to the calculated depreciation) free of encumbrance.

7. The proprietors could reborrow after paying off the loan, and so always have their assets acquired out of borrowed capital. In principle no objection could be taken to that course provided that adequate provision for renewals on a "life" basis is made, i.e. provided the Renewals Fund cash balance and the Sinking Fund accumulation together never fall below the calculated depreciation.

8. The Sinking Fund accumulation would not, however, be available for meeting expenditure on renewals; and in practice it would be necessary to provide Renewals Fund contributions large enough to produce sufficient cash to pay for renewals as and when required, even if those contributions and the Sinking Fund accumulations together would exceed what would be required as renewals contributions on the "life" basis. It would not, however, then be necessary to reborrow the whole of the loan after repayment.

9. If on the other hand a fresh loan is not to be raised to replace inwhole or part the original loan after its repayment, it will be necessary to provide all along a renewals contribution on the life basis in addition to the separate provision for sinking fund.

10. But in that case, if (as would usually happen) the sinking fund instalments are invested so as to accumulate during the period of the loan a sum sufficient to repay the loan at its maturity, there will be during the period of the loan, a charge against Railway receipts for sinking fund and interest on the full amount of the loan, and no charge for sinking fund and interest afterwards. Accordingly, with a 5% loan carrying a 1% sinking fund to repay in 37 years, the annual charge against Railway receipts, expressed as a percentage of the loan, would be:-

	First 37 years:	Afterwards:
	%	%
Renewals Fund contribution:	3.11	3.11
Interest on loan:	5.0	-
Sinking Fund instalment:	<u>1.0</u>	<u>-</u>
	<u>9.11</u>	<u>3.11</u>

11. The General Manager expresses the view that with a Government railway, where it is a definite policy to provide efficient transport at the cheapest possible rate, and where the capital is borrowed, it is not necessary to do more than the minimum necessary to ensure a sound financial position. Anything more, he urges, would unduly tax the present generation for the benefit of a future one, which is particularly undesirable in a young, developing country.

12. He wants to provide a renewals contribution of 2% for the next 10 years, and then review. He produces a table (page 10) showing that, on a 2% basis, the Renewals Fund credit balance would reach £1,064,418 by 1945, then steadily decline to £19,200 by 1954, after which there would be increasing deficits, rising to £1,658,730 by 1960. He shows, however, that from 1947 onwards there would be savings on loan charges due to repayment of loans, and that these savings would be more than sufficient to make good the cash shortage in the Renewals Fund. The accumulated savings to 1960 are shown as £3,096,728, against the Renewals Fund cash shortage at that date of £1,658,730.

13. General Hammond does not support the General Manager's proposal. He stresses the importance of a fully adequate annual charge for renewals, and of its definite provision G.C. nominal so as to avoid the risk of clamours from traders for lower traffic rates at the expense of proper renewals provisions. He points out that the local renewals expenditure calculations are based on the estimated physical lives of the assets, without making any allowance for :-

- (a) obsolescence - improved types which would make the use of the old types uneconomic before they had physically worn out;
- (b) under estimates of physical lives;
- (c) possible rise in cost of replacement, in view particularly of highly probable rise in cost of native labour;
- (d) unforeseen contingencies.

14. Failure to make allowance for these factors would, he urges, condemn the Railway to being able to replace assets only when they were worn out and not when they became obsolete, which would be false economy.

15. General Hammond advocates a definite annual provision on a proper "life" basis, but he considers that the sinking fund instalments might be met from this provision, and not provided for in addition. I attach a statement of the Uganda Railway loans. This statement, which does not include the Exchequer loan of £5½ millions odd for which no repayment arrangement has yet been made, shows that when sinking fund instalments commence in respect of the Kenya loan of 1927 (in 1931), the Kenya loan of 1928 (in 1932), and the loan now being raised to cover temporary advances (say in 1934), the total annual sinking fund charge will be about £115,000. Now the annual renewals provision on a "life" basis (3.11%) is £354,766. Deducting from this the £115,000 for sinking fund there would be a balance of about £240,000, against the General Manager's proposed £228,453 on a 2% basis.

16. Sir John Campbell supports the General Manager's proposal, but on the clear understanding that savings on loan charges after 1947 will be made available as needed for

for renewals expenditure. He considers that obsolescence should take its chance out of the net surpluses available for betterment (see paragraphs 22 to 24 of my memorandum of 20th October 1930 in this file).

17. I agree in principle with General Hammond that it is important that definite and specific provision should be made for renewals on a proper "life" basis. But, if, as would appear, it is not intended to re-borrow on the repayment of a loan, I do not agree with him that sinking fund instalments might be met out of the renewals provision: that would inevitably produce a serious cash shortage in the Renewals Fund in time.

18. I disagree with the General Manager's theory that it would be sound enough to fix the renewals provision by reference to the calculated cash requirements over a longish period. The table in para. 5 above shows that this would be disastrous in the long run unless the percentage provision approximated quite closely to the proper "life" basis provision. But one must, I think, consider the charges for interest, sinking fund and renewals as together making up the annual cost of the assets; and I should not ordinarily see objection to the renewals burden being eased during the period in which loan charges are payable provided that the full savings on loan charges are paid into the Renewals Fund until the arrears of contributions on a "life" basis are made good.

19. A renewals contribution on the "life" basis (£3.115) would be £354,766. At 2% it would be £228,453, a difference of £126,313 p.a. If 2% per annum only were provided the accumulated arrears of contributions on the "life" basis at the end of 1946 would be £2,025,904 (16 x £126,313). After 1946 it would be possible, out of savings on loan charges, to raise the annual contribution to the full £354,766 and in addition provide the following sums towards wiping off the accumulated arrears at the end of 1946.

1947-1950	:	£33,981 a year
1951	:	£70,181
1952-1959	:	£89,773 a year
1960	:	£239,673

This would reduce the accumulated arrears to £263,032 in 1960; and the arrears would be completely wiped off by 1964.

20. Ordinarily this would not, I think, be unreasonable, but it would have to be clearly understood, both here and locally, and clearly shown in the Railway Estimates and Accounts, that the proper annual contribution is £354,766, and that the arrears are to be made good out of the savings on loan charges, which, so long as there are any arrears will not be available for any other purpose.

21. But this takes no account of the Exchequer debt of £5½ millions odd; and if the savings on loan charges were hypothecated up to 1964 to make good arrears of renewals contributions there would be no foreseeable margin in the Railway revenue and expenditure accounts up to 1964 for making any payment in liquidation of the debt, apart from the possibility of securing after 1934 the £100,000 p.a. to be provided up to that year for reserve (T.L. 3/11/30 herein).

Table on page 10 of General Manager's Memorandum.

22. It is true that we agreed that the question of the Exchequer debt should stand over until 1934. But we could not reasonably be expected to sanction new any renewals arrangement which would give us ~~little~~ chance of getting anything (part from the possible £100,000 a year after 1934) before 1964. The substantial relief from lean charges after 1946 would provide a convenient pocket out of which our debt could be liquidated without seriously embarrassing the Railway.

23. I would suggest as a fair arrangement that one half of savings on lean charges, in respect of existing and all future loans, be hypothecated for the liquidation of the Exchequer debt, and that, if this is accepted, the debt be not liquidated from any other sources.

Page 10 of
General
Manager's
memorandum.

24. This would give us £1,548,364 by 1960, and at least £183,196 p.a. thereafter.

25. But the other half of the savings on lean charges would not suffice to wipe off the renewals contribution arrears within a reasonable time: in fact the accumulated arrears would go on increasing until 1959. If the renewals contribution were 2½%, instead of 2%, up to 1946, the arrears at the end of that year would be £1,112,096 (£2,025,904 - (16 x £57,113)). The available share of savings on lean charges would reduce the arrears to £569,000 by 1960, and wipe them off by 1964. That would be reasonable.

26. My conclusions are -

(a) That we should not sanction anything less than the full "life" basis renewals contribution unless and until suitable provision is made for liquidating the Exchequer debt.

(b) That if we are guaranteed a half of all lean charges savings we should agree to a renewals contribution

22. It is true that we agreed that the question of the Exchequer debt should stand over until 1934. But we could not reasonably be expected to sanction now any renewals arrangement which would give us little or no chance of getting anything (part from the possible £100,000 a year after 1934) before 1964. The substantial relief from lean charges after 1946 would provide a convenient pocket out of which our debt could be liquidated without seriously embarrassing the Railway.

23. I would suggest as a fair arrangement that one half of savings on lean charges, in respect of existing and all future loans, be hypothecated for the liquidation of the Exchequer debt, and that, if this is accepted, the debt be not liquidated from any other source.

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25. But the other half of the savings on lean charges would not suffice to wipe off the renewals contribution arrears within a reasonable time: in fact the accumulated arrears would go on increasing until 1959. If the renewals contribution were $2\frac{1}{2}\%$, instead of 2% , up to 1946, the arrears at the end of that year would be £1,112,096 (£2,025,904 - $(16 \times £57,113)$). The available share of savings on lean charges would reduce the arrears to £569,000 by 1960, and wipe them off by 1964. That would be reasonable.

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- (a) That we should not sanction anything less than the full "life" basis renewals contribution unless and until suitable provision is made for liquidating the Exchequer debt.
- (b) That if we are guaranteed a half of all lean charges savings we should agree to a renewals contribution

contribution of 2½% up to 1946 on the clear understanding that the contribution will be raised to 3.11% after 1946 and that the balance of the available half share of loan charges savings will be applied for as long as may be necessary to wipe off the arrears of renewals contributions at the end of 1946.

Uganda Railway Loans.

	Loan	Interest	Sinking Fund
	£	£	£
1. Busega Railway (1910/11)	170,000	5,980 (3½%)	1,700 (1%)
2. Port Bell - Kampala Railway (1912/13)	32,900	1,151 (3½%)	494 (1½%)
3. Improvements - Busega Railway and Marine (1912/13)	29,160	1,021 (3½%)	437 (1½%)
4. Loan of £329,000 (1914/15)	136,791	9,350 (Interest & Sinking Fund Annuities)	-
5. Temporary advances pending loan		5,000	
6. Kenya loan of £5 m. (1921)	2,837,641	170,258 (6%)	36,890 (1.3%)
7. Kenya Loan of £5 m. (1927)	4,431,236	221,562 (5%)	- *
8. Kenya Loan of £5 m. (1928)	2,076,609	93,447 (4½%)	- *
9. Temporary advances pending loan		32,875	
	£9,714,337	540,614	39,521
	plus temporary advances pending loan)		

Notes of a Conference at the Colonial Office on 6th January, 1931, to consider the provisions to be made for (1) Uganda Railway renewals (2) Kenya and Uganda Railways and Harbours reserve fund and (3) Kenya surplus balances.

Present:-

- | | |
|-----------------------------------|-------------------|
| Sir W.C. Bottomley (In the Chair) | } Colonial Office |
| Sir John Campbell | |
| Mr. Allen | |
| Brig. General Hammond | } Treasury |
| Mr. Waterfield | |
| Mr. Skewington | |

Uganda Railway renewals.

Mr. Waterfield said that the Treasury were impressed with the importance (which had been emphasized by General Hammond) of establishing the principle of providing for renewals on a proper "life" basis, i.e. for each wasting asset an annual provision equivalent to the original cost divided by the estimated physical life. On the basis of the existing wasting assets the sum of these annual provisions worked out at an all over percentage of 3.11. Provision on a more frugal basis would meet the actual cash requirements for renewals for some years, but the longer the period to be considered the more closely would the provision required on a "cash requirements" basis approximate to that on the "life" basis. Having regard to obsolescence and other factors which had been referred to by General Hammond, it would not be safe to provide less than on the "life" basis.

He recognised however, that where (as appeared to be contemplated for the Uganda Railway) the railway assets had been acquired out of loans carrying sinking funds, and it was not intended to re-borrow on the repayment of the loans, the railway would be saddled with interest and sinking

fund charges during the currency of the loans and with 39
nothing for these charges afterwards. For this reason he
would not ordinarily see any strong objection to a reduced
provision for renewals during the currency of the loans on
the clear understanding that the subsequent savings on loan
charges would be definitely earmarked for raising the future
annual renewals provision to the proper "life" basis and,
in addition, making good the total deficiency of the renewals
provisions in previous years taking the "life" basis as the
proper one from the start.

In the present case, however, there was the
difficulty that nothing had yet been settled about the
liquidation of the Exchequer debt of £5½ millions odd; and,
pending the settlement of that question, the Treasury did not
feel able to sanction any renewals arrangement which would
involve drawing in due course on the savings on loan charges.
He recognised that it had been agreed to defer consideration
of the Exchequer debt until 1934, and whilst the Treasury
did not wish to prejudice the decision in any way they could
not ignore the fact of the existence of the debt. The
Treasury would be prepared to sanction an annual renewals
provision of 2½ for the period 1931 to 1933 on the under-
standing that the "life" basis was accepted as the proper one
and that the short provisions during 1931 to 1933 would be
made good in later years on a plan to be approved by the
Treasury.

Sir Cecil Bottemley said he thought that a
reasonable arrangement on the understanding that its accept-
ance would not be taken as prejudicing in any way the decision
to be taken in 1934 regarding the Exchequer debt.

39

fund charges during the currency of the loans and with nothing for these charges afterwards. For this reason he would not ordinarily see any strong objection to a reduced provision for renewals during the currency of the loans on the clear understanding that the subsequent savings on loan charges would be definitely earmarked for raising the future annual renewals provision to the proper "life" basis and, in addition, making good the total deficiency of the renewals provisions in previous years taking the "life" basis as the proper one from the start.

In the present case, however, there was the difficulty that nothing had yet been settled about the liquidation of the Exchequer debt of £5½ millions odd; and, pending the settlement of that question, the Treasury did not feel able to sanction any renewals arrangement which would involve drawing in due course on the savings on loan charges. He recognised that it had been agreed to defer consideration of the Exchequer debt until 1934, and whilst the Treasury did not wish to prejudice the decision in any way they could not ignore the fact of the existence of the debt. The Treasury would be prepared to sanction an annual renewals provision of 2½% for the period 1931 to 1933 on the understanding that the "life" basis was accepted as the proper one and that the short provisions during 1931 to 1933 would be made good in later years on a plan to be approved by the Treasury.

Sir Cecil Bottemley said he thought that a reasonable arrangement on the understanding that its acceptance would not be taken as prejudicing in any way the decision to be taken in 1934 regarding the Exchequer debt.

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Sir Cecil Bottomley said that it seemed very doubtful whether it would be practicable to raise the reserve fund to £600,000 by the end of 1934, particularly ~~the~~ renewals provision was to be 2½%, instead of 2% as the High Commissioner had contemplated. The railways were at present having a very lean time. The Colonial Office were, however, anxious that the reserve fund should be raised to £600,000 as soon as possible, and whilst they would aim at reaching that figure by the end of 1934, they could not give an assurance ~~that~~ the object would be achieved.

Mr. Waterfield said the Treasury would be content with that on the understanding that in the event of an emergency there would be no raid on the Renewals Fund without the consent of the Treasury.

Kenya Surplus Balances.

Sir Cecil Bottomley said the Colonial Office fully appreciated the desirability of increasing the surplus balances and had already adopted the policy of accumulating not less than £1,000,000 on a definite plan. In view, however, of the present abnormal conditions he did not consider it practicable to insist on the £1,000,000 being reached definitely by the end of 1936.

Mr. Waterfield emphasized the importance of adequate accumulated balances, and he instanced in support the recent remarkable change for the worse in the finances of the Sudan owing to the slump in the price of cotton. The Treasury were interested in the maintenance of adequate balances in Kenya by reason of the question of the war expenditure debt, which was to come up for consideration in 1934. One million pounds was less than half a year's Kenya revenue, and he

thought an effort should be made to reach that figure by the end of 1936. In proposing that date the Treasury had assumed that 1931 would be a bad year, and that it would not be possible to add to the balances before 1932, but it now appeared that the Estimates for 1931 showed a surplus of revenue over expenditure. He suggested that a definite plan should be adopted for increasing the surplus balances (including the working balance) to £1,000,000 by the end of 1936 on the understanding that the Treasury would agree to the provision being postponed, if necessary, in any bad year, ^{or} i.e. with one postponement the amended plan would be to reach £1,000,000 by the end of 1937.

Sir Cecil Bettlesley, suggested that there might be a difficulty through the Colonial Office and the Treasury disagreeing as to what constituted a bad year. Mr. Waterfield thought there should be no difficulty. The Colonial Office and Treasury interests were not really in conflict, and he would undertake that the Treasury would deal with the matter, if it arose, in a reasonable spirit.

Sir Cecil Bettlesley said he would be content on that understanding.

It was arranged that when the record of the conclusions of the Conference had been agreed the Colonial Office would put forward the proposals officially if approved, where necessary, by higher Colonial Office authority.

O.

16250/30/Kenya.

42
9

Mr. Allen 29/11

Mr. Parkinson 29.11.30

Mr. Campbell 1.12.30

~~Mr. Parkinson~~

X Sir C. Bottomley 1.12.30

Sir J. Shuckburgh.

Sir G. Grindle.

Perm. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DOWNING STREET

4 November 1930.

Sir,

I am directed by Lord

Passfield to refer to your letter

S.32902/03/2, of the 27th August

relating to the provision for

renewals in the accounts of the

Kenya and Uganda Railways and

Harbours, and to transmit to you,

for the information of the Lords

Commissioners of the Treasury, the

papers noted in the margin, which

formed the enclosures to the

despatch from the High Commissioner

for Transport, No. 86 of the 22nd

May, a copy of which accompanied

the letter from this Department of

the 26th July.

2. General Hammond has been

2 DRAFT. S. With draft on 16100/30.

(No.4.)

THE SECRETARY

TREASURY.

Report of Departmental Committee
Instructions as to expenditure on new works.

Memorandum by Gen. Manager, 29th Mar '30
(Spare copies of the above are available.) (4 No.)

Memorandum by Statistician, 22nd April 1930.
(2 No. 1 - to be copied)

To Gen. Hammond, 13th Oct. 1930
No. 6. (Share Account)
From ditto, 10th Nov. 1930.
No. 7 (No. 1)

3 copies of correspondence with General Hammond to be made and on one copy of Gen. Hammond's letter of 13th Oct. 1930 (No. 3) Campbell's marginal notes should be inserted (in coloured ink if possible.)

Copy also to Sir G. Grindle 15 - 5 FEB 1931

consulted

Mr. Allen 29/11

Mr. Parkinson 29.11.30

Mr. Campbell 1.12.30

Mr. Hamilton

X Sir C. Bottomley 1.12.30

Sir J. Shuckburgh.

Sir G. Grindle.

Perm. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DOWNING STREET,

4 Dec
November 1930.

Sir,

I am directed by Lord

2 DRAFT. 3. With draft on 16100/30.

(No.4.)

THE SECRETARY
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Report of Departmental Committee

Instructions as to expenditure on new works.

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From ditto, 10th Nov. 1930.

No. 7 (No. 1)

3 copies of correspondence with General Hammond to be made and on one copy of General Hammond's letter to Sir J. Campbell's original notes should be inserted (in coloured ink if possible.)

Copy to Mr. S. G. Evans 15 - 5 FEB 1931

Consult with Allen
mail. see

consulted, and I am to enclose a
copy of the correspondence with him,
which also deals with the question
of the Railway Reserve Fund to which
their Lordships have referred in paragraphs
8 and 9 of their letter S/32902/03/3 ✓
of the 3rd November relating to the loan
requirements of the Government of Kenya
and the Kenya and Uganda Railways and
Harbours. In reply to their letter
of to-day's date Lord Passfield has sug-
gested that the question of the provision
to be made for both Renewals and Reserve
Funds should be discussed between repre-
sentatives of the Treasury and this Depart-
ment, and that General Hammond should be
invited to be present.

I am,

etc.

(Signed) A. G. C. PARKINSON.

(No. 31 on
16100/30)

consulted, and I am to enclose a copy of the correspondence with him, which also deals with the question of the Railway Reserve Fund to which their Lordships have referred in paragraphs 8 and 9 of their letter S/32902/03/3 ✓ of the 3rd November ✓ relating to the loan requirements of the Government of Kenya and the Kenya and Uganda Railways and Harbours. In reply to their letter of to-day's date Lord Passfield has suggested that the question of the provision to be made for both Renewals and Reserve Funds should be discussed between representatives of the Treasury and this Department, and that General Hammond should be invited to be present.

I am,

etc.

(Signed) A. G. G. PARKINSON.

(No. 31 on 16100/30)

16 Nov 30
Keny G. 43

Mr. Allen 29/11
Mr. Parkinson 29.11.30
Mr. Campbell 1/12/30
Mr. Passfield
For Mr. Parkinson's signature.

* Sir C. Bottomley 1.12.30

Sir J. Shuckburgh.

Sir G. Grindle.

Perm. U.S. of S.

Privy. U.S. of S.

Secretary of State.

Downing Street,
November 1930.

R 1-DEC 1930

Dear Waterfield

2 DRAFT. S. with one on 16100/30

A. P. WATERFIELD, ESQ.,
C.B.

(a) Sir J. Campbell suggests that we should send the

Mr. Gen. Hammond, 10th Nov. 1930
Marginal notes - No. 7

(b) Minute by Sir Campbell 20.11.30

(c) Sir C. Bottomley suggests that it may be useful to send Sir Campbell's if he has no objection

(d) D. and Room 3 to consult with Mr. Allen if it is not too late

Our official letter of to-day's date, (16100/30) has suggested that the two Departments should confer on the outstanding questions relating to the loan requirements of the Government of Kenya and the Kenya and Uganda Railways and Harbours, and that General Hammond should be invited to be present at the discussion, in so far as it concerns the provision to be made in respect of the Railway Renewals and Reserve Funds. In a separate letter, also of to-day's date (16250/30) we have sent you further papers regarding those funds. I thought that it would be helpful if you also had a copy of General Hammond's letter

letter with marginal notes made by
Sir John Campbell, together with a
copy of a minute written by Sir
John Campbell on receipt of that
letter. These I enclose.

We realise that
you ^{may} ~~will~~ want some time
to assimilate the papers
we have sent you but
we should be grateful if
you could agree to a
discussion at an early
date as the new
proposed arrangements as
to the fate of these
proposals must be
referred to the
local administrations.

Yours sincerely

(Signed) A. C. G. PARKINSON.

letter with marginal notes made by
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Signed A. C. G. PARKINSON

Ta

MEMORANDUM.

The following is a brief summary of General Hammond's views.

(1) He does not agree that the question of Sinking Fund charges should be regarded as outside the present discussion, leaving the matter as one of Renewals - pure and simple - paras. 2 and 3.

See also para 175 & 181 recent 7/11/22

(2) He considers that the provision for Renewals should be calculated on a proper life basis, but that a deduction should be made equivalent to the Sinking Fund provision representing Loan expenditure on wasting assets only - para 6.

[I suppose General Hammond would in any case be content with 3% on a proper life basis would apparently be 3.1% see para 18 of the Report of the local Departmental Committee]

(3) He considers that there should be both an adequate Renewals provision and a reserve fund, but if circumstances were to be set out it should be the reserve fund - para 16 of the attached statistical note illustrates the position.

(4) He does not regard the limit of £600,000 for the reserve fund as large, since it only covers approximately one year's loan charges - £500,000 without taking any account of future commitments - paras. 18 and 20. The basis of the £600,000 was not ^a loan charges ^{at} on possible loss of revenue in 2 consecutive bad years at the rate of £300,000 a year, though it was recognised that there was no real adequate ^a data for such a calculation.

(5) General Hammond ^{cannot} contend ^{as} ~~is~~ ^{around} the suggestion

-2-

of the General Manager that when the balance of the Renewals Fund becomes adequate the policy of purchasing rolling stock out of accrued depreciation should be permitted. ~~He objects~~ to this not merely because it depletes the Renewals Fund in order to buy new assets, (though this objection would I am sure be endorsed by the Director of Colonial Audit ^{from an accounting point of view}), but also on the ground that it would enable the General Manager to incur capital liability without reference to higher authority. (I doubt if there is anything in this latter objection, in view of Section 17 and 18 of the Order-in-Council, which require all expenditure from Renewals Fund to be included in the Estimates which have to go before the Advisory Council, the High Commissioner, the Legislative Council and the Secretary of State; and that no money shall be withdrawn from the Railway and Harbour Fund (which includes depreciation moneys) except to satisfy a judgment of a court of law, or except as approved on Estimates sanctioned by the Secretary of State.

To sum up, we have now got the following position :-

(a) Local proposal.

Depreciation 2% for the next 10 years, and Reserve Fund, £400,000, to be built up by contributions of from £50,000 to £100,000 annually.

(b) Colonial Office proposal.

Depreciation 2% for the next 10 years, plus Reserve Fund of £600,000.

(c) General Hammond's proposal.

Depreciation ^{on} ~~of~~ proper life basis, presumably 3%, subject to deduction equivalent to Sinking Fund charges on Loan expenditure representing wasting assets. Reserve Fund also

to

to be acquired, but not at the expense of the Renewals Fund.

(d) Treasury view.

The Treasury have not yet had an opportunity of considering the local depreciation proposals, but they previously considered that the rate should not be less than 3%, and in the recent letter relating to Loan proposals they asked for an assurance that the Reserve Fund shall be raised to £600,000 by the end of 1934, in addition to charging Renewals Fund contributions on an adequate basis, as approved by them.

No.31 on
16100/30

Personally, (but on such a technical matter one can only speak with diffidence), I have always thought that reduction in respect of Redemption Charges would afford us an opportunity of getting away with something less than the 3%. The Treasury have told us that they expected us to consult General Hammond before communicating with them again on the depreciation question, and having regard to his views, I do not see how they can insist on the full 3% without taking into account Redemption Charges, although the other members of the Guaranteed Loan Committee suggested that full provision should be made for both, if the situation admits. It is abundantly clear that the Railway cannot in ^{the} present situation provide ~~the~~ full 3% plus £100,000 annually ~~for~~ the next 4 years to Reserve, and in fact it is very doubtful whether they can ^{at present} find more than about £50,000 for Reserve, even if the depreciation provision is cut down by an amount equivalent to the Redemption Charges on waste assets bought from Loan.

J. Walker

17/11/30

STATISTICAL NOTE.

The following figures (which are rounded off), are based on the capital value of £11,400,000, arrived at by the Local Departmental Committee. (The provision made ⁱⁿ for the 1931 Estimates (£240,530) is based on a somewhat higher capital value, and is calculated at 2% only).

As this question of depreciation is also mixed up with that of the Reserve, I attach a copy of a Note dealing with the Reserve which I previously prepared in connection with the general Loan proposals

Taking

Taking the comparison of depreciation at 2% and 2% and the full provision of £100,000 for Reserve, we get the following annual charges on the above capital basis :-

Depreciation 3%	£342,000 ^(a)
Reserve	<u>100,000</u>
Annual charge	<u>£442,000</u>
Depreciation 2%	£228,000 ^(b)
Reserve	<u>100,000</u>
Annual charge	<u>£328,000</u>

The actual provision in ^{the} 1931 Estimates on the ^{Capital} above basis is :-

Depreciation 2%	£228,000
Reserve	<u>60,000</u>
Total ..	<u>£288,000</u>

There is therefore a short fall as compared with (a) £152,000, (b) £40,000.

The Redemption charges for which provision is made in the 1931 Estimates in respect of the main loans only, amount to £94,000 deducting this in full in the provision for depreciation at 3% we get:-

Depreciation	£248,000
Reserve	<u>100,000</u>
Total ...	<u>£348,000</u>

i.e., a short fall in 1931 of £60,000, or in other words,

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Total ...	<u>£348,000</u>

i.e., a short fall in 1931 of £60,000, or in other words,

if the Estimates provide for depreciation at £248,000, there would only be £40,000 left for Reserve.

He does not take this line as regards P.T. - see para 125 of his report J.M.P.

General Hammond would at one time have agreed to the deduction of full Redemption Charges, but now he considers that the deduction should be limited to the Redemption Charges in respect of expenditure from Loan ^{on} ~~from~~ wasting assets only. It is, however, not possible to give that figure, Foreseeing the need for such a figure the Secretary of State's despatch of the 8th January 1930, said that it was assumed that as the result of the investigation of the wasting assets it would be possible to form an estimate of the ^{value} ~~result~~ of such assets which represents expenditure from the proceeds of the 1926, 1927 and 1928 Loans. Unfortunately the local authorities took the view that having regard to the exhaustive enquiries carried out it was unnecessary to make calculations in regard to the wasting assets from the expenditure of ^{these} ~~certain~~ specific loans.

4 on 15929/30

If it is argued that Redemption Charges should be taken into account this would presumably apply to the Harbours as well as to the Railways, and the point is relevant since the Railway bears the existing loss on the Harbours. The position as regards Harbour depreciation is that the Departmental Committee recommended ^a ~~that the~~ figure of £16,372 on a capital value of £587,021, or approximately 2% ^a Redemption Charges on the Harbour portion of the three ~~these~~ loans, amount to £28,446.

As regards the Estimates for 1931 which we have just had in draft, the contributions to renewals are put at :-

-4-

	(a)
Railways	£240,530
Motor Services	£6,782
Marine	-
	(b)
Harbours	24,425
Total	<u>£271,737</u>

(a) This being 2% represents a capital value of roughly £12,000,000.

(b) The substantial increase in depreciation amounting to approximately 50% more than the above mentioned figure of £16,372 is due to provision having been made for the new berths.

In addition to the provision for depreciation, the Estimates provide in the net revenue account for the transfer to the interest reserve fund of £60,132. The balance from the Railway is carried to the combined net revenue account £50,529, which is exactly the amount of the loss carried from the Harbours into the Revenue account, with the result that the combined net revenue account exactly balances, and there is nothing left to carry to Railway betterment.

(This is an extract from a note dated 51
December 31¹⁹³⁰ on the loan position with 16/00/30)

B. KENYA AND UGANDA RAILWAY RESERVE.

The present position of the Reserve is as follows:-

Balance 31st December, 1929	£100,000
Provided in 1930 Estimates	50,000 (a)
Total	<u>£150,000</u>

(a) In view of the financial position, it is possible that it may not be practicable to allocate this sum to the Reserve as proposed in the Estimates.

1. Local Proposal.

It is proposed to build up the Reserve to a figure of £400,000 by annual contributions not exceeding £100,000 and not less than £50,000. It is also proposed if the reduction in the depreciation rate to 2% is agreed, to transfer to the Reserve from the Renewals provision for 1930 the equivalent of £256,594, this with the £150,000 mentioned above would bring the total Reserve as at the 31st December, 1930, up to £206,594, leaving a further sum of £193,406 required to reach the contemplated total of £400,000. This means that that figure would be reached in two to four years, i.e., not earlier than the 31st December, 1932, and not later than the 31st December, 1934.

2. Colonial Office Proposal.

It is proposed that the Reserve should be built up to £600,000 instead of £400,000, i.e. an increase of £200,000, the accumulation of which on the above basis would take an additional two to four years, i.e. the £600,000 would be reached either by 31st December, 1934, or by 31st December, 1936.

(No. 1 on 16250/30).

(No. 6 on 16250/30).

3. Treasury Proposal.

The Treasury propose that the total of £600,000 should be accumulated by the 31st December, 1934. Assuming on the above basis that the amount in reserve at the end of 1930 is £206,594 it would mean that they would have to accumulate an additional £393,406 in four years and place aside for this purpose the full £100,000 a year. But the Treasury also say that this is "after charging Renewals Fund contributions on an adequate basis as approved by them". At the moment the question of the depreciation rate is under reference to General Hammond. He, like the Treasury, wanted 3%. The present provision is 2½% and the local Administration consider that 2% will be adequate for the next ten years, when the matter could be reviewed. The local view is shared by Sir John Campbell. Taking round figures on a capital value of £11,400,000 the 3% contribution is £342,000, the 2½% is £285,000, and the 2% is £228,000. If the Renewals contribution is reduced to 2%, i.e. £228,000, the Transport Administration will no doubt see its way, if and when trade conditions improve, to set aside £100,000 for the Reserve, making a total of £328,000 for the two purposes. In fact, they already have sufficient provision in the 1930 Estimates, i.e. Renewals £285,000 and Reserve £50,000, making £335,000. If, however, the maintenance of the depreciation rate at 2½% is insisted on, they would have to find a further £50,000 in order to make £285,000 for Renewals and £100,000 for Reserve. i.e. £385,000

in

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in

in all. Further, if the depreciation rate was to be restored to the old figure of 3% the additional ~~to be found~~ to be found would be £107,000, making £442,000 in all, i.e. £342,000 for Renewals and £100,000 for Reserve. That seems beyond reason, and would certainly involve the General Manager in great political difficulty.

It therefore appears impossible to give an undertaking as to the £100,000 Reserve and leave the Treasury, so to speak, a blank cheque with regards the depreciation rate: and I think the first step must be to get General Hammond's views as soon as possible, and then deal with this matter as a whole.

54 Y

4 Deans Yard,
Westminster,
S.W.1.

November 10th. 1930.

RECEIVED
13 NOV 1930
COL. OFFICE

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

Sir,

I have the honour to acknowledge the receipt of your letter 16250/30 of the 13th. October in which you ask me to give an opinion on the proposals recommended by the High Commissioner for Transport, Kenya and Uganda, regarding the provision for renewals on the Kenya and Uganda Railways and Harbours and the Interest Reserve Fund.

The first comment which I wish to make relates to the statement in the letter under reply that, as at present advised, the Secretary of State is of opinion that it will be preferable to regard the question of sinking fund charges as outside the present discussion, leaving the matter as one of renewals, pure and simple, uncomplicated by any reference to sinking fund charges, on the grounds that such charges are settled by legislation or contractual arrangements, that the loans must be repaid by a fixed date, and that the funds required to redeem them must be available at the due date.

With this method of approaching the question I regret that I cannot agree. I cannot see that the fact that the provision for sinking fund must receive priority in any way /affects

*Copy (with marginal dimensions) of the original document, 2 1/2" x 3 1/2" (approx) 20/10/30
83 Deans Yard (200) 4 Dec. 30
Copy to the Secretary of State (Official Copy) 5 DEC 1931*

affects the question as to whether the provision thus made should or should not be taken into account in deciding the provision to be made subsequently for renewals. On the contrary I consider that the rate and incidence of the sinking fund have an important bearing on the question of renewals, and cannot be ignored. I would illustrate this by quoting the example of the Trans-Zambesia Railway Company's debentures. This issue of £1,200,000 is redeemable at the rate of £30,000 a year. It would obviously be quite incorrect to ignore the high rate at which this concern has contracted under the trust deed to redeem these debentures when considering the provision which it should make for renewals.

And, in fact, both the letter under reply and the General Manager's memorandum take the effect of the sinking fund into account, because they only justify their recommendation of a 2% rate for renewals, which would result in a deficit in the renewals fund by 1955, by pointing to the relief from loan charges which the Railway would receive by then through the operation of the sinking fund. I do not, therefore, think that it is possible to dissociate the sinking fund in the manner suggested.

The General Manager's proposal is that the annual provision for renewals should be reduced during the next 10 years to a figure equivalent to 2% of the original capital cost of the wasting assets. This recommendation is supported by the letter under reply. The reasons upon which it is based are that such a percentage would provide a sufficient balance to meet the expenditure which, so far

as can be foreseen, would have to be incurred during the next 10 years on renewals, and that this balance would gradually increase during that period. After 1945 the balance starts to decrease until in 1955 there would be a deficit which goes on increasing at a rapid rate. This would be more than offset, however, by the reduction which would then be effected in loan charges by the action of the sinking fund, the net revenue previously applied to the loan charges being transferred to finance the renewals fund.

but that it will not pay the money "physically" required
E

b As opposed to this, the view which I expressed in the East African Guaranteed Loan Committee was that, provided the annual provision for renewals was calculated on a proper "life" basis, it was legitimate to deduct therefrom the annual provision for sinking fund and place only the balance thus obtained to the credit of renewals fund. I do not think that it was specifically stated whether the sinking fund deduction should be that proportion of the provision which related to the capital spent on wasting assets only, or the whole of the sinking fund provision for the year. In the absence of definite figures I think I would have been prepared to accept the latter, although theoretically incorrect, but now that I have been able to study the figures in the Departmental Committee's Report I am of the opinion that this will be inadequate and that the former and larger contribution should be made to the renewals fund. It should be noted that the East African Guaranteed Loan Committee, while they agreed with my recommendation, stated on Sir George Schuster's suggestion that they considered that provision should be made for sinking fund

/in

in addition to the full renewals provision, if the situation admitted.

7 If the tables on Pages 37-46 of the Report of the Departmental Committee are examined it will be seen that the reason why the 2% contribution would suffice to maintain a substantial balance in the fund during the first 15 years is because so little work would be required during that time in the way of renewals. During the first 10 years, despite arrears which have to be made good, the sums to be spent would be insignificant, and during the next five years would remain small. It is only after that time that the bulk of the expenditure would have to be incurred, and sums would have to be spent annually which average over £400,000 and on occasions reach £800,000. This would cause such a rapid depletion of the fund that the balance would have disappeared in 10 years and in 15 years there would be a deficit of over £1,600,000. It is claimed as a set-off that by then this deficiency could be made good by the reduction in loan charges.

Handwritten note: This is done

Handwritten note: It is only a... more... after... the charges... for...
done

Handwritten note: I do not agree. It merely spreads the burden... future generations... from paying... all... sinking fund... at the same time

8 This is surely shifting on to the future the burden of making due provision for a liability which has been incurred in the present on the plea that there will be no need to spend the money for some time. It is precisely in order to avoid this and to equalise the burden that renewals funds are intended.

9 It will no doubt be argued that by providing a sinking fund the present users are bearing their fair share of the burden of providing for the future, but that depends on the rate of provision. The loans in question are redeemed in 37 years which is longer than the lives of all but a few

of the wasting assets. It must be assumed, too; that the future users will also, when their turn comes, have to provide sinking funds for the loans they raise, and furthermore the present users get a definite advantage from the sinking fund because they get their money cheaper on that account.

(6) The probable financial results are, however, of greater importance than these considerations as to the theoretical equity of the respective proposals. The tables in the Report show the expenditure which is likely to be incurred in replacing worn-out assets over a period of years so far as can be foreseen at present, but renewals funds should provide for the replacement of assets which have become obsolete as well as for those that are worn out, and it is prudent to provide a margin to allow for the unforeseen.

|| If we examine the lives proposed by the Departmental Committee we find that 30 years is given as the life of carriages and wagons. I agree that they will probably not wear out before then, but it is nearly certain that they will become obsolete long before. Carriages 30 years old will not provide a great attraction to the travelling public. In the case of locomotives, allowance is made for one new boiler, so that the actual period allowed for wearing out is 25 years. With the normal progress of improvement a locomotive will probably become inefficient and wasteful in a shorter time than this. The same remarks apply to the workshop tools, and the plant and machinery. The additional cost of a new asset representing its increased earning power is a fair charge to capital, but, if there is an insufficient balance in the renewals fund, the railway cannot afford to pay for the replacement of the old asset

/till

But the assets will be replaced. H

agree H

do agree H

till long after it has been out of date. The General Manager refers to the tendency for renewals not to be carried out as due, and hopes thereby to increase the balance in his renewals fund. I, on the contrary, regard it as a most unfortunate tendency because it is calculated to hamper efficient and economical operation.

17 Besides this there is what may be called "abnormal obsolescence" caused by new inventions. For instance it is quite possible that in 15 years Diesel or Diesel - Electric locomotives will be the most economical motive power to use on a railway. A line which has a good balance in its renewals fund will be able to take advantage of this much sooner than one that has not, and with the modern progress in invention "abnormal obsolescence" is likely to be more important in the future than it has been in the past.

18 The General Manager's only reference to obsolescence is to the possibilities of the whole railway becoming obsolete as a result of road and air development, and he assumes that for the purpose of the present argument railway assets as a whole will not become obsolete if properly maintained and renewed. He makes no reference to the need for money to renew obsolete assets if the railway is to be maintained as a sound working concern.

19 The General Manager assumes also that replacement costs will not be higher than the original costs of the assets, and justifies this because many of the assets were bought at peak prices just after the War. On the other hand many of the assets, including more than half of the rails for which a life of 50 years has been taken, were bought at pre-war figures, and the Departmental Committee state in their Report that "it is very questionable whether some of

the post-war rails will have a longer life than 33 years*. There is further a certain amount of labour involved, for example in relaying, and the cost of this may rise considerably. The contingency, therefore, of a rise in replacement costs is not a factor which can be entirely disregarded, nor can the contingency of the lives of assets having been underestimated. For all these factors, therefore, of obsolescence, possible underestimation of lives, possible rise in costs, or other unforeseen contingencies, it is wise to make provision because all expenditure incurred thereon is a fair charge against revenue. The General Manager's proposal leaves them entirely out of account.

(5) The General Manager assumes that owing to the reduction in the loan charges for 1946 there will be then a substantial balance on net revenue account which will be available for transfer to the renewals fund, and further assumes that it will be so transferred. The relief thus afforded will be £160,000 a year for 5 years, rising to 216,392 in 1952. He assumes, in fact, that his successor will adopt a stricter financial attitude than he has done himself, and in this he is probably correct because his successor will be faced with the stern necessity of replacing the worn out assets and, of finding the bulk of the actual cash required for that purpose. Will he be allowed to transfer the funds? They, as now, there will be an insistent demand for reduction in rates, and renewals, always unpopular, will probably once again be made to take second place. There may be other demands also to satisfy when the surplus of net revenue account is disclosed, such as the repayment to the British Treasury of funds provided under the Uganda Railways Act.

(6) Another strong objection that I see to an arbitrary percentage basis is that it can be varied at will to suit the views of the management or administration, or the

Agree

18

*See - de # 568 197
- 19 20*

His whole thing depends on that transfer of revenue and that is always S/S

*Why? see memo
submitted for the
committee on 19/11*

financial exigencies of the moment. Although I do not wish in any way to imply that the present General Manager would so use it, the system is one which lends itself to opportunism in financial matters. Other serious results are likely to follow as a consequence of this whittling down of the renewals provision, and more especially from the arguments which have been used to justify it. So long as provision is related to the lives of the assets it has a clear-cut connection with the object for which the fund is formed. It can be strongly defended on many grounds, not the least of which is that it is approved by the best authorities, including the Inter-State Commerce Commission of America, which was established by the Government to protect the users of the railways and enjoys a high reputation. Once this basis is abandoned and the percentage is based instead merely on the expenditure which it is thought will probably be required over a short period of years (for 15 years is a short time in the life of a railway), many openings for attack are offered. Most of the arguments adduced to support the 2% rate could be used equally in favour of reducing it to $1\frac{1}{2}$ or $1\frac{1}{4}$ % and undoubtedly the present case will be only the prelude to further attempts on the part of interested parties to obtain a further reduction in the rate.

17 I agree that with the provision proposed by me the fund will show a substantial surplus over the probable requirements at any given moment, but this appears to me an advantage and not a drawback. The General Manager himself recommends that as there will only be a small margin in hand during the next few years, the interest reserve fund should be built up to £400,000 by annual contributions of not less than £50,000, but preferably of £100,000. The forwarding letter proposes to raise this limit to £600,000. The necessity for funds

But had I
firmly what
General M's
disposal - as
page 3. para. 6 -
does not mean
H

How they
sending funds?
almost certainly
not?
H

and the scheme
starts as for
as 1940-9
beyond
H

no H

no - for a different purpose

in reserve is thus recognised by both, and from the wording it is clear that this allocation is intended to compensate for the cutting down of the renewals fund provision.

18 £100,000 a year would more than cover the difference between the General Manager's proposal and mine, but with this vital difference that in mine it would be treated as a charge in working expenditure receiving priority over everything except the service of the loans, whereas in his the reserve fund would be fed by fluctuating amounts and would depend on the result of the year's working. I, myself, consider that there should be both an adequate renewals provision and a reserve fund, but, if circumstances compel one to be cut down, let it be the reserve fund and not the renewals provision. Nor can the limit of £600,000 to the reserve fund be considered a large margin as it will not be sufficient to cover one year's loan charges in 1931, without taking any account of future commitments.

It is not framed well reference to loan charges

19 The General Manager says that on a Government Railway "it is not necessary to build up reserve funds beyond the minimum necessary to ensure a sound financial position" whereas on a private railway "the soundness of its financial position as reflected in the extent of its reserve funds and the dividends paid to shareholders is directly remunerative when such a Company has to raise further capital". It is not from choice that private railways build up substantial renewals and reserve funds. They would much prefer to distribute these allocations in dividends, but both they and the investing public have learnt from bitter experience that they are necessary as a safeguard against bad times. Consequently it is now universally recognised that the first test to be applied to the finance of a commercial undertaking is the provision it

makes for depreciation or renewals. The financial straits in which the British Railways find themselves today ^{are} due in part to the fact that before the War they had no renewals funds and merely replaced out of revenue each year such assets as they thought advisable.

*hardly the
as the sinking
fund differences
- as funded by
for no sinking
fund*

20 The only differences between a private and a Government Railway in this respect are that behind the latter stands the Government guaranteeing the service of its obligations, and ~~the~~ private railways in many cases do not have sinking funds. These two factors certainly justify the Government in not building up such large reserves, whether in the renewals or other funds, but the present proposal to my mind takes excessive advantage of them. It cuts down the renewals provision and also prescribes less than one year's service of the loan charges as a maximum for the reserve fund. Further, there would only be £200,000 in the reserve fund by the end of 1930 and the maximum of £600,000 will only be attained at the earliest by the end of 1933, so that the present hardly appears the most suitable time to cut down the provision for renewals. Hard times come to Government railways just as much as to private ones, and it should be their aim so to order their finances ~~as~~ as to eliminate as far as possible the contingency of having to call on the Government to implement its guarantee, more especially as this is likely to occur when the Government itself is experiencing financial difficulties. To ensure against this adequate reserve funds are necessary; otherwise the railways will be a source of weakness and not of strength to the Government.

21 In private railways the General Manager has the backing

of the Board and the shareholders when he has to fight against the demand for uneconomic rates. On a State railway the General Manager has to bear the brunt of the fight, sometimes without the support even of his own Government. It is all the more necessary, therefore, that in order to help him his reserves, whether for renewals or other purposes, should be well protected and that their provision should be as little dependent as possible on the results of working. The General Manager in this case, as I see it, is engaged in weakening his last and strongest line of defence.

To sum up, the present proposal only provides a substantial balance in the fund for the first 15 years because the expenditure on replacements during that time will be small. Once the serious work of replacement begins, the balance dwindles rapidly until in another 15 years the fund has a deficit of over £1,600,000. The proposal assumes that the balance on net revenue account, due to relief from loan charges, will be large enough to compensate for this, will not be required for other purposes, and will be so transferred. It makes no allowance for obsolescence, underestimation of lives of assets, possible rise in cost of replacement or any unforeseen contingency and would thus condemn the railway to being able to replace assets only when they were worn out and not when they became obsolete. It lends itself to financial opportunism as the provision is based on an arbitrary percentage which can be varied at will. As a makeweight it is proposed to place £50,000 to £100,000 annually to the Interest Reserve fund. This sum, if applied continuously to the renewals fund would make it self-supporting, but the former allocation would depend on the result of the year's working while the

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latter would be a working charge. Furthermore, this reserve fund is limited to a maximum of £600,000 which would be less than one year's service of the loan charges. Only £200,000 has as yet been applied to this reserve; nevertheless it is proposed to cut down the renewals provision before the maximum placed upon reserve had been reached. Despite the recognition that reserves are necessary, the provision of funds for them will be made more precarious and the method of provision will simplify the task of those who undoubtedly will try to cut down still further the annual allocations for these purposes.

13 The hall mark of prudent finance is to make ample provision for the future. It is the expressed intention of this proposal to provide only the minimum, to place as large a share as possible of the burden of providing for the future on to the future itself.

14 In conclusion I must refer to one other financial point which has not been mentioned in the forwarding letter. The General Manager recommends that when the balance in the renewals fund becomes adequate the policy of purchasing rolling stock out of accrued depreciation should be permitted.

15 This means that if 10 locomotives were bought in 1930 it would be permissible, say in five years' time, to buy new locomotives up to the amount contributed during that time to the renewals fund on account of those 10 locomotives.

16 Both the Chief Accountant and the Acting Chief Accountant state that they consider this procedure unsound.

17 I consider it not merely unsound in that it depletes the Renewals Fund in order to buy new assets but directly opposed to one of the fundamental rules governing the conduct of ordinary financial business in that it enables the

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General Manager to incur capital liability without reference to higher authority. I do not think the General Manager can have fully realised this result of his recommendation. *7* This can be best illustrated by the example given above. When the 10 new locomotives are bought out of accrued depreciation, they must obviously be required to cope with new traffic. In the normal procedure the Management would go to its proprietors, the Government, and ask for more capital to deal with the increase in business. Instead the new locomotives are bought out of the Renewals Fund. At the end of 20 years the original 10 locomotives will be worn out and will have to be replaced, but, owing to the intermediate purchase of locomotives, there will not be a sufficient balance in the fund to replace more than 6 or 7. The remaining 4 or 3 will have to be bought out of capital. The Management will have thus increased the capital liability of the proprietors without their permission. It is no defence that the necessity for raising the capital has been deferred for 10 years; that is a matter for the judgement of the proprietors, not of the Management. The offence which the Management will have committed will have been to force on the proprietors a liability to raise more capital without their previous knowledge or consent.

I have the honour to be,

Sir,

Your obedient servant,

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leading up to the present despatch from the High Commissioner.

3. In paragraph 9 of his ~~present~~ despatch, the High Commissioner recommends:

(a) that as regards the Railway, a ^{percent} 2% contribution to the Renewals Fund on account of the depreciation of wasting assets, should be definitely accepted for ten years, and that the position should then be re-examined and if necessary an alteration made;

(b) that the Interest Reserve Fund, (which is to be renamed "Reserve Fund" or "Reserve Account") should be built up by new contributions to a total of £400,000, which contributions should, if possible, be at the rate of £100,000 ^{sub} ~~to~~ ^{a year} ~~anyhow~~ not less than £50,000; and

(c) that as regards 1930, the excess ^{percent} ~~is~~ for depreciation already provided in the Estimates, namely £56,594 [✓] should be transferred to the credit of the Reserve Fund.

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(c) that as regards 1930, the excess ^{per cent} for depreciation already provided in the Estimates, namely £56,594, should be transferred to the credit of the Reserve Fund.

4. Reference has been made *in the accompanying note* above to the question of the relation between sinking fund provision and provision for renewals; but, as at present advised, the Secretary of State is of opinion that it will be preferable to regard the question of debt service as outside the present discussion. Sinking fund charges are settled either by legislation or by contractual ^a arrangements, and they have clearly to be provided for. Loans have to be repaid by fixed dates, and the funds required to repay them ~~must~~ be available unless the Government is prepared to take the ~~responsibility~~ *underwriting* risk of being able at those dates to raise fresh loans covering the repayment.

5. The matter thus becomes one of renewals, pure and simple, uncomplicated by any reference to sinking fund charges:

and

and the obvious basic consideration is that the line must - for a variety of reasons, physical and financial - be kept in a state of efficiency. The renewals which physical circumstances demand must be made, as they fall due; and money must be provided to meet these demands, as they occur. The discussion is narrowed down to the question of how this should be arranged.

6. If the "life" and "annual instalment" plan is accepted, the result would be that there would always be available, in the renewals fund, the sums required for the renewal of each particular work, as that fell due: further, theoretically at any rate, the value of "the railway" at any given moment, plus the balance to the credit of the renewals fund, would equal the original cost of the wasting assets covered by the fund - with, of course, variations due to changing costs, the ^{effect} ~~due~~ of errors in estimating the "life", and so on.

That is clearly a sound and satisfactory

position

position to attain and keep: it is eminently orthodox and safe.

7. The local criticism is that such a policy imposes, on the present generation, a greater burden than it should be called on to bear. As the "life" of the various classes of assets varies, the inevitable result is that the renewals fund, at any given moment, contains not only the sums immediately required for renewals, but also a proportion of the sums so required in future years. There will always be, in the fund, more than the amount required for expenditure at any given point of time. ~~That is true - it~~ ^{this} follows necessarily from the principle on which the fund is built up. The local administration therefore asks that arrangements should be made so that, while

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while the fund will always be adequate to meet the calls upon it, the annual contribution from revenue should be kept as low as possible. A rate of ^{percent} 2% is suggested; and the plan proposed is that, as calculations on the ^{percent} 2% basis indicate that all renewals on the "life" basis can be met, and the balance at the credit of the fund will still steadily grow till 1945, ^{percent} 2% should be definitely prescribed as the contribution for the next ten years - to 1940 - and that the position should then be re-examined. This suggestion is supported by pointing out that, from 1947 onwards, relief will be obtained from ~~the~~ debt charges; and it is shown that, on the assumption that this relief is applied to renewals, the balance of the renewals fund, on the ^{percent} 2% basis throughout the period, would be £1,437,998 in 1960, and would, during the whole period, have been substantial. The actual figures will be found on page 10 of the General Manager's memorandum of the 29th March, 1930.

8.

8. There would appear to be substantial grounds to justify the adoption of this suggestion - coupled, as it is, with the proposal to build up, in the manner explained, a reserve fund. For this, a maximum of £400,000 is suggested; but General Rhodes made it clear, when the matter was discussed with him, that he would have no objection to a higher figure. For various reasons, examination of the recent financial history of the railway does not afford much guidance in suggesting a limit for the reserve; but, on the data available, it would appear that a ^{sum} of £600,000 ought to ^{be added as a reserve} ~~be added as a reserve~~ through ^{years} ~~two successive and exceptionally bad years,~~ ^{and that this figure} might therefore reasonably be adopted.

9. As regards the suggested rate of ^{percent} 2%, the essential point is that the detailed calculations - which are made on the "life" basis, starting with the actual position at the moment, and assuming that thereafter

renewals are spread over an eight year period - show that this contribution would suffice to meet all charges during the ten year period, and would lead to a steadily growing balance in the renewals fund.

Further, the future would not be in any way imperilled. The balance would grow - with occasional very slight fluctuations in the downwards direction - from £942,026 in 1940 to £1,064,418 in 1945. A decline would then set in; but by 1947 the funds released by the repayment of the various loans would be available; and they are ~~ample~~ sufficient to cover all reasonable renewals requirements. Till 1960, the 2% ~~per cent~~ contribution, with the new money set free by debt repayment, would ~~amplify~~ ^{more than} suffice to meet the renewals as they fell due. And summary calculations indicate that, even after that date, there would still be ~~ample~~ ample resources available. The local proposals, then, provide for all requirements up to 1940; and a continuation of the contribution at the same rate - with the debt money as it

became

become available - would provide for all requirements up to 1960 at least.

It may of course be felt that an eight year period for the overdue renewals is too long; but there are ^{probably} physical difficulties in concentrating overdue renewals within a short ^{or} period of time.

11. Lord Passfield would be much obliged if you ^{will} take the matter into consideration and inform him whether you concur in the suggestion that the proposals recommended by the High Commissioner may be accepted. In that event His Lordship would invite the Lords Commissioners of the Treasury to agree to them.

12. Lord Passfield is also advised that there is no reason to take exception to the recommendation in paragraph 11 of the High Commissioner's despatch as to the provision for renewals in respect of the marine, motor ^{and} harbour services and subject

subject to any observations ^{which} that you may have

to make, he would propose to approve them.

As regards marine renewals, a life value of

33 years might be regarded as excessive, having

regard to practice elsewhere; but, as a result of

discussion with General Rhodes, it appears that

the figure of 33 years is justified by local

experience.

Sawry

(sd) A. G. C. PARKINSON.

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given to
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Kenya.

~~SECRET~~
Note as to Provision for Renewals, Kenya
and Uganda Railway.

Provision for renewals was first made in 1924.

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During 1926, provision was made to cover all wasting assets, both railway and marine, as in the two preceding years. The total contribution, however, was appropriated to the railway section of the Renewals Fund, as it was considered that sufficient sums had been set aside to meet the requirements of the marine section for the time being. In the estimates for 1929, the provision for depreciation was reduced from 3 per cent to 2 per cent of the capital cost of wasting assets.

L.A. This is
an acknowledgment
of this memo
with 13/9/30

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When considering the proposal for the extension of the Railway from Jinja to Kampala, both the Treasury and the East African Guaranteed Loan Advisory Committee expressed views in regard to this question of depreciation. The Treasury pointed out that in the report made by General Hammond on the Kenya and Uganda Railway in 1921 he recommended a rate of approximately ~~2.5~~³ per cent on replacement value, that this recommendation did not suggest that a rate of 3 per cent on capital value is excessive, and that it is, in fact, a fairly usual overall rate. It is recorded in the minute of the 25th meeting of the Guaranteed Loan Advisory Committee on the 25th July 1928 that General Hammond stated that he was prepared to accept a figure of 3 per cent as quite sound practice, since he recognised that, although not as conservative

conservative as the figure named in his report, such a figure would be approved by many authorities, being, in fact, higher than that charged on many State Railways. He had always recommended, however, that where provision is made for sinking fund, the renewals provision might legitimately be reduced by an equivalent amount.

With these views, the Guaranteed Loan Advisory Committee were in agreement, though, if the situation admitted, they considered that the sinking fund provision should be made in addition to the renewals provision. These views were accordingly communicated in a despatch dated the 23rd August 1928 to the High Commissioner, who was asked to take the matter into careful consideration with his advisers, and furnish the Secretary of State with his observations and recommendations. In his reply dated the 28th February 1929 the High Commissioner maintained the view of the Transport Administration on the ground that the experience of the Administration indicated that the rate of 3 per cent was too high, especially in view of the fact that it was applied to the original values and not diminishing values. It should also be borne in mind that the standard of maintenance on the Kenya and Uganda Railway is now comparatively high. It was understood that this also was the experience of other Railways, and that the percentage amount suggested, 2 per cent, amply covers the actual rate of depreciation. It was further pointed out that concurrently with this reduction in the percentage of wasting assets an Interest Reserve Fund was

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was being established. The High Commissioner felt convinced that with these explanations, the Treasury would not object to the arrangements proposed, but he was informed in a despatch dated the 17th June 1929 that it did not appear to the Secretary of State that his explanations would, in all respects, meet the requirements of the Treasury. He was, therefore, asked to furnish a full statement, supported by figures, of the arguments on which his advisers relied in maintaining that reduction of the percentage rate from 3 per cent to 2 per cent was justified in spite of the views expressed by the Treasury and the Guaranteed Loan Advisory Committee, and the reasoned arguments in General Hammond's Report of 1921. The High Commissioner was, however, informed that in preparing this statement, account might properly be taken of the opinion expressed by the Guaranteed Loan Advisory Committee that where provision is made for sinking fund the renewals fund might legitimately be reduced by an equivalent amount, although if the situation admits, the sinking fund provision should be made in addition to the renewals provision. The High Commissioner was further informed that unless the Secretary of State could be satisfied in the matter, the fact that the rate of 2 per cent was adopted in drawing up the Estimates for 1929 cannot be regarded as establishing a precedent for 1930, or subsequent years. In addition, it was suggested to the High Commissioner that it would be desirable to support by figures the statement in his despatch that the experience of the Administration

Administration indicated that the rate of 3 per cent is too high, especially in view of the fact that it is applied to original values and not to diminishing values.

In the Estimates for 1930, the percentage rate has been increased from 2 to 2½ per cent, this increase being explained as follows in the memorandum accompanying the Estimates.

"The contribution to the Renewals Fund provided for reflects an increase over the 1929 contribution of £98,638, due mainly to the fact that, on strong recommendations from the Imperial Treasury, and pending the result of the investigation of the Administration's wasting assets now in hand, it is considered desirable to increase the percentage rate to 2½ - during 1929 an average rate of 2½ formed the basis of the Administration's contribution to this Fund. Provision also has been made for new assets acquired during 1929.....The contribution to the Interest Reserve Fund - created in 1929 by an initial contribution in that year of £100,000 - has been reduced to £50,000 owing to the necessity for tentatively increasing by £98,638 the contribution to Renewals Fund to meet depreciation".

In approving the Estimates for 1930, the Secretary of State informed the High Commissioner that his approval was given on the understanding that the new rate, namely, 2½ per cent, fixed for the contribution to the Renewals Fund, is provisional, and subject to further consideration. The Secretary of State's despatch assumed that a considered reply to his despatch of the 17th of

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June, 1929, would be sent when the investigation of the wasting assets of the Transport Administration is completed, and that as a result of this investigation, it will be possible to form an estimate of the value of the wasting assets which represent expenditure from the proceeds of 1921, 1927, and 1928 Loans - such an estimate would be of use having regard to the relation between the contributions for Renewals and Sinking Fund referred to above.

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MEMORANDUM.

KENYA-UGANDA RAILWAYS AND HARBOURS.

The following matters are awaiting discussion.

A. General Manager's Report, 1929.

The points arising out of the High Commissioner's despatch commenting on the report:-

(a) The need for a comprehensive review of the Railway Position, including the relations between the two East African Railway systems by an expert authority with a fresh eye to East African conditions. The High Commissioner points out that this review could be carried out under the Secretary of State's instructions as a preliminary to the establishment of a central authority, but that it would be of little practical value unless a central authority were established in the near future to give it consideration and effect; and

(b) the Request of the General Manager that the various figures and financial tables embodied in his report might be referred for enquiry by experts in England. In putting forward this request, the High Commissioner expressed the view that it would be better if these figures might also be examined by a financial authority of the type already recommended. Assuming, however, that a general enquiry by such a financial authority would be premature, it has been suggested by General Rhodes that the examination which he has requested might be carried out by the Ministry of Transport.

B. Depreciation.

The Guaranteed Loan Committee and the Treasury have contended that the rate, namely 3%, in force prior to

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B. Devaluation.

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RECOMMENDATIONS OF THE COMMITTEE

The following matters are a matter of principle. A. General Committee's Report, 1932. The points arising out of the High Commissioner's Report concerning the report:-

(A) The need for a comprehensive review of the position, including the relations between the High Commissioner and the various departments, and the High Commissioner's duties and powers, should be considered. It is suggested that the High Commissioner should be given a central authority in the region and that it would be of little practical value to give it consideration and effect; and

(B) The Report of the General Manager that the various figures and financial statements submitted in his report might be referred for enquiry by experts in London. In writing forward this request, the High Commissioner expressed the view that it would be better if these figures might also be examined by a financial authority of the type already recommended. It is suggested that a general enquiry by such a financial authority would be preferable, it has been suggested by the High Commissioner that the examination which he has requested might be carried out by the Ministry of Transport.

The Committee has also considered the various matters which have been referred to the Committee and the various matters which have been referred to the Committee and the various matters which have been referred to the Committee.

to 1929 should be maintained, but that where provision is made for sinking fund, renewals provision might legitimately be reduced by an equivalent amount, although if the situation admits, sinking fund provision should be made in addition to the renewals provision. In the Estimates for 1929, depreciation provision was reduced to 2%, but this was raised to 2½% in 1930, pending a final decision. A complete investigation of the position was called for and the whole matter was enquired into by a Departmental Committee, as a result of which recommendations have now been received from the High Commissioner. Briefly they are that the rate of 2% for depreciation should be definitely accepted for the next 10 years when the position should be re-examined, but in view of the small margin of reserve thus provided, the Interest Reserve Fund (to be renamed Reserve Fund) should be built up by annual contributions to a total of £400,000 which contributions should, if possible, be at the rate of £100,000, but anyhow not less than £50,000 a year. Also the excess ½% provided in the 1930 Estimates for depreciation, namely, £56,594, should be transferred to the credit of the Reserve Fund. Further, existing arrears for overdue renewals amounting to just over £200,000 which will be outstanding at the end of 1930 should be undertaken at the rate of £100,000 a year.

In addition there are recommendations as regards renewals in respect of the Marine, Motor and Harbour Services.

Marine. The life value to be raised from 20 years to 33 years, and contributions to be made at 3%: no contributions

to be maintained, but where provision
is made for raising funds, reserves provision might
initially be reduced by an equivalent amount,
although the distinction remains, raising funds provision
should be made in addition to the reserves provision.
In the period for 1919, depreciation provision was
reduced to 50, but this was raised to 25 in 1920.
A complete investigation of
the position was called for and the whole matter was
examined by a Special Committee, as a result
of which recommendations have been received from
the Special Committee. It is felt that the
rate of depreciation should be definitely
ascertained for the next five years when the decision
should be re-examined, but in view of the uncertainty
of reserves then provided, the interest Reserve fund
to be raised Reserve fund should be raised to 100
annual contributions to a total of 100, which con-
tributions should, if possible, be at the rate of
100,000, but may not less than 100,000 a year.
Also the excess provided in the 1919 Estimate for
depreciation, namely, 25,000, should be transferred
to the credit of the Reserve fund.
Extra arrears for overheads remaining to be
over 250,000 which will be outstanding at the end of
1920 should be authorized at the rate of 100,000 a
year.
In addition there are recommendations in
regards towards in respect of the Reserve fund and
harder reserves.
The life value to be raised from 100,000
to 250,000, and contributions to be made to it at the rate of 100,000 a year.

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contributions to be made after 1930 for 5 years when the position will be reviewed. (This matter is further referred to under Section C of this memorandum.)

Motor Services. The life value to be calculated at 5 years, and contributions to be made at 20% instead of 25%.

Harbour Services. As a result of the investigation of the assets, the capital available is put at £587,021 and it is recommended that the depreciation contribution should in future be fixed at £16,372 as against the existing rate of £16,605.

C. Marine Funds.

The question of the position of these funds arose in connection with a proposal to charge against the Marine Insurance Fund a sum of £17,000 in respect of the cost of a tug and two lighters to be acquired for service on the Kagera River. The recommendation of the High Commissioner in regard to the Renewals Fund is shown in the preceding section, B, in this memorandum, namely that contributions should be suspended for a period of 5 years, on the ground that the fund has now been built up beyond requirements. The Transport Administration had under consideration the question of abolishing the Insurance Fund and dividing the balance on hand between the Renewals and Betterment Funds. After a full examination of the whole case the High Commissioner does not recommend that the Fund should at present be abolished, but considers that it should be drawn up for betterments and replacements until it eventually becomes exhausted - the Renewals Fund would be increased by contributions if necessary as the Marine Insurance Fund decreases. The High Commissioner asks that, in view of the further explanation he has now furnished, the Secretary of State will

sanction the provision of £17,000 from the Marine Insurance Fund for the craft for the Kagera River.

D. Stores Reserve Fund.

In 1927 a sum of £200,000 was transferred to the Stores Fund in proportions of £150,000 from Renewals Fund and £50,000 from Betterment Fund. The ostensible reason was to finance the purchase of stores, but the Director of Colonial Audit objected on the ground that there was no place in the accounting system for a Stores Fund whether devised with a view to financing stores stock, or merely intended to serve as a Reserve Fund in connection with stores transactions. Transfers were made by mere bookkeeping entries, and this was defended on the ground that no expenditure was involved. This procedure was also objected to as irregular by the Director of Colonial Audit. The High Commissioner has now recommended that as the amount now shown as Stores Reserve Fund is required as working capital and as such would find a proper place in Capital Account, it should be transferred to "Capital Account" as a "Contribution from Revenue" under the heading "Working Capital (Stores)". The Secretary of State's despatch of the 31st March 1930, criticised the explanation of the purpose of the Stores Reserve Fund on page 114 of the Estimates for 1930 on the ground that such a Fund is not required for financing stores stock. In his reply the High Commissioner suggests that this explanation is open to objection only in so far as the designation of the Fund is open to objection.

E. Interest Reserve Fund.

The question of the policy to be followed in
future

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E. Interest Reserve Fund.

The question of the policy to be followed in future

future in regard to this Fund is referred to in section B of this memorandum. In the Secretary of State's despatch of the 31st March 1930 it was pointed out that the explanation given on page 114 of the Estimates for 1930 was open to criticism as being to a considerable extent irrelevant to the purpose of a Reserve Fund strictly so regarded. The same despatch expressed the view that the time had now arrived for reconsidering the whole question of these Reserve Funds and the substitution for them of a general reserve fund to be established by duly authorised transfers. The High Commissioner now agrees that the above-mentioned explanation is not entirely relevant and considers it would be more appropriate to designate this fund "Reserve Fund".

N.B. The Secretary of State's despatch of the 31st March 1930 dealt with both the Stores Reserve Fund and the Interest Reserve Fund, and said that it was proposed that these matters should be discussed with the General Manager while he is in England, and that in the meantime, the Secretary of State would refrain from giving any directions in regard to the Stores transactions in question.

F. Guaranteeing of Branch Lines in Kenya and Uganda.

The main points of difference which remain outstanding as a result of the discussions as to the policy to be followed in this matter may be summarised as follows:-

- (1) When and to what extent should individual Governments be called upon to guarantee losses on the construction and working of branch lines;
- (2) Whether refunds should be made to guaranteeing Governments in respect of any amount paid by them under their guarantees;
- (3) Assuming the main line ^{branch} turns to a branch how should the expenditure and revenue be allocated to the branch

branch
part. main line term

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(3) Assuming the main line ^{branch} turn to a branch how should the expenditure and revenue be allocated to the branch

...in regard to this and it referred to in section 11
of the Act. In the Secretary of the Treasury's
report of March 1930 it was stated that the
information given on page 11 of the estimate for 1930 was
open to criticism as being to a considerable extent
irrelevant to the purpose of a reserve fund and strictly
pertaining to the more detailed examination of the view that the
time had now arrived for reconsidering the whole question of
a reserve fund and the application for such a
General Reserve Fund to be established by law and approved
by the Commission and it was stated that the
above mentioned explanation is not entirely relevant and
considered it would be more appropriate to deal with this
fund in the Reserve Fund.

...The Secretary of the Treasury of the 31st
March 1930 dealt with both the General Reserve Fund and the
Interest Reserve Fund, and said that it was proposed that
these matters should be discussed in the general manner
which will be in England, and that in the meantime, the
Secretary of State would not in any way give any direction
in regard to the two transactions in question.

...The main point of difference with regard to
obtaining as a result of the discussion in this matter may be
summarized as follows:

(1) It has been suggested that the
be called upon to furnish issues in the operation and
working of the fund.

(2) Another scheme would be to have the
government in respect of the fund and the
that the government.

(3) Assuming the sale of the fund to be a
the expenditure and revenue to be allocated to the fund.

be assessed?

In his despatch of the 7th January 1930 dealing with this matter, the High Commissioner suggested that it would be inadvisable to lay down a definite policy with regard to the outstanding points concerning branch construction in Kenya and Uganda as the whole question might have to be reconsidered in the course of a year or so in conjunction with Tanganyika. As regards Tanganyika, this matter was dealt with in paragraph 142 of General Hammond's recent report, and on the 15th May, 1930, a despatch was sent to the Governor of Tanganyika asking for his views. The High Commissioner for Transport was so informed in a despatch of the same date, which stated that the matter would be considered further on the receipt of the views of the Governor of Tanganyika, and added that if in the meantime there was an opportunity of discussion with General Rhodes advantage would be taken of it.

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1944

The following information was obtained from the records of the
 Department of the Interior, Bureau of Land Management, on the
 subject of the land owned by the United States in the
 State of California, and more particularly in the
 County of San Diego, and more particularly in the
 Township of San Marcos, and more particularly in the
 Section 17, T. 12 N., R. 12 E., S. 14 E., and more particularly
 in the quarter section 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000.

NOTE.

The following table gives not only the figures dealt with in these papers, but also those in General Hammond's Report on the Uganda Railway for 1921 and in his recent Report on the Tanganyika Railways.

(a)	<u>Replacement Costs.</u>	<u>Annual Contribution.</u>	<u>Percentage Rate.</u>
General Hammond Kenya-Uganda Railway 1921. (Page 192)	7,886,810	277,689	3.66
Tanganyika Railways, 1930 (b) (Page 67)	5,450,233	154,210	2.83
Kenya-Uganda Cttee. Letter 30th Sept. '29 (Page 8 of Report)	11,137,410	355,156	3.14
Letter 30th Nov. '29 (Page 23 of Report) (c)	11,407,266	354,766	3.11
Guaranteed Loan Cttee. & Treasury 3% (d)	11,407,266	342,218	3.
Existing rate 2 1/2% (e)	11,407,266	285,180	2 1/2
1930 Estimates (rev)	11,318,680	282,967	2 1/2
100 year period	11,407,266	327,960	2 1/2

(Note: The Departmental Committee Report shows (page 36) that if calculations of depreciation are based purely on the life of wasting assets over a period of 100 years, the contributions to the Fund if at a rate of 2 1/2%, will just keep the Fund in credit, and also make provision for the replacement of all assets at the correct theoretical date).

(f) General Manager, Railway Advisory Council and High Commissioner.

11,407,266 228,145 2.

(Note: It is contended (paragraph 7 of despatch) that the situation in (e) does not actually occur owing to new assets being acquired, as through normal development additional contributions are available; so that if the payments to the Fund were made on the life of wasting assets, then the sums in the Fund would always be in excess of the amount required. Further, there is a tendency for renewals not to be carried out when due on the life basis of an asset, owing to the fact that assets often outlive their estimated life. From paragraph 26 of the General Manager's memorandum it appears that a 2% contribution up to 1945 meets all reasonable requirements, and with the Stores,

S.M.'s memo.
(para 27-29)

Interest, Reserve and Betterment Funds, provides adequate working capital. From 1945 onwards, the balances decrease, until from 1955 onwards, deficits are shown. But the general financial position will however be compensated in the other ways mentioned at (a) above. Therefore, from 1947 onwards, very appreciable relief will be obtained from Loan Charges, and thus, without forming undue burden, an increase in depreciation rates could be made if required).

It is therefore recommended that the rate of 2% for depreciation should be definitely accepted for the next ten years, but that the position should then be re-examined and, if necessary, an alteration made.

(para 36)

In view, however, of the small margin of reserve which will be provided in this way, it is also recommended that the interest reserve fund (to be renamed reserve fund) should be built up by annual contributions to a total of £400,000, which contributions should, if possible, be at the rate of £100,000, but anyhow not less than £50,000. Also, as 2 1/2% has been provided in the Estimates for 1930, it is recommended that the excess 1%, namely, £56,595 (i.e. one-fifth of the year's contribution for railway renewals - £56,595) should be transferred to the credit of the reserve fund. ^{This} It is thought that this would amount ~~to~~ ^{short of} £100,000 at the end of 1929, and the Estimates for 1930 provide for a contribution of £50,000. In view, however, of the change of circumstances it is, so I gather from General Rhodes, unlikely that this £50,000 will in fact prove available.

(para 37)

I don't follow the reasons in paras 36 + 37 as to the transfer of this fund to the

It will be seen that they only bring in the question of redemption charges to the

In his memo the
S.M. mentions
(para 38) that
if 2% adopted
the Govt. has
Case for
deduction in
Report of S.F.
Govt. 1929

(4 on 15920).

3

See para 178 of
Govt. Memo and
T.S. report 1930.

the extent pointed out/ from 1947 onwards relief will be obtained from loan charges, when an increase in depreciation rates could be made if required. The minutes of the Guaranteed Loan Advisory Committee of the 25th July, 1928, attached to 1569/29, show that General Hammond said that he had always recommended that where provision is made for sinking fund, the renewals provision might legitimately be reduced by an equivalent amount. With this view the Committee were in agreement though, if the situation admitted, they considered that the sinking fund provision should be made in addition to the renewals provision. It was on account of this that in the Secretary of State's despatch of the 8th January 1930, it was suggested that an estimate might be formed of the value of the wasting assets representing expenditure from the proceeds of the 1921, 1927 and 1928 loans, in order to ascertain what deduction on this account might fairly be considered.

It is understood, however, (paragraph 5 of this despatch) that this has not been done as it has not been thought necessary. I still think, however, it is a pity they did not do it, though it will enable what seems to be a not irrelevant comparison to be made. Ignoring the comparatively negligible sinking funds in respect of earlier loans, the total sinking funds on the 1921, 1927 and 1928 loans (sinking fund in respect of the last loan becoming payable next year) amount to £1,968. The annual renewals contribution at 3% is £342,218 and at 2% £228,745, a difference of

£113,473

£113,473, or more than £10,000 in excess of the total sinking fund in respect of those three loans. It therefore seems clear that if only wasting assets are considered, the difference will be greater, and possibly substantially greater.

X

On the other hand, they are proposing, in addition to the renewals provision, to put aside at least £50,000 (which is approximately equivalent to 1% renewals rate), and possibly, £100,000 (approximately 1% renewals rate) to reserve. This seems a material factor since if the 3% is insisted upon I do not know that it is possible also to insist on these further contributions to reserve. (In this connection it may be noted that the Treasury ~~had~~ contemplated the continuance of such contributions).

Para 91 Nov 9 1897/3.

General Rhodes is very strong in his view that a rate in excess of 2% is not required and is an unfair demand on the present generation. He fully realises the argument in favour of retaining the 3% rate, ^{but} a higher rate than that strictly necessary is ~~not a useful~~

looky down
I know

~~not a useful~~ hidden reserve; but he points out that in the case of the Kenya-Uganda Railway such a reserve is not really hidden, since the local people fully appreciate the position and know that they are always contending that the existing rate has the effect of accumulating hidden reserve, and to this they object. There would therefore seem something in his contention that it would be better to have ^{an open} ~~a~~ reserve than a hidden reserve ~~as he~~ suggests.

It seems clear that General Hammond

will have to be consulted, and in fact the Treasury in No.4 on this file suggest that his observations should be obtained before any further communication is made to that Department. General Rhodes told me that he has furnished General Hammond with the papers and has had some conversation with him about them, and I rather gathered that General Hammond did not see eye to eye with him. While General Rhodes is, so I gather, *personally* perfectly content to agree to reference to General Hammond, it is a little unfortunate that for local reasons arising out of General Hammond's visit in 1921, (^{*it is not suggested that*} ~~his~~ ^{*decision apparently*} he was in ~~many~~ way to blame) his views do not apparently carry with the local people the weight to which they are entitled, and therefore do not help the Railway Administration to the extent they should. However, if General Hammond, the Colonial Office and the Treasury arrive at an agreement, I think the combined weight should be sufficient to ^{*over-*} ~~qualify~~ the local views. ^{*N.P.*} This despatch also deals with renewals in respect of the marine motor services and harbour services - see paragraph 11.)

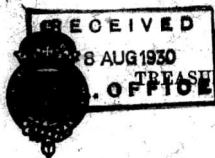
(Unless Sir J. Campbell or General Hammond have any criticisms on the recommendations made on this point, the local recommendations might be accepted. As regards the marine services, it should be noted that the question of renewals is to some extent bound up with the question of the insurance fund, which is being discussed ~~on~~ *separately*.)

*See Table on
page 9 of
General
Report.*

Telephone No. : VICTORIA 1234.

Any reply to this letter should be addressed to—
THE SECRETARY,
TREASURY,
WHITEHALL, LONDON, S.W.1,
and the following number quoted.

S. 32902/03/2.



88
4
7 August, 1930.

Sir,

I have laid before the Lords Commissioners of His Majesty's Treasury Mr. Allen's letter of the 26th July 1930 (16250/30) enclosing a copy of a despatch from the High Commissioner for Transport, Kenya and Uganda, on the subject of the provision for renewals in the accounts of the Kenya and Uganda Railways and Harbours.

My Lords note that copies of the Report and Memorandum referred to in paragraph 3 of the despatch have not yet been received and that a further communication will be addressed to Them when these documents have been received and considered.

Lord Passfield will no doubt obtain the observations of Brigadier General Hammond before communicating further with Their Lordships.

I am, Sir,
Your obedient Servant,

R. V. Noel Hopkins

The Under Secretary of State,
Colonial Office.

5 FEB 1931

Copy of the Report 15 -

4 DEC 1930

Amended

O. O.

Mr. *W. Allen 2/7*
Mr.
Mr.

Sir C. Dillomley.
Sir J. Shackburgh.
Sir G. Grindie.
Parol. U.S. of S.
Party. U.S. of S.
Secretary of State.

12/16250730
Kenya

389



26 July 1930

Sir,

DRAFT.

With ref. to the

The Secretary,

Tracing

*2 copies
16/7/30
Kenya
not.*

letter from this Dept of the

17 June I am to
transmit to you the acc:

copy of a despatch from the
Min. for Transport, Kenya
Uganda in the subject of
the provision for renewals
in the accounts of the
Kenya Uganda Railway
Returns.

No 86: 22 July 1930

Reconcile to me

5 FEB 1931

Copy also of the same 15 -

2/8

2. The copy of the
Report & Memorandum

referred to in para 3 of the
despatch have not yet been
received & the DTC has been
so info'd by telg in the
receipt of the missing enclosures
the matter will receive careful
& further reference will be made
to the Lt. Col. Loan Hospital
~~Committee~~ however desirable
communicating the DTC's reply
to J. L. now in view of the
fact that ~~being~~ ^{fact that} this is the case of the
def. provision of materials has been discussed
in connection ^{on} with the loan
requirements of the Transport
Admin in regard to which
- also to the loan requirements
The Loan & Storage - a
further letter will follow
shortly

Courtesy (signed) H. T. ALLEN

91
/ 90



HIGH COMMISSIONER
FOR TRANSPORT.

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

No. 1 86

RECEIVED
20 JUN 1930
COL OFFICE

22 JUN 1930

TO THE HON. THE SECRETARY OF STATE FOR THE COLONIES

FROM THE HON. THE HIGH COMMISSIONER FOR TRANSPORT, NAIROBI

RE: REPORT ON THE STATE OF THE RAILWAYS IN KENYA

Reference is made to the Report on the State of the Railways in Kenya, dated 1st June 1930, submitted to the High Commissioner for Transport, Nairobi, by the General Manager of the Kenya Railways, Nairobi.

The Report contains a detailed account of the operations of the Kenya Railways during the year 1929-30, and also a statement of the financial position of the Railways at the end of the year.

The Report shows that the Kenya Railways have made a valuable contribution to the development of the Colony, and that the operations of the Railways during the year 1929-30 have been successful.

The Report also shows that the financial position of the Railways at the end of the year 1929-30 is satisfactory, and that the operations of the Railways during the year 1929-30 have been successful.

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Copy Trans 26/7/30.

Copy w/ well to Gen Hammond 15 OCT 1930

Report, kept a low note, memo by G. Manning

Gen Manager - Stationer

Issue '3 - 5 Feb 1930

(No 5 in ~~15697/29~~)

4 C 1930

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

HIGH COMMISSIONER
FOR TRANSPORT.

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

90

86

RECEIVED
20 JUN 1930
COL. OFFICE

22nd May 1930.

My Lord,

I have the honour to refer to Your Lordship's despatch TRANSPORT KENYA-UGANDA No. 71 of the 17th of June 1929, and subsequent correspondence in connection with this Administration's estimates for 1930, regarding the provision which should be made for renewals and to forward herewith my remarks on this matter.

2. The delay in forwarding a reply has been caused by the complicated nature of the question, which involved an exhaustive consideration of the life of wasting assets and other detailed enquiries. In the first place I caused a Departmental Committee to examine the amount of contributions to the renewals funds necessary to allow for depreciation of wasting assets and the principles which should be followed in working the account. The detailed enquiries of this Committee occupied over six months. The report of the Committee was then examined by the General Manager, and the report together with the General Manager's memorandum on the subject was discussed by the Railway Advisory Council at their last meeting on April 28th and 29th when the following resolution was adopted:

"THAT in the opinion of the Council based upon the Report of the Departmental Committee and the General Manager's memorandum dated 29th March addressed to the High Commissioner for Transport, and subject to review ten years hence, a case has been established for the retention of the 2 per cent contribution to the Renewals Fund on account of depreciation of wasting assets as regards the Railway and that....

(No. 5 in 15697/29)

Copy to/with Mr. Hammond. 13 OCT 1930

Report, paper on how to work, memo by J.C. Hammond
has changed - statement
Award - 75 - 5 FEB 1931

THE RIGHT HONOURABLE
LORD BASSFIELD,
SECRETARY OF STATE FOR THE COLONIES.

"that, as recommended by the General Manager, an adjustment should be made in the Estimates for 1930 by transferring the sum of £56,694 to the credit of the Interest Reserve Fund".

The Railway Advisory Committee also considered the provision necessary for the Marine and Motor Services and adopted the following Resolution:

"AGREED to recommend that, in connection with the Marine and Motor Services, the Departmental Committee's proposals be approved, namely,

(a) MARINE SERVICE.

"Life value to be calculated at thirty-three years; that no contributions be made for the next five years; and that the position be reviewed at the end of that period of time; and

(b) MOTOR SERVICES.

"Life value to be calculated at five years, and that contributions be made to the Fund on a 20 per cent per annum basis".

3. I have caused the detailed enquiries and arguments used by the Departmental Committee and the General Manager on this question to be examined by the Statistician to the Governors' Conference, from whose memorandum the following is an extract :-

"I am definitely of the opinion that the proposals of the General Manager are safe and sufficient, and I am still further convinced of this as experience in other Railway Organisations has shown that the full percentages to replace wasting assets is never utilised."

Enclosed herewith are 12 copies of the Report by the Departmental Committee, 12 copies of the Memorandum by the General Manager in which the report of the Departmental Committee and the whole question is reviewed, as for purposes of examination of this question several copies of these documents may be of use and a copy of the memorandum by the Statistician to the Governors' Conference.

RAILWAYS.

4. It will be observed that the Departmental Committee has examined the whole question of the life of

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wasting assets with great care, and though it appears that some of the lives which they have estimated for permanent structures such as bridges are high as compared with the corresponding figures accepted in South Africa, the estimate has been formed on the best expert opinion available in this country. Now that the whole problem has been worked out in detail, any individual item can be checked at any subsequent time as required, and as the relevant figures will in future be published in the annual estimates and reports, this question will be constantly borne in mind and reviewed when considered necessary.

(No. 4 in 15920)
K. L. Draft 5-29
(in case)

5. In connection with this question of the life of wasting assets reference is made to paragraph 2 of Your Lordship's despatch No. 7 of the 8th January, 1930, where it is suggested that an estimate might be formed of the value of the wasting assets representing expenditure from the proceeds of the 1921-1927-1928 Loans. In view of the exhaustive enquiries which have been carried out by the Departmental Committee, which cover the depreciation of all the wasting assets including those referred to above, it has appeared unnecessary to make calculations with regard to the wasting assets from the expenditure of certain specific loans.

6. It appears to me that a privately owned railway is, as regards the provision necessary for renewals, in a very different position from a State-owned railway.

The former, which has to pay a dividend to shareholders, may for various reasons such as the need to make provision for a possible liquidation or the prospect of having to raise new capital, be expected to build up big reserves and to make provision to meet depreciation calculated on the theoretical life of its wasting assets.

In a Government-owned railway, however, where it is the definite policy to provide efficient transport at

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the cheapest possible rate and where capital is provided by Loans from the State, it is not necessary to build up reserve funds and to make provision for depreciation beyond the minimum necessary to ensure a sound financial position. If more than this is done, then the present generation is being taxed for the benefit of a future one which in the normal course of events should be in a better position to bear the extra burden. This applies particularly in the case of young and developing Colonies, where any surplus money which may be available above the minimum requirements necessary to ensure a sound administrative financial position would be of more value if available for the community generally for further development than if held by the Railway as a reserve.

135

7. The Departmental Committee's report shows that if calculations for depreciation are based purely on the life of wasting assets, then over a period of 100 years the contributions to the Fund if at a rate of 2 $\frac{1}{2}$ per cent would just keep the Fund in credit and also make provision for the replacement of all assets at the correct theoretical date. The General Manager, however, in his memorandum shows that this situation does not actually occur. Owing to new assets being acquired through normal development, additional contributions are available; so that if the payments to the Fund were made on the life of wasting assets, then the sums in the Fund would always be in excess of the amount required. Further, there is a tendency for renewals not to be carried out when due on the life basis of an asset owing to the fact that assets often outlive their estimated life.

For these reasons I agree with the General Manager in considering that only such minimum requirements should be set aside for Reserve and Renewal Funds as are necessary to maintain a sound financial position and that in a State owned railway in new Colonies it is not necessary to make contributions.

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contributions calculated solely on the life of wasting assets.

8. Paragraph 26 of the General Manager's memorandum shows that a contribution up to 1945 meets all reasonable requirements and with the Stores, Interest Reserve and Betterment Funds, provides adequate working capital. From 1945 onwards the balances decrease until from 1955 onwards deficits are shown. The general financial position of the Railway will however, be compensated in other ways. Further contributions on account of new assets not yet provided are likely to supply the deficit and all the renewals will probably not be carried out when theoretically due. There is the further and important point that from 1947 onwards very appreciable relief will be obtained from loan charges and thus, without forming an undue burden, an increase in depreciation rates could be made if required.

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9. On the advice which has been submitted to me I accordingly agree with the General Manager's recommendation that the rate of 2 per cent for depreciation should be definitely accepted for the next ten years but that the position should then be re-examined and if necessary an alteration made. In view of the small margin of reserve which will be provided in this way I also agree that the Interest Reserve Fund should be built up by annual contributions to a total of £400,000 which contributions should if possible be at the rate of £100,000 but anyhow not less than £50,000, and in this year I am of the opinion that the excess $\frac{1}{2}$ per cent already provided in the Estimates, viz £56,594, should be transferred to the credit of the Interest Reserve Fund. In another despatch I have recommended that this fund should be renamed the Reserve Fund as that name would more appropriately describe the purpose for which the fund is required.

10. In connection with the question of railway depreciation, I agree with the views expressed that replacement values are not likely to be in excess of the original cost in view of the fact that some of the chief assets were acquired at peak prices just after the War. I also consider that the existing arrears for overdue renewals amounting to just over £800,000 which will be outstanding at the end of this year should be overtaken at the rate of £100,000 a year.

MARINE, MOTOR SERVICES AND HARBOUR SERVICE.

11. With regard to the Marine, Motor Services and Harbour Service, I concur in the recommendations of the Departmental Committee and the General Manager which were to the following effect:

MARINE:

Life value to be raised from twenty years to 33 years and contributions to be made at 3 per cent: no contribution to be made after 1930 for five years when the position will be reviewed.

MOTOR SERVICES:

Life value to be calculated at five years and contributions to be made at 20 per cent instead of 25 per cent.

HARBOUR SERVICE.

~~These contributions are recommended by Committee (see next page)~~

HARBOURS SERVICE.

1.	2.	3.	4.	5.	6.	7.
Details of Assets.	Capital Value on which Depreciation is based.	Estimated life.	Percentage recommended.	Amount of depreciation contribution recommended.	Present percentage.	Present contribution.
	£	Years	per cent.	£	Per Cent.	£
Kilindini Old Pier	70,490	66 $\frac{2}{3}$	1 $\frac{1}{2}$	1,057	3	2,114
Wharf and Jetty	16,276	33 $\frac{1}{3}$	3	488	3	488
Fenders	1,197	10	10	120	3	36
Railways and Sidings	40,538	33 $\frac{1}{3}$	3	1,216	3	1,216
Electrical Installations,	82,756	20	5	4,138	5	4,138
Cranes and Equipment	8,579	33 $\frac{1}{3}$	3	257	4	343
Crane Roads	20,251	10	10	2,055	4	810
Macadamised Roadways	53,041	20	5	2,652	5	2,652
Tugs, Launches & Pontoons	13,578	13 $\frac{1}{3}$	4 $\frac{1}{2}$	1,018	5	2,679
Lights, Buoys and Beacons	2,427	33 $\frac{1}{3}$	3	73	3	73
Water Supply	214,009	100	1	2,140	1	2,140
Brick Transit Sheds	18,633	50	2	373	3	539
Transit Sheds & Goods	2,221	32 $\frac{2}{3}$	2	67	3	67
Fencing	8,590	25	3	344	3	257
Stations and Offices, etc.	50	50	4	119	3	179
Godowns	8,961	100	2	285	3	864
Staff Quarters	28,464		1			
TOTAL	587,021		..	16,372	..	16,608

12. I trust that after consideration of the various statements which have been put forward by my advisers, the Lords Commissioners of the Treasury will accept the recommendations which I have submitted above; if this is not the case then I trust that the matter may be held in abeyance until it can be considered by the Central Authority for East Africa if such an appointment is likely to be made at an early date, or if a decision by His Majesty's Government on this question is not likely to be given in the near future, then by some high authority with wide experience of railway finance who should be appointed for the purpose of examining and advising upon the major financial problems affecting the railway now confronting this Administration, and which must become more complicated as time passes. I am making a further reference to this question in another despatch.

I have the honour to be,

My Lord,

Your Lordship's most
obedient, humble
servant,

Edward Gigg
HIGH COMMISSIONER.

(No. 8. an. 16/88/30)

Ann. Report
i. g. M. 1929)

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Stockdale 13/8

Sir J. Campbell 13/8

Sir C. XX

Sir G. ...

Sales 16 August

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Lord Passfield

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TELEGRAM

(2)

Immediate

Governor

Nairobi

Your telegrams Nos. 254 and ...
approve refund of grading and costing
charges as proposed.

As regards further assistance
recommended although I fully appreciate
seriousness of position I regret I
should not feel justified in approving
proposals for such assistance to a
of the agricultural community unless
quite clear that circumstances are in
fact such that extension to other sect
S.S. producers of coffee and sisal is
unnecessary as otherwise neither would
the full financial liability implicit in
the scheme be disclosed nor would equi-
table and reasoned distribution of the
total sums available in aid of agricult-
ture be possible. In this connection
it is relevant to say that I have
recently received representations as to
need for assistance to native producer-

oil and shipping charges. Further although I am anxious to limit any scheme as rigidly as possible I feel that unless prices rise materially or unless considerable reductions in production costs are found possible it would be very difficult to confine such a system of relief to present seasons crop. The effect of any such extension of the scheme in scope or time upon the total cost will require serious consideration especially in view of depleted surplus balances. Also it does not appear from your telegram that consideration has been given to the possibility of securing any reduction in ocean freights as was done in the case of cotton in 1927.

I repeat that the position may be re-examined as a whole in the light of these remarks.

Also in view of heavy demands which are being made on surplus balances as a result of agricultural depression the duration of which cannot be predicted I would strongly urge necessity for making every effort to build up these balances by postponing at once all expenditure not of an essential character.

This telegram should be regarded as replying also to your Transport telegram No.27

(1)

Secer.

oil and shipping charges. Further although I am anxious to limit any scheme as rigidly as possible I feel that unless prices rise materially or unless considerable reductions in production costs are found possible it would be very difficult to confine such a system of relief to present season's crop. The effect of any such extension of the scheme in scope or time upon the total cost will require serious consideration especially in view of depleted surplus balances. Also it does not appear from your telegram that consideration has been given to the possibility of securing any reduction in ocean freights as was done in the case of cotton in 1927.

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This telegram should be regarded as replying also to your Transport telegram No.27

Secer.

(1)

STATISTICAL DEPARTMENT,
P.O. BOX 871.

OFFICE OF THE
CONFERENCE OF EAST AFRICAN GOVERNORS,

P.O. BOX 601
NAIROBI.

COPY

22nd April 1930.

TELEGRAMS:-
"CONFGOV, NAIROBI."

Ref. No. 1007.

THE SECRETARY,
GOVERNORS' CONFERENCE,
NAIROBI.

I have examined with considerable care the various documents forwarded to me connected with the provision for depreciation on the Kenya and Uganda Railways, and have had access to other relevant documents in the Railway Office records. Taking into consideration the safeguards proposed by the General Manager, and all the data which has been laid before me, I am of opinion that the percentage suggested by him of 2% of the Capital value of wasting assets will not give rise to any conditions which could affect adversely the financial stability of the Railway.

2. The Depreciation and Renewals Fund is primarily established to maintain the capital value of any enterprise at its original figure. In the Reports dealing with provision for depreciation on the Kenya & Uganda Railway, there are two definite principles to consider - one concerned with the question of fact and the other with the question of policy.

On the question of fact, we are confronted with:-

1. The capital cost of wasting assets.
2. The estimated life of the wasting assets.
3. The intensity of future development and consequent introduction of new capital assets from which contributions to the depreciation fund will be made, the liabilities against these contributions only maturing in the distant future.

TELEGRAMS:—
"COMFGOV, NAIROBI."

OFFICE OF THE
CONFERENCE OF EAST AFRICAN GOVERNORS,
P.O. BOX 604
NAIROBI.

Ref. No. _____

3. On questions of policy, it is necessary to decide:-

1. Whether the Railway should run on the same lines as a commercial undertaking, or whether Government guarantees are to supersede those required by commercial considerations.
2. The manner in which development charges are to be spread over successive generations.
3. Whether insurance principles are to be applied to the provision for renewals.

4. On the questions of fact, the capital costs and the estimated life of the wasting assets are shown definitely in the table on Page 8 of the Departmental Committee's Report. These figures are given as the considered estimates of competent officials in the Kenya & Uganda Railways. The life of certain of the wasting assets ~~are~~ somewhat longer in specific instances than corresponding figures in South Africa, but they must be accepted as expert valuations. Moreover, any errors of judgment in estimating these values will be progressively corrected as the General Manager has made provision for revision at specified intervals of time, and a consequent reconsideration of the basis on which provision is made for depreciation.

*known to our
Dept. generally*

5. The intensity of future development and the introduction of new capital assets which accompany it, (the depreciation on which must naturally place the renewals fund in a better position than the older material would permit) is a matter which must remain problematic

Ref. No. _____

-3-

in any case, but the evidence before us at the present date all points to extension and development, at least along the main trunk line toward the Congo.

6. On questions of policy, considering firstly the matter of commercial or Government guarantees, a commercial undertaking paying dividends to its shareholders, and faced with the possibility of liquidation, might well be expected to make provision for the maintenance of its capital assets at their full face value. Regarding the problem from the point of view of the auditor and accountant, provision for the full value on a life basis could, with reason, be insisted upon. In matters of Railway Policy, however, there is uncertainty, even on this question on the score of expediency, in the minds of those responsible for running commercial Railways. In the case of a Government enterprise, the question of liquidation and dividends to shareholders does not arise, and the accumulation of large unutilisable reserves for depreciation, which must inevitably be drawn upon for other purposes, merely lays an undue burden on the present generation to the advantage of later generations, who will not have to bear the other heavy charges due to loans for initial capital expenses.

7. It is quite true that the principles referred to in Para. 3 (5) above are not applied. In insurance matters, the reserves to be constituted are based on the calculated expectation of life, and although the better lives of the lower ages lead to the building up

TELEGRAMS :—
"CONFGOV, NAIROBI."

OFFICE OF THE
CONFERENCE OF EAST AFRICAN GOVERNORS,
FEBRUARY 1929.
NAIROBI.

Ref. No. _____

present and future generations.

10. It should also be remembered that provision has been made for sinking fund and an interest reserve fund, as stated in the High Commissioner's despatches No.31 of the 28th February, 1929.

11. For these reasons, and with the safeguarding provisions for revision of the whole position at stated intervals, I am definitely of opinion that the proposals of the General Manager are safe and sufficient, and I am still further convinced of this as the experience in other Railway organisations has shown that the full percentage required to replace wasting assets is never utilized. From 50% to 60% is all that is required to meet charges for depreciation if normal development is assumed: the 25% proposed is well over the higher limit of 60%.

A. Walter
Statistician,
Governors' Conference.

KENYA AND UGANDA RAILWAYS AND HARBOURS.

General Manager's Office,

Nairobi.

29th June 1930.

THE HIGH COMMISSIONER FOR TRANSPORT.

PROVISION FOR RENEWALS.

With reference to Colonial Office Despatch, No. 71 of the 17th of June, 1929, and to the High Commissioner's letter No. T/Fin/A.1 of 12.7.1929, I now submit a memorandum containing my recommendations with regard to the proper provision to be made on account of depreciation of the wasting capital assets of this Administration.

2. In order to enable me to make this report, I considered it advisable to appoint a departmental committee to examine the question carefully from the point of view of the rate of depreciation, of "life" of individual wasting assets. It appeared that whatever final adjustment was agreed to, no proper appreciation of the position could be arrived at without this fundamental information, as from its "life" is calculated the amount and the date of renewal expenditure for each asset.

3. The results of the labours of this Committee have been printed and are attached to this memorandum. Their investigations involved considerable research among old records and the information now collected, while not in all cases based on "audited figures" can be adopted as substantially correct and is of considerable value not only in respect of the present investigation, but also in respect of future reconsideration of this question.

104

KENYA AND UGANDA RAILWAYS AND HARBOURS.

General Manager's Office,

Nairobi.
29th March, 1930.

THE HIGH COMMISSIONER FOR TRANSPORT.

PROVISION FOR RENEWALS.

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4. Just before the Committee set to work, the printed report of a similar Committee in South Africa became available through the courtesy of the General Manager of the South African Railways. This report proved of great value and assistance to my Committee in considering their recommendations.

5. A copy of the Report of the South African Committee is enclosed for ready reference, and extracts from this Report to which reference has been made, have been included in the printed Report of the Kenya and Uganda Railways Committee.

6. The terms of reference of the South African Committee are somewhat different from those given to my Committee, but it will be seen that the arguments are in both cases dependent upon the calculated life of the wasting assets and it would not appear that this problem could be approached from any other angle.

7. It would not be possible for a rapidly growing Administration such as this to attempt to fix a specific sum as a proper Renewals contribution, as has been done in South Africa. It will be necessary to adopt some more flexible method based on the actual capital value at the time of wasting assets and so to allow for such fluctuations and increases in capital expenditure as may from time to time take place.

8. It will be seen that the Committee have based all their calculations on a capital value of wasting assets, so far as the Railway is concerned, amounting to £11,407,266, being the value on our books as at the 31st

December, 1928. The conclusions come to as a result of these calculations will, however, under the method recommended, hold good for any normal rate of increase in such capital value.

9. In theory, the amount of money available in a Renewals Fund should be just adequate to meet the annual depreciation of wasting assets. In practice, however, the current depreciation of any particular asset cannot be met by an annual expenditure of money, but annual contributions must be accumulated until it becomes necessary to renew the asset. There will, therefore, be peak periods when expenditure greatly reduces all funds available, while at other times there will be an excess of funds.

10. Such excess funds, however, fulfil a very useful function, as they can be used with advantage to provide part of the working capital that is required to finance the current undertakings of a Railway and Harbour Administration.

11. As the whole basis of the calculations of the amount required for Renewals depends upon a proper estimate of the life of wasting assets, it is necessary carefully to consider what are suitable "lives" under existing conditions.

12. The Committee have examined this question carefully and have in each case quoted figures to support the lives recommended. I have carefully considered their recommendations in this respect and consider that the years of life for each type of asset recommended by the Committee to be reasonable. This is a matter that

requires periodical revision as a result of experience and I therefore propose in future to publish such figures in the annual Estimates and Reports.

13. A further principle of importance in considering this question must be discussed. On a private railway the amount of money set aside by the Directors for reserve funds, Renewals Fund, etc., subject of course to usual State control, is largely governed by the revenue that can be abstracted from the users of the railway at the time. A private Company naturally builds up its reserves and pays as high a dividend as it feels the traffic carried can bear and the soundness of its general financial position as reflected in the extent of its reserve funds and the dividends paid to shareholders is directly remunerative when such a Company has to raise further capital.

14. On a Government railway, on the other hand, where it is a definite policy to provide efficient transport at the cheapest possible rate and where capital is provided by loans issued by the State, it is not necessary to build up reserve funds beyond the minimum necessary to ensure a sound financial position. Anything more than the absolute minimum has the direct effect of still further taxing the present generation for the benefit of a future one. This aspect of the matter is particularly important in a young, developing country, where the early generations cannot usually bear high overhead charges so easily as later generations should be able to do. (NOTE. It will become clear from later paragraphs in this memorandum that unless some adjustment is made, early generations are bound to pay heavier charges than will later generations.)

15. For these reasons, the greatest care must be

taken.....

109

taken to see that the minimum requirements only are set aside for reserve and Renewals Funds as are necessary to maintain a sound financial position and my recommendations to follow are based on the acceptance of this principle.

16. In the Committee's report, various incidental problems are referred to which should be dealt with before coming finally to the consideration of the actual sum to be set aside on account of Depreciation.

17. ASSETS SCRAPPED AND NOT REPLACED.

So far as Rolling Stock is concerned, action has been taken to replace such Rolling Stock up to a value of £125,000 (vide page 4, paragraph 6 and page 16, paragraph 6 of the Report). So far as other assets are concerned, amounting to a sum of £45,190, I have to recommend to the High Commissioner that approval be given to the alternative recommendation of the Committee, as recorded on page 16, as being in accordance with our present practice, (vide Instruction contained in "Expenditure for New Works", a copy of which is attached for ready reference.)

18. CREDITS FOR RECOVERED MATERIAL.

I have approved of credits for recovered material being credited to the Renewals Fund in accordance with our standard practice. I also agree with the recommendations of the Committee (vide page 16, paragraph 8) that no deductions should at the present time be made on this account.

19. OVERDUE RENEWALS.

The Committee have at my request made full allowance for the Renewals overdue as at the 31st December, 1930. The sum involved is not unduly large, being £810,931. This position is reasonably satisfactory and is due to the fact that considerable progress has been made during recent years in overtaking arrears. It should at this stage be noted that had a Renewals Fund been started when the Railway was handed over to Government from Construction in 1903, the balance of the Fund, on the life valuation assumed in the report, would have been increased by some £2,000,000. In the absence of this balance, the present contribution to the Renewals Fund must be higher than would otherwise have been necessary. From this fact it will be seen that the earlier generation has been let off entirely, and, in consequence, a later generation is having to pay. This follows the principle endorsed in paragraph 14, but to a somewhat exaggerated degree, as the debt is having to be met before any relief from Interest and Sinking Fund charges becomes available.

20. REPLACEMENT VALUE.

In all cases the Committee have assumed that replacement values will be no greater than original cost. There is, however, no guarantee that such will be the case. In fact, the general tendency is frequently in the opposite direction. As however many of our assets such as the Uasin Gishu Railway were acquired just after the war, at peak prices, this assumption is justifiable under the circumstances.

21. Turning now to the Tables on pages 37 - 46

we can examine the financial position of the Renewals Fund, based on estimated actual expenditures from year to year and on full contributions calculated on the life basis already referred to.

22. It would appear that, with the exception of the years 1931 and 1932, there will always be a surplus balance in the Fund which by the end of 1936 will exceed £1,000,000. (In this connection see paragraph 10 above) and from 1940, with the exception of one year, 1959, will exceed £2,000,000, and will fluctuate to as high as £5,000,000 in 2015.

23. These facts demonstrate clearly that contributions on a life basis will provide more funds than are actually required. In this connection, I reproduce herewith paragraphs 36, 37, 99 and 100 of the Report of the South African Committee, summarising this aspect of the matter very clearly.

"36. This proves, of course, what has been stressed at various times in connection with the subject of depreciation, namely, that the contributions for renewal of assets on the life basis will always provide more funds than will ever be required, and is readily understood when it is remembered, that at no time in the history of the railways will the whole of the assets be entirely new, and so, as the life basis implies having monies in the Renewals Fund corresponding to the difference between the original cost and the present day value of the assets in service, there must always be monies in the Renewals Fund that will never be required.

37. By "never required" of course your Committee means that as liquidation or sequestration of the Railways is a very remote and improbable contingency, there is no need, at least for many years to come there is no need, to provide funds to meet such a contingency and therefore there is no need to have in cash, always, the full difference between the original cost and the present day value of the wasting assets, or in other words, the full accrued depreciation on the wasting assets in service at any given time."

Handwritten note:
The funds
are not
needed
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a long period a rate of 2% just provides sufficient funds to meet all calls. This Table, however, does not take into account the factors referred to in paragraphs 23 and 24 above. In actual fact, owing to additional contributions from new assets acquired in normal development, the actual sums available at this rate would always be much in excess of the amount required. Nor does the table cover the suggestion made in paragraph 14, that the burden of the present generation should be eased, by transferring some of the charges to a later period when relief from Loan Charges provides an opportunity for adjustment. It will be necessary, therefore, in order to appreciate the position clearly, to work to much closer figures and for a shorter period.

26. The table shown below has, therefore, been prepared on a 2% basis for the purpose of illustrating the problem. This Table shows for each year up to 1960 :-

- (a) The balance in the fund after meeting all annual expenditure, as it falls due.

NOTE: For this purpose it has been assumed that the arrears amounting to £600,000 are overtaken at the rate of £100,000 per annum and not in one year as recommended in the report.

- (b) The relief in Interest and Sinking Fund charges commencing in 1947, due to amortisation of Loans.

(All Services)

Year	Remaining Balance (existing assets)	Accumulated Relief from Loan Charges.
	£	£
1931	250,689	
1932	238,823	
1933	255,006	
1934	339,821	
1935	421,398	
1936	487,943	
1937	580,343	
1938	669,786	
1939	778,941	
1940	<u>942,026</u>	
1941	935,578	
1942	917,797	
1943	948,894	
1944	927,649	
1945	1,064,418	
1946	931,970	
1947	760,822	160,600
1948	711,841	321,200
1949	194,946	481,800
1950	138,592	<u>648,400</u>
1951	72,740	849,200
1952	73,407	1,055,592
1953	69,036	1,281,984
1954	19,202	1,498,376
1955	87,882) Deficit	1,714,768
1956	447,752)	1,931,160
1957	770,344)	2,147,552
1958	1,363,549)	2,363,944
1959	1,685,891)	2,730,336
1960	1,658,730)	<u>3,096,728</u>

27. An examination of the balances shown as available in the above table, definitely demonstrates that up to 1945 a 2% contribution reasonably meets all requirements, and with the stores fund, interest reserve fund and Betterment fund providing adequately for working Capital. From 1945 onwards, the balances shown, begin to decrease and by 1949, are definitely too low, while from 1955 onwards deficits are shown.

30,7428
1,238,750
1,379,95

Actually
of this is
low money
available

28. It is, however, more than probable that further contributions on account of new assets shown on the above table (for example the line to the Congo) will fully supply the deficiency. Further, there is a tendency for renewals not to be carried out as due, and on this account, the balances actually available in fact will be rather greater than those shown.

29. But an even more significant fact must be appreciated. It will be seen from the table that from 1947 onwards, very appreciable relief will be obtained as a result of amortization of Loans, permitting, without hardship, an increase in the rate for depreciation if needed.

30. It will be evident from the following figures, that on the present method of financing the Railway and Harbour Services, Loan and Renewal Charges operate somewhat as follows :-

	<u>Present Liability.</u>	<u>Future Liability.</u> (1.6. after 40 years)
Interest	5%	-
Sinking Fund	1%	-
Depreciation	<u>2%</u>	<u>say 3.11%</u>
TOTAL.	<u>8%</u>	<u>say 3.11%</u>

31. It appears that during the first 40 years Loan and Depreciation liability together are some 5% more than after 40 years when the loan has been amortised. Such a position would be justified if it is assumed that an asset becomes obsolete shortly after the expiration of the period of the loan.

While

While such a possibility must not be overlooked in view of possible road and air development, it would also appear that, should such an eventuality become likely, there would be no need to fully maintain the asset and that the rate of contribution to the Renewals Fund could, therefore, be reduced as soon as it became probable that the asset would become obsolete.

32. On balance, for the purposes of this argument, it must be assumed that Railway assets as a whole will not become obsolete if properly maintained and renewed.

33. It will, however, be fair to rely on the reduction of loan charges after 1946 to enable additional funds to be provided if needed to finance the Renewal Fund owing to a somewhat lower rate of contribution being adopted at the present time, than would otherwise be necessary.

34. It is, therefore, justifiable to adopt the rate of 2% as shown in the table in paragraph 26, relying on the relief afforded by reduction of loan charges from 1947 onwards for providing additional funds for the Renewal Fund, in the very unlikely event of contributions on account of new assets failing to maintain adequate balances.

35. I recommend, therefore, that the rate of 2% should be definitely adopted for the next ten years, but that the position should at that date be again examined and verified.

36. If this recommendation is adopted for the next few years there will be a small margin only of reserve. It is, therefore, further recommended that the Interest Reserve Fund, which at the end of 1929 stands at £150,000

should.....

should be built up by annual contributions to a maximum of £400,000. If possible, annual contributions should be £100,000, but certainly not less than £50,000.

37. As 2% was the rate of contribution to the Renewals Fund for the year 1929, and as 2.5% was adopted for 1930 pending the issue of this report, I recommend that the contribution for 1930 be reduced to 2% to maintain continuity, but that the saving thereby effected of £56,594, should be placed to the credit of the Interest Reserve Fund, bringing that fund to a total of £206,594 at the end of 1930.

38. It will also be obvious that if contributions to the Renewals Fund are reduced to a minimum, as recommended, there can be no argument in favour of still further reducing the contribution by the amount of Sinking Fund Charges.

39. Further, until contributions on account of new assets, due to development, increase the balances available, it will not be possible to purchase rolling stock out of accrued depreciation.

40. When, however, the balance in the fund becomes adequate, I recommend that the policy of purchasing rolling stock out of accrued depreciation should be permitted.

41. CONCLUSIONS AND SUMMARY.

It will be seen from the arguments presented in this report that the following procedure is recommended :

- (a) Estimate the "life" of each form of wasting asset.

NOTE:

This is a matter that requires periodical examination and revision in accordance with actual experience.

- (b) From (a) calculate annual expenditure for all assets over a comprehensive period of years.
- (c) From (b) calculate annual sum to be set aside to meet the above expenditure.
- (d) Translate the figure obtained from (c) as a percentage of the total value of wasting assets.
- (e) Use this percentage to calculate the contribution due for any particular year for assets as tabulated and for all new assets added from time to time.

42. With reference to 41 (c), it is recommended that the percentage to be fixed for the next 10 years should be 2%, but that the whole position should be again reviewed in 1940, when if development takes place at a reasonable rate, a further reduction can be made.

43. To enable this to be done with the minimum of difficulty, suitable registers will be maintained of the various forms of wasting assets.

44. My recommendations, given above refer to the Railway Renewal Fund only. With regard to the Marine, Motor Services and the Harbour, I recommend that the

Committee's

Committee's proposals be approved, viz:-

Marine Life value to be taken as 33 years.
No contributions to be made for the
next 5 years and the position to be
then reviewed.
(vide page 3 paragraph 4).

Motor Life to be calculated at 5 years and
Services contributions to be on 2% basis.
(vide page 3 paragraph 4).

Harbour Lives and contributions as recommended
Services by the Committee.
(vide page 4 and page 9).

This Memorandum, together with the report of the
Committee are being placed before the Railway Advisory
Council for consideration at their next Meeting.

J. D. Brown

Enclos.

GENERAL MANAGER.

119

Kenya and Uganda Railways and Harbours.
(INCLUDING MARINE AND MOTOR SERVICES)

EXPENDITURE ON NEW
WORKS.

Kenya and Uganda Railways and Harbours (INCLUDING MARINE AND MOTOR SERVICES).

INSTRUCTIONS GOVERNING THE ALLOCATION OF EXPENDITURE IN CONNECTION WITH NEW AND ADDITIONAL WORKS, REPLACEMENTS, WITHDRAWALS, Etc.

The various funds and accounts to which expenditure may be charged and the authority necessary in each case are:—

I. LOAN FUNDS.

Expenditure against loan funds is governed by Loan Ordinances. Schedules of expenditure attached to such Ordinances cannot be varied except under the authorities laid down therein.

II. PARLIAMENTARY GRANT.

Expenditure against balances under the old Parliamentary Grant (Uganda Railway Acts, 1896-1902) cannot be incurred without the sanction of the Secretary of State.

III. BETTERMENT FUNDS.

These funds are established by credits from net revenue with the object of providing means for effecting improvements in capital assets, or, when justified by financial considerations, acquiring additional assets, without the necessity for using interest-bearing loan funds.

Expenditure from these funds may be subsequently capitalised, as, for example, in respect of capital additions and improvements made to increase revenue or decrease expenditure, or left as a final charge against the Betterment Fund, and therefore uncapitalised.

Authorities for expenditure from the Betterment Funds will be contained in estimates sanctioned by the Legislature and the Secretary of State, but the Management may approve of re-allocations in respect of individual items within the limit of the total expenditure sanctioned.

IV. INSURANCE FUND (MARINE).

This fund has been established by credits from Revenue Account for the purpose of replacing, or making good, losses or damage to steamers, tugs, lighters, etc., by shipwreck, fire, collisions or other risks. Expenditure against this fund is included in estimates for sanction by the Legislature and the Secretary of State.

V. RENEWALS FUNDS.

These funds are established by credits from Revenue Account for the purpose of replacing or renewing wasting assets.

Expenditure against these funds is included in estimates for sanction by the Legislature and the Secretary of State, but the Management may approve of re-allocations in respect of individual items within the limits of the total expenditure sanctioned.

VI. WORKING ACCOUNTS.

To the ordinary working accounts are chargeable the maintenance, minor replacements and renewals of existing assets. Expenditure against these heads is included in estimates for sanction by the Legislature and the Secretary of State.

PRINCIPLES GOVERNING THE ALLOCATION OF EXPENDITURE AS BETWEEN THE ABOVE FUNDS.

I. LOAN FUNDS.

Expenditure against loan funds is on Capital Account and includes the following to the extent to which provision is made in Loan Ordinances—

- (a) Cost of new lines and rolling stock therefor.
- (b) Cost of new and additional works and improvements.
- (c) Cost of new rolling stock, steamers, tugs, lighters, etc., for increased traffic requirements.
- (d) Cost of other additional assets.

2

II. PARLIAMENTARY GRANT

Expenditure against the Parliamentary Grant (Uganda Railway Acts, 1896 and 1902) is on Capital Account and must be limited to such additional buildings, rolling stock or other assets to the Uganda Railway main line as have been approved by the Secretary of State.

III. (a) BETTERMENT FUNDS—(EXPENDITURE TO BE CAPITALISED—NON-INTEREST BEARING).

Expenditure on betterments to be capitalised when the cost of any work exceeds £250 includes:—

- (1) Capital alterations and additions to existing assets, e.g.:
 - Extension of platforms.
 - Extension of existing sidings.
 - Additional accommodation in quarters, etc.
 - Additions to station yards.
 - Extensions of cabin accommodation on steamers.
 - Enlargement of piers, docks, wharves, etc.
- (2) Additional capital assets not provided for under 1(b).
- (3) Proportion of cost of material in relaying track with heavier rails.
- (4) Proportion of cost of replacing vessels with an improved type.
- (5) Loading banks at stations.
- (6) Replacing earth ballast with stone—additional cost involved.
- (7) Cost of triangles, turntables, engine pits, etc.
- (8) Cost of material utilised in strengthening track, bridges, etc.
- (9) Extensions of water supplies.
- (10) Installation of Tyer's tablets.
- (11) Other Capital Expenditure on improvements or additions which will increase earnings or reduce working expenses.

(b) BETTERMENT FUNDS—(EXPENDITURE NOT TO BE CAPITALISED).

Expenditure against final betterment (i.e., not to be capitalised) when the cost of any work exceeds £250 includes:—

- (1) Deviations of track: the full expenditure, except when the cost of the new section exceeds that of the abandoned section, when the additional cost will be charged to Betterment to be capitalised.
- (2) Marine surveys: the full expenditure except when new harbours, piers, etc., are built when the cost may be capitalised.
- (3) Regrading, i.e., lowering or raising track and improving curves.
- (4) Improvements to engines and rolling stock already in service.
- (5) Improvements to steamers and other craft already in service, e.g., installation of apparatus for burning oil fuel instead of coal or wood.
- (6) Protection works at a site where a washaway has occurred.
- (7) Drainage and sewerage connections to existing properties.
- (8) Surveys of projected lines and diversions not proceeded with.
- (9) Sinking of boreholes or wells.
- (10) Remodelling station yards.
- (11) Additional culverts put in existing track.
- (12) Concrete flooring replacing earth floors.
- (13) Additional decking on ships.
- (14) Converting engines and rolling stock from one type to another.
- (15) Widening carriages.
- (16) Additional roads in Railway areas.
- (17) Labour charges incurred in strengthening track, bridges, etc., when the additional capital value of the material is capitalised.

IV. INSURANCE FUND (MARINE)

Expenditure against the Marine Insurance Fund is limited to making good, losses of or damage to steamers, tugs, lighters and other marine craft arising through wreck, fire, collision or other marine risks.

3

V. RENEWALS FUNDS.

Expenditure against the renewals funds includes the total cost of labour and materials used in the replacement of assets as shown hereunder when such cost exceeds £250. Where additional value results from replacement by increased weight, size, improved type or quality of material, a proportion of the total cost of materials will be charged to Betterment (to be capitalised):—

- (1) Bridges or culverts.
- (2) Permanent Way, relaying, resleepering and rebalancing of track in lengths of one-half mile and over.
- (3) Fencing.
- (4) Level crossing.
- (5) Signals.
- (6) Telegraph lines.
- (7) Buildings, fixtures, engine sheds, turntables, water supplies, fuelling plant, electric light and power plant, workshops and machinery, steamers, tugs, lighters, etc., (except when covered by IV).
- (8) Replacing deck and engine room machinery.
- (9) New boilers for locomotives and steamers.
- (10) Renewing decking in vessels.
- (11) Rolling stock to the extent of the accrued depreciation of rolling stock in service as certified by the Chief Mechanical Engineer.

NOTE.—(a) The value of old material returned to stores in connection with the above works is to be credited to the Renewals Funds.

(b) To avoid raising loans, new rolling stock required to meet additional traffic requirements may be purchased from the Renewals Funds to the extent to which funds are available, provided the Chief Mechanical Engineer can give a certificate under (11). No adjustment of capital account is to be made in respect of such purchases but all credits in respect of stock withdrawn from service are to be passed to the Renewals Funds.

VI. WORKING ACCOUNT.

Expenditure against working account includes the cost of maintaining all assets in good working order and condition. To this also will be charged (a) the cost of new works, minor additions and improvements not exceeding £250 in any one case, (b) the cost of renewals and replacements not exceeding £250 in any one case, and (c) any urgent and necessary work even if it exceeds £250 in cost when no provision has been made for the work under Funds I to V, and Funds are available from savings in Working Votes.

VII. WITHDRAWAL OF ASSETS FROM SERVICE.

1. When it is desired to withdraw from service:—
 - (a) An asset which has been or is to be replaced at a cost exceeding £250.
 - (b) An asset not to be replaced, the original cost of which exceeded £250.application must be made to the General Manager on the attached form, in triplicate.
2. In the case of (a) when plant or equipment is concerned a survey report endorsed with the recommendations of a survey board must accompany the application.
3. When an asset is not to be replaced the reason must be given under "Proposals for Replacement." When an asset has already been replaced reference to such replacement must be given under the same head.
4. No asset as defined above may be abandoned or placed out of service for an indefinite period without application being made to the General Manager on the attached form. Should any assets so abandoned be in existence at the present time they should be reported to the Manager on that form. Should it be desired to place an abandoned asset into service again the fact should be reported to the General Manager by letter, a copy being sent to the Chief Accountant.
5. When sanction has been given to the withdrawal of an asset as defined under (a), an estimate, allocated to Renewals Funds, showing the cost of demolition and the estimated credit for material recovered must be prepared and forwarded through the Chief Accountant to the General Manager for sanction.

APPLICATION FOR WITHDRAWAL OF ASSETS FROM SERVICE.

6. When sanction has been given to the withdrawal of an asset as defined under (b) the procedure will be as follows :-

- (i) Such asset must be written out of Capital Account by an adjustment debiting "Capital Account Receipts, Contributions by Revenue, Transfers from Betterment Fund," and crediting the appropriate sub-head of "Capital Account Expenditure."
- (ii) When the amount realised (a) by the sale of such asset is greater than the cost of same (b) as it appeared in Capital Account the latter amount (b) must be credited to Betterment Fund, and the difference between this and the amount realised (a) must be credited to Net Revenue Account.
- (iii) When the amount realised (a) by the sale of an asset corresponds with the cost of same (b) as it appeared in Capital Account such amount (a) must be credited to Betterment Fund.
- (iv) When the amount realised (a) is less than the cost (b) which appeared in Capital Account such amount (a) must be credited to Betterment Fund, and the estimated amount of depreciation through wear and tear up to the difference between this amount (a) and the cost (b) as shown in Capital Account must be credited to Betterment Fund by debit to Renewals Funds.
- (v) When an asset is abandoned the value of second-hand material recovered from same less the cost of demolition must be credited to Betterment Fund and the estimated amount of depreciation through wear and tear up to the difference between the value of such second-hand material and the cost of the asset as shown in Capital Account must be credited to Betterment Fund, by debit to Renewals Funds.
- (vi) When the total credit (a) to Betterment Fund as laid down in paras. (iv) and (v) is less than the cost (b) of an asset as it appeared in Capital Account the difference between such credit (a) and the cost (b) must be credited to Betterment Fund by debit to Net Revenue Account.
- (vii) Credits to Betterment Fund in respect of assets written out of Capital Account will only be available for expenditure upon works to be capitalised. They should be shown distinct from contributions from Revenue in the Chief Accountant's Books. At the time the annual estimates are prepared a statement of such credits should be forwarded to the General Manager who will decide to what extent and upon what specific works they are to be utilised in connection with the following year's Betterment programme.

7. In the case of assets abandoned an estimate allocated to Betterment Fund showing the estimated cost of demolition and the estimated credit on account of material recovered must be submitted through the Chief Accountant to the General Manager for sanction.

8. These instructions do not apply to assets demolished and replaced or re-erected as a result of alterations at the same station, nor do they apply in cases where assets are merely transferred from one place to another, or from one Department of the Administration's Services to another (other than from or to the Port of Mombasa).

9. These instructions do, however, apply in cases where it is proposed to demolish an asset at one station and re-use a portion of the material therefrom at another station, the value of the material so re-used to be charged to the cost of the new work.

Description of Asset	_____
Year placed in Service	_____
Funds from which Asset was purchased	_____ Estimate No. _____
Original Cost	_____ £
Estimated present market value	_____ £
Difference	_____ £

REASONS FOR APPLICATION FOR WITHDRAWAL

Head of Department

PROPOSALS FOR DISPOSAL IF RECOMMENDATION IS SANCTIONED

Estimated value of scrap material £ _____

Estimated cost of demolition £ _____

Head of Department

G. D. RHODES,
Acting General Manager.

GENERAL MANAGER'S OFFICE,
R. T. R. & H.,
NAIROBI
26 April, 1929.

6
PROPOSALS FOR REPLACEMENT

Date _____
Head of Department.

ORDERS OF GENERAL MANAGER.

To _____
Chief Accountant

Date _____
General Manager

PARTICULARS RELATING TO DISPOSAL

Demolition sanctioned under Estimate No _____

Sold to _____

vide _____ Receipt No _____ Dated _____

7
EXPLANATORY NOTES.

1. As a certain amount of misapprehension has existed in connection with the "Instructions Governing the allocation of Expenditure," previously in force, the following explanatory notes are given for guidance of all concerned in this connection.

INCIDENCE OF EXPENDITURE AS BETWEEN WORKING EXPENDITURE AND RENEWALS FUNDS.

2. The full cost of all maintenance and repairs necessary to keep the track, equipment and other assets in good working order and condition, must be charged to current working expenditure. Apart, however, from the wear and tear which can thus be made good, there is steady and constant depreciation of certain classes of capital assets which ultimately necessitates complete replacement. The object of the Renewals Fund is to provide the money for such complete replacement when the cost of the replacement exceeds £250.

3. Assets, the replacement of which may be charged to the Renewals Funds when the cost of replacement exceeds £250, are scheduled on page 3 of the "Instructions" above referred to under the heading "V. Renewals Funds." Each individual item of track, buildings, plant or equipment, must stand on its own for the purpose of allocation; items may not be grouped together so as to alter the incidence of expenditure.

4. The Renewals Fund must not be charged with the replacement of parts of the assets referred to except where this is specifically provided for in the schedule as:—

- (2) Permanent way, relaying, resleepering and rebalasting of track in lengths of half a mile and over.
- (8) Replacing deck and engine room machinery.
- (9) New boilers for locomotives and steamers.
- (10) Renewing decking in vessels.

In this connection it should be noted that there must be a complete renewal of the part of the asset scheduled, e.g., in the case of (2) the permanent way must be completely relayed, resleepered or rebalasted over a defined section; and in the case of (10) the decking of a vessel must be renewed throughout.

5. The assets figuring in the Capital Account of this Administration are of the most varied description, and cases will arise from time to time where partial renewals which are not provided for in the schedule would nevertheless be a proper charge against the Renewals Fund.

Such a case would arise where an asset is composed of widely differing classes of materials, as for example, a bridge raised on stone pillars carrying iron girders over a wooden track. The complete renewal of either pillars, girders or track would be a proper charge against the Renewals Funds.

Cases also will arise where the grouping of items is justified, as for instance the renewal at one time of a number of culverts laid consecutively through a bank.

All cases, however, not strictly covered by the wording of the "Instructions," should be submitted to the General Manager for decision, full details being given.

INCIDENCE OF EXPENDITURE AS BETWEEN WORKING EXPENDITURE AND BETTERMENT FUNDS.

6. Working expenditure must be charged with the cost of an additional asset when that cost does not exceed £250.

Betterment or Loan Funds must be charged with the cost of an additional asset when that cost exceeds £250, except as provided for under "VI.—Working Account, (c)" on page 3 of the "Instructions" referred to above. Effect must not however, be given to the provision under "Working Account, (c)," without specific reference to the General Manager or before his authority has been obtained.

7. Working expenditure must be charged with the cost of any betterment or improvement to an existing asset when such cost does not exceed £250.

Betterment Funds must be charged with the cost of any betterment or improvement to an existing asset when such cost exceeds £250.

8. The instructions given above must be applied to each individual item of track, buildings, plant or equipment. The incidence of expenditure laid down must not be evaded by grouping several items together for the purpose of allocation.

INCIDENCE OF EXPENDITURE AS BETWEEN RENEWALS AND BETTERMENT FUNDS.

9. When an asset is completely worn out and is replaced the Renewals Funds must be charged with the present day cost of providing an asset identical with that to be replaced (provided such cost exceeds £250) and the Betterment Funds must be charged with the difference, if any, between such cost and that of the asset actually acquired, (provided such difference exceeds £250).

10. When an asset is replaced in any other circumstances, e.g., because it is out of date or because its capacity is no longer up to requirements, the amount of depreciation up to the date of replacement must be charged to the Renewals Funds (provided the present day cost of replacement would exceed £250), and the difference, if any, between such amount and the cost of the new asset actually acquired must be charged to the Betterment Fund (provided such difference exceeds £250). For example, if a machine, the life of which was estimated at thirty years, were replaced by a machine of improved pattern at the end of fifteen years, half the present day cost of a machine exactly similar to that to be replaced would be charged to the Renewals Funds and the balance to Betterment Fund.

In cases where the replacement of an asset is (a) partly in the nature of a Renewal and, (b) partly in the nature of a Betterment, and the cost of neither (a) nor (b) exceeds £250, the total cost forms a charge against working.



Kenya and Uganda Railways and Harbours

REPORT

OF

DEPARTMENTAL COMMITTEE ON
THE AMOUNT OF CONTRIBUTION TO
RENEWALS FUNDS NECESSARY TO
ALLOW FOR DEPRECIATION OF
WASTING ASSETS.

1930

Kenya and Uganda Railways and Harbours

GENERAL MANAGER'S OFFICE,

NAIROBI, 3rd August 1929.

KENYA COLONY

No E F 391.

THE CHIEF ACCOUNTANT,
NAIROBI.

DEPRECIATION AND RENEWALS FUND.

Your letter No. GAP. 430/9506, dated the 29th July, 1929.

I have decided to appoint a Committee, under your Chairmanship, composed of:—

Yourself, as Chairman,
The Acting Chief Engineer,
The Acting Chief Mechanical Engineer,
with the Financial Assistant to the General Manager, as Secretary, to consider and report upon the amount of contributions that are considered necessary to the Renewals Fund to allow for depreciation of wasting assets and the principles that should be followed in connection with the working of this account.

2. In this connection it will be necessary to establish the average life of wasting assets, and, from that, the percentage of original cost that should be contributed annually to allow for its replacement. From the amount obtained from this calculation should be deducted credits that might be expected due to—

- (a) assets scrapped and not replaced;
- (b) reduction in liability due to the amount of sinking funds provided in reduction of interest bearing capital;
- (c) credits for recovered material;
- (d) credits for surplus funds found in practice to be available, due to expenditure on renewal usually being overdue.

3. It will also be necessary to calculate to what extent the wasting assets of the Administration have been properly renewed, or whether there is an overdue expenditure against the Renewals Fund.

4. With the above information available, it will be possible to calculate the annual expenditure that may be expected against the Renewals Fund during the next, say, ten years.

5. With the above information available, it will also be possible to state whether the practice of purchasing new rolling stock against "accrued depreciation" is possible and advisable; and, finally, whether, after fixing the rate for depreciation, whether a further limit should be set by fixing a minimum percentage of revenue in any one year as a contribution to the Renewals Fund.

6. In connection with the above matter, I would refer you for guidance in your investigation the report recently received from the South African Railways and Harbours with regard to the same question. This report will be of extreme value, but its conclusions may have to be modified to some extent to meet local conditions.

7. I should be glad if this investigation could be carried out with as little delay as possible, as the Secretary of State has particularly asked us to report on this matter in view of last year's proposals to reduce the contribution to Renewals Fund to two per cent on the original cost of wasting assets.

8. Pending the receipt of further copies of the South African Railways and Harbours Report, I am circulating the existing copy through the Acting Chief Engineer and the Acting Chief Mechanical Engineer.

G. D. RHODES,

Acting General Manager.

Kenya and Uganda Railways and Harbours

GENERAL MANAGER'S OFFICE.

NAIROBI, 3rd August 1929.
KENYA COLONY.

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- (c) credits for recovered material;
- (d) credits for surplus funds found in practice to be available, due to expenditure on renewal usually being overdue.

3. It will also be necessary to calculate to what extent the wasting assets of the Administration have been properly renewed, or whether there is an overdue expenditure against the Renewals Fund.

4. With the above information available, it will be possible to calculate the annual expenditure that may be expected against the Renewals Fund during the next, say, ten years.

5. With the above information available, it will also be possible to state whether the practice of purchasing new rolling stock as against "accrued depreciation" is possible and advisable; and, finally, whether, after fixing the rate for depreciation, whether a further limit should be set by fixing a minimum percentage of revenue in any one year as a contribution to the Renewals Fund.

6. In connection with the above matter, I would refer you for guidance in your investigation the report recently received from the South African Railways and Harbours with regard to the same question. This report will be of extreme value, but its conclusions may have to be modified to some extent to meet local conditions.

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8. Pending the receipt of further copies of the South African Railways and Harbours Report, I am circulating the existing copy through the Acting Chief Engineer and the Acting Chief Mechanical Engineer.

G. D. RHODES,
Acting General Manager.

Kenya and Uganda Railways and Harbours

CHIEF ACCOUNTANT'S OFFICE.

No. G.A.P. 430.

NAIROBI, 30th September, 1929.
KENYA COLONY.

THE HON. ACTING GENERAL MANAGER,
NAIROBI.

DEPRECIATION AND RENEWALS FUND.

SIR,

In accordance with your instructions as conveyed to us *vide* your letter No. E.F. 391 dated August 3rd, 1929, we were appointed a committee to consider and report upon the amount of contributions that are considered necessary to the Renewals Fund to allow for depreciation of wasting assets and the principles that should be followed in connection with the working of this account."

2. Your letter referred to contained specific reference to the following:—

- (a) Life of wasting assets.
- (b) Assets scrapped and not replaced.
- (c) Reduction in liability due to the amount of sinking funds provided in reduction of interest bearing capital.
- (d) Credits for recovered material.
- (e) Credits for surplus funds found in practice to be available, due to expenditure on renewals usually being overdue.
- (f) To what extent the wasting assets have been properly renewed, or whether there is an overdue expenditure against the Renewals Fund.
- (g) What annual expenditure may be expected against the Renewals Fund during the next ten years.
- (h) Is the practice of purchasing new rolling stock as against "accrued depreciation" possible and advisable.
- (i) After fixing rates for depreciation whether a further limit should be set by fixing a minimum percentage of revenue in any one year as a contribution to the Renewals Fund.

All the foregoing points have received our close attention and consideration and are referred to item by item in our report.

3. We are of opinion that it will serve a useful purpose if we set out how and when our present renewals funds came into being in their chronological order. They are as follows:—

Marine Renewals Fund.—Contributions to an Insurance and Depreciation Fund were started as from April 1st, 1913, on the capital value of steamers, tugs, lighters, etc., employed on our Inland Lakes Services.

The rate of contribution was 5 per cent per annum. The accumulated amount to the credit of this fund at December 31st, 1923, was £208,688/3/34. The constitution of this fund was then altered and the amounts disposed of as follows:—

	£	Sh. Cts.
Renewals	29,436	9 17
Betterment	50,000	0 00
Insurance	129,251	14 17
Total	£208,688	3 34

Contributions at the rates of 5 per cent per annum were made to the Fund for the years 1924, 1925 and 1928, and are being made for the year 1929 at the rate of 3½ per cent.

For the years 1926 and 1927 contributions calculated at the rate of 5 per cent were actually credited to the Railway Renewals Fund.

Railway Renewals Fund.—As from April 1st, 1921, the net profits of the Administration ceased to be handed over to the Kenya Government, and were placed to the credit of a Railway Renewals and Betterment Fund. The accumulated balance of this fund at December 31st, 1923, was £356,780/17/00. The constitution of the fund was then altered and the amount distributed as follows:—

	£	Sh. Cts.
Renewals	163,390	8 50
Betterments	193,390	8 50
Total	356,780	17 00

For the years 1924, 1925, 1926, 1927 and 1928 the fund was credited at the rate of 5 per cent on the capital cost of Railway wasting assets, and in addition the contributions in respect of the years 1926 and 1927, calculated at 5 per cent on capital value of Marine wasting assets, were also credited to this Fund.

Contributions for the year 1929 are calculated at 2 per cent.

Motor Services.—This fund was started as from January, 1927, and for the years 1927 and 1928 contributions were made at the rate of 25 per cent on the capital cost of motor vehicles.

For the year 1929 the rate of 15 2/3 per cent is being applied.

Harbours.—This fund was started as from January 1st, 1927, and the contributions are based on varying rates, which will be referred to later.

(a) LIFE OF WASTING ASSETS.

4. **Marine.**—The present life value is one of twenty years. After full consideration of all factors, and hearing the views of the Marine Superintendent, we recommend that the new life value be one of thirty-three years, and that contributions, if and when made in the future after 1930, should be calculated at 3 per cent.

We further recommend that, after 1930 no contribution should be made for five years, when the position could again be reviewed.

At June, 1929, the balance of the fund was £72,432, to which must be added the contributions for the last six months of 1929 and the sanctioned contributions for 1930.

Allowing for any expenditure that is likely to be incurred against this fund for the next few years, we are of opinion that the balance available will be ample to cover any calls that may be made thereon.

Railway.—In this connection Statement A1 gives the following information:—

1. Details of assets.
2. Capital value on which depreciation is based.
3. Estimated life.
4. Percentage recommended.
5. Amount of depreciation contributions recommended.
6. Present rates.
7. Present contributions at 3 per cent.

Motor Services.—The rate at present applied is 25 per cent. We consider this too high, and are of opinion that 20 per cent should be adopted. We consider that with the experience now gained, since the Administration took

Kenya and Uganda Railways and Harbours

CHIEF ACCOUNTANT'S OFFICE.

No. G.A.P. 430.

NAIROBI, 30th September, 1929.
KENYA COLONY.

THE HON. ACTING GENERAL MANAGER,
NAIROBI.

DEPRECIATION AND RENEWALS FUND.

SIR,

In accordance with your instructions as conveyed to us *vide* your letter No. E.F. 391 dated August 3rd, 1929, we were appointed a committee "to consider and report upon the amount of contributions that are considered necessary to the Renewals Fund to allow for depreciation of wasting assets and the principles that should be followed in connection with the working of this account."

2. Your letter referred to contained specific reference to the following:—

- (a) Life of wasting assets.
- (b) Assets scrapped and not replaced.
- (c) Reduction in liability due to the amount of sinking funds provided in reduction of interest bearing capital.
- (d) Credits for recovered material.
- (e) Credits for surplus funds found in practice to be available, due to expenditure on renewals usually being overdue.
- (f) To what extent the wasting assets have been properly renewed, or whether there is an overdue expenditure against the Renewals Fund.
- (g) What annual expenditure may be expected against the Renewals Fund during the next ten years.
- (h) Is the practice of purchasing new rolling stock as against "accrued depreciation" possible and advisable.
- (i) After fixing rates for depreciation whether a further limit should be set by fixing a minimum percentage of revenue in any one year as a contribution to the Renewals Fund.

All the foregoing points have received our close attention and consideration and are referred to item by item in our report.

3. We are of opinion that it will serve a useful purpose if we set out how and when our present renewals funds came into being in their chronological order. They are as follows:—

Marine Renewals Fund.—Contributions to an Insurance and Depreciation Fund were started as from April 1st, 1913, on the capital value of steamers, tugs, lighters, etc., employed on our Inland Lakes Services.

The rate of contribution was 5 per cent per annum. The accumulated amount to the credit of this fund at December 31st, 1923, was £208,688/3/34. The constitution of this fund was then altered and the amounts disposed of as follows:—

	£	Sh.	Cts.
Renewals	20,436	9	17
Betterment	50,000	0	00
Insurance	139,251	14	17
Total	£208,688	3	34

Contributions at the rates of 5 per cent per annum were made to the Fund for the years 1924, 1925 and 1928, and are being made for the year 1929 at the rate of 3½ per cent.

For the years 1926 and 1927 contributions calculated at the rate of 5 per cent were actually credited to the Railway Renewals Fund.

Railway Renewals Fund.—As from April 1st, 1921, the net profits of the Administration ceased to be handed over to the Kenya Government, and were placed to the credit of a Railway Renewals and Betterment Fund. The accumulated balance of this fund at December 31st, 1923, was £356,780/17/00. The constitution of the fund was then altered and the amount distributed as follows:—

	£	Sh.	Cts.
Renewals	163,390	8	50
Betterments	193,390	8	50
Total	356,780	17	00

For the years 1924, 1925, 1926, 1927 and 1928 the fund was credited at the rate of 3 per cent on the capital cost of Railway wasting assets, and in addition the contributions in respect of the years 1926 and 1927, calculated at 5 per cent on capital value of Marine wasting assets, were also credited to this Fund.

Contributions for the year 1929 are calculated at 2 per cent.

Motor Services.—This fund was started as from January, 1927, and for the years 1927 and 1928 contributions were made at the rate of 25 per cent on the capital cost of motor vehicles.

For the year 1929 the rate of 16 2/3 per cent is being applied.

Harbours.—This fund was started as from January 1st, 1927, and the contributions are based on varying rates, which will be referred to later.

(a) LIFE OF WASTING ASSETS.

4. **Marine.**—The present life value is one of twenty years. After full consideration of all factors, and hearing the views of the Marine Superintendent, we recommend that the new life value be one of thirty-three years, and that contributions, if and when made in the future after 1930, should be calculated at 3 per cent.

We further recommend that, after 1930 no contribution should be made for five years, when the position could again be reviewed.

At June, 1929, the balance of the fund was £72,432, to which must be added the contributions for the last six months of 1929 and the sanctioned contributions for 1930.

Allowing for any expenditure that is likely to be incurred against this fund for the next few years, we are of opinion that the balance available will be ample to cover any calls that may be made thereon.

Railway.—In this connection Statement A1 gives the following information:—

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6. Present rates.
7. Present contributions at 3 per cent.

Motor Services.—The rate at present applied is 25 per cent. We consider this too high, and are of opinion that 20 per cent should be adopted. We consider that with the experience now gained, since the Administration took

over these services from the Government of Uganda, that the life of motor vehicles should be calculated at five years.

Harbours.—Our recommendations under this head are summarised in Statement A4.

As far as possible we have applied the railway rates in such cases as the assets are more or less of the same nature. In other cases we have taken local conditions into account, and to some extent we have been guided by certain recommendations made by the Resident Engineer (Harbour Works) when the first new deep-water berths were handed over to the Administration.

We desire to point out that in all our recommendations, we have taken into account the evidence, both oral and written, we have received from various officers of the Administration, plus our united local knowledge, as a result of long service under the Administration.

We have not been unduly influenced by reference to technical books, nor have we attached any great importance to what lives and percentages are applied to other railways, as we are of opinion that the conditions which apply elsewhere do not necessarily hold good here.

(b) ASSETS SCRAPPED AND NOT REPLACED.

5. This proved to be a very large question and has involved considerable research.

The statements submitted by the various departments, *vide* your Reference E.1508 helped to some extent. The full result of our detailed investigations, after allowing for certain adjustments, which are being made in this year's accounts, leads us to believe that the capital value of assets, *vide* the capital account are approximately, overstated as follows:—

Railways.	£
1. Buildings	20,000
2. Water Supplies	5,000
3. Engineering Plant	5,000
4. Ferries and Jetties	1,500
5. Engines	50,000
6. Coaching Stock	25,000
7. Goods Stock	50,000
8. Workshop Machinery	10,000
	£166,500

Marine.

1. Lighters, Boats, etc.	£3,500
--------------------------	--------

Harbours.

1. Buoys and Beacons	£190
----------------------	------

6. As regards 5, 6 and 7 Railways, the information was given to you in advance, with the result, we understand, that you have inserted in the 1930 Estimates, a sum of £125,000 on account of engines and rolling stock, as expenditure against the Renewals Fund.

We recommend that steps be taken as early as possible to incur further expenditure against the renewals of items 1, 2, 3, 4 and 8 Railways, 1 Marine and 1 Harbours.

The sums involved are:—

Railways	£41,500
Marine	3,500
Harbours	190

We do not recommend that these assets should be written out of the capital account, but consider they should be treated as assets to be replaced as soon as possible.

(c) REDUCTION IN LIABILITY DUE TO THE AMOUNT OF SINKING FUNDS PROVIDED IN REDUCTION OF INTEREST BEARING CAPITAL.

7. We are strongly of opinion that no reduction in respect of depreciation should be made on this account, and we cannot see that the two funds have any direct relation to each other. Sinking funds are generally statutory obligations for the redemption of loans, and as such must be maintained accordingly.

(d) CREDITS FOR RECOVERED MATERIAL.

8. We are of opinion that this is a small factor, and we do not recommend that it should be taken into account.

(e) CREDITS FOR SURPLUS FUNDS FOUND IN PRACTICE TO BE AVAILABLE DUE TO EXPENDITURE ON RENEWALS USUALLY BEING OVERDUE.

9. We are of opinion that this point has not yet arisen, and we do not see anything at present to cause us to believe that it is likely to arise in the near future. If and when the question does arise, then it would have to be a matter for subsequent investigation.

(f) TO WHAT EXTENT THE WASTING ASSETS HAVE BEEN PROPERLY RENEWED OR WHETHER THERE IS AN OVERDUE EXPENDITURE AGAINST THE RENEWALS FUND.

10. This is a very difficult question, and having regard to the fact that until recent years no Renewal Funds (Marine Insurance and Depreciation Fund excepted) existed, and further that to some extent, assets have been renewed from revenue and extraordinary expenditure, it is not possible for us to determine with exactitude, to what extent the wasting assets have been properly renewed.

We can only place on record that if our proposals re percentages are adopted that in our opinion the question will gradually settle itself.

Dealing with the question as to whether there is an undue expenditure against the Renewals Fund, we would refer to paragraph 5 (b). This undoubtedly has a bearing on the point. On the other hand expenditure to no small extent under the head of "permanent way" was incurred against the fund before sufficient depreciation had accrued under this head.

This was due to the policy of "relaying" and no doubt having regard to branch line construction was inevitable.

(g) WHAT ANNUAL EXPENDITURE MAY BE EXPECTED AGAINST THE RENEWAL FUND DURING THE NEXT TEN YEARS.

11. We regret we are unable to furnish even an approximation in this case. To enable us to give any figures it would be necessary to know:—

- Future main line construction.
- Future branch line construction.
- Future harbour construction.

(d) Anticipated volume of increase of traffic year by year which might result in additional engines, rolling stock, etc. Having to be purchased in order to cope with such increased traffic.

We might further state that we do not think it possible for anyone at the present time to give any such figures as asked for.

(A) IS THE PRACTICE OF PURCHASING NEW ROLLING STOCK AS AGAINST "ACCUMULATED DEPRECIATION" POSSIBLE AND ADVISABLE?

12. We are all agreed that it is possible, but we are not able to agree amongst ourselves that it is advisable. The Chief Accountant is strongly opposed to any such practice, and considers it unsound for the following reasons:—

- That it would break the instructions dealing with expenditure on new works, which were sanctioned by the Secretary of State and which read:—

over these services from the Government of Uganda, that the life of motor vehicles should be calculated at five years.

Harbours.—Our recommendations under this head are summarised in Statement A4.

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1. Lighters, Boats, etc.	
	Harbours.	£190
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- That it would break the instructions dealing with expenditure on new works, which were sanctioned by the Secretary of State and which read:—

Renewals Funds.

These funds are established by credits from revenue account for the purpose of replacing or renewing wasting assets."

He is of opinion that to purchase a locomotive say after ten years from accrued depreciation, is unsound, since the locomotive it will eventually replace has yet another ten years' life, and he considers it would break down the whole system of life valuation for contributions.

- (b) It would lead to the Renewals Fund being operated on as an "Emergency Reserve Fund," in fact, as has already been done by transferring the sum of £150,000 in 1927 to Stores Reserve Fund.
- (c) He desires to repeat the arguments put forward by the Acting Chief Accountant (Mr. A. E. Mayne) in his letter G.A.P. 270/3281 of March 13th, 1929, to your address, your reference E.F. 1202. With such arguments he entirely agrees. They read — "I would, however like to place on record my opinion that the principle of purchasing new stock from 'accrued' depreciation is unsound, and will eventually lead the Administration into difficulties. Assume that forty locomotives have been purchased for £400,000 and that their estimated life is twenty years. At the end of ten years the 'accrued' depreciation amounts to £200,000 and a further twenty locomotives are purchased. The capacity of the original forty locomotives remains practically the same as when they were first purchased. It can therefore be assumed that the object of purchasing the additional twenty would be to cope with additional traffic. At the end of twenty years the forty original locos would be retired. We should then have twenty locomotives ten years old and 'accrued' depreciation to the amount of £200,000 from which 20 additional locos might be purchased. We should, however, require sixty locomotives to handle the traffic and should have to find funds for the purchase of a further twenty.

Even if we provided for the depreciation of the stock purchased from 'accrued' depreciation, the position would still be unsound.

When the forty locos were retired at the end of twenty years we should have 'accrued' depreciation to the amount of £200,000 in respect of these and £100,000 in respect of the twenty locos purchased ten years later. We should, therefore, be in a position to purchase an additional thirty locomotives, making fifty in all and would still have to find funds for the purchase of another ten.

Purchasing from 'accrued' depreciation amounts to utilising the Renewals Fund for the purpose of acquiring additional capital assets and in the long run, the result must be that the Renewals Fund is unable to meet the cost of replacing retiring stock."

The Acting Chief Engineer and the Acting Chief Mechanical Engineer are of opinion that the policy of purchasing rolling stock against accrued depreciation is sound, and would cause more even operation on the fund than only renewing assets against actual assets scrapped.

For example, if ten engines were purchased in 1930, the accrued depreciation against these engines by 1940 would be equivalent to the value of five engines, and it would be sound policy to purchase five engines in 1940, should occasion demand such action, as an instalment of the complete transaction, which would otherwise occur in 1950.

Further they consider that the above principle can be applied to the replacement of buildings, but would operate in a rather different way. For example, ten buildings are being scrapped, but value for value can only be replaced by five; it is customary to replace by ten buildings, charging half, or whatever the enhanced value of the asset warrants, to either loan or betterment funds. The result of this policy is that full use cannot be made of the Renewal Fund, because of the frequent shortage of betterment or loan funds to make

up the difference. This will right itself in time when the buildings to be scrapped are of equal quality to those with which they are replaced, but at the present time wood and iron temporary buildings are being replaced by more permanent concrete structures and, for the reasons stated above, many buildings are long overdue for replacement. Their replacement is controlled by the availability, or otherwise, of betterment funds, and not as they should be, by Renewals Fund.

Provided equal value of assets are secured to the Administration, they cannot see the value of adhering rigidly to the present system of insisting on scrapping an asset before any renewal of general assets can be effected. In other words, in the example mentioned above, it should be permissible to replace assets to the value of accrued depreciation. This also applies to rolling stock.

(i) AFTER FIXING RATES FOR DEPRECIATION WHETHER A FURTHER LIMIT SHOULD BE SET BY FIXING A MINIMUM PERCENTAGE OF REVENUE IN ANY ONE YEAR AS A CONTRIBUTION TO THE RENEWALS FUND.

13. We do not recommend that any minimum percentage of revenue should be fixed as a contribution. In our opinion once the rates are fixed, contributions should be made accordingly and on no account departed from, except in the event of grave financial difficulties arising, and then only as a last resort.

In the event of such position arising, not only would the fixed contributions "have to go," but a minimum percentage would also "have to go."

GENERAL.

14. We beg to enclose the following statements:—

- A1. Railways proposed rates as compared with present rates;
- A2. Marine;
- A3. Road services;
- A4. Harbours;
- A5. Summary of present and proposed rates:
- B1. Railway receipts since inception of present fund;
- B2. Marine;
- B3. Road services;
- B4. Harbours;
- C1. Railways expenditure since inception of present fund;
- C2. Marine;
- C3. Road services;
- C4. Harbours;

and desire to point out that in all cases these must not be regarded as audited figures.

Our labours have involved looking into records, statements and statistics going back over some thirty years, and in some cases the figures must be to some extent approximate.

15. In conclusion we desire to place on record the valuable services our Secretary, Mr. C. H. Bloomfield, has rendered to us.

We have the honour to be,

Sir,

Your obedient Servants,

H. E. GOODSHIP,
Chief Accountant, Chairman.

A. E. HAMP,
Acting Chief Engineer, Member.

W. A. ANDREWS,
Acting Chief Mechanical Engineer,
Member.

C. H. BLOOMFIELD,
Secretary.

Renewals Funds.

These funds are established by credits from revenue account for the purpose of replacing or renewing wasting assets."

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Your obedient Servants,

H. E. GOODSHIP,

Chief Accountant, Chairman.

A. E. HAMP,

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Acting Chief Mechanical Engineer,
Member.

C. H. BLOOMFIELD,

Secretary.

RAILWAYS—BASIS OF DEPRECIATION, PRESENT AND PROPOSED.

A 1.

1	2	3	4	5	6	7
Details of Assets.	Capital value on which Depreciation is based.	Estimated life.	Percentage recommended.	Amount of Depreciation contribution recommended.	Present percentage.	Present contribution.
	£	Years	Per cent.	£	Per cent.	£
BRIDGE WORK—						
Major Bridges	810,123	75	1½	10,802	3	24,304
Minor Bridges	480,732	100	1	4,807	3	14,422
FENCING—						
Fencing	19,588	12½	8	1,567	3	588
Road Crossings	7,621	10	10	762	3	229
Mile and Gradient Posts	6,333	50	2	127	3	190
TELEGRAPH—						
Telegraph	115,854	15 ½	6½	7,530	3	3,476
Tyler Tablets	26,883	15 ½	6½	1,747	3	806
PERMANENT WAY—						
Permanent Way	3,287,841	33½	3	98,635	3	98,635
STATIONS AND BUILDINGS—						
Stations and Offices						
Temporary	107,444	25	4	4,298	3	3,223
Permanent	349,375	100	1	3,494	3	10,481
Workshops and Stores	257,765	66½	1½	3,866	3	7,733
Staff Quarters						
Temporary	242,813	25	4	9,713	3	7,284
Permanent	790,438	100	1	7,904	3	23,713
Station Machinery	411,561	22½	4½	18,520	3	12,346
ROLLING STOCK—						
Locomotives	1,433,231	20	5	71,662	3	42,997
Carriages and Wagons	2,096,099	30	3½	69,870	3	62,883
Road Vehicles						40†
PLANT—						
Engineering	44,994	6½	15	6,749	3	1,350
Locomotive	181,384	15	6½	12,092	3	5,442
Station and Office Furniture	24,344	20	5	1,217	3	730
Stores	20,135	25	4	806	3	604
JETTIES AND FERRIES—						
Jetties and Ferries	200,992	25	4	8,040	3	6,030
TOTAL	10,915,550			344,207		327,506
*MAGADI RAILWAY	401,860			10,949	3	12,056
GRAND TOTAL	11,317,410			355,156		339,562
*Magadi Railway:						29,2917
Major Bridges	37,500	75	1½	500	3	1,125
Minor Bridges	37,500	100	1	375	3	1,125
Permanent Way	300,000	33½	3	9,000	3	9,000
Buildings	26,860	25	4	1,074	3	806
	401,860			10,949		12,056

†Transferred to Motor Services.

MARINE—BASIS OF DEPRECIATION, PRESENT AND PROPOSED.

A 2.

1	2	3	4	5	6	7
Details of Assets.	Capital value on which Depreciation is based.	Estimated life.	Percentage recommended.	Amount of Depreciation contribution recommended.	Present percentage.	Present contribution.
	£	Years	Per cent.	£	Per cent.	£
Steamers, Tugs, Lighters, Plant, etc.	456,716	33½	3	13,701	5	22,835

MOTOR SERVICES—BASIS OF DEPRECIATION, PRESENT AND PROPOSED.

A 3.

1	2	3	4	5	6	7
Details of Assets.	Capital value on which Depreciation is based.	Estimated life.	Percentage recommended.	Amount of Depreciation contribution recommended.	Present percentage.	Present contribution.
	£	Years	Per cent.	£	Per cent.	£
Motor Vans, Lorries and Trailers	31,079	5	20	6,216	25	7,526
TOTAL	31,079	5	20	6,216	25	7,526

HARBOURS—BASIS OF DEPRECIATION, PRESENT AND PROPOSED.

A 4.

1	2	3	4	5	6	7
Details of Assets.	Capital value on which Depreciation is based.	Estimated life.	Percentage recommended.	Amount of Depreciation contribution recommended.	Present percentage.	Present contribution.
	£	Years	Per cent.	£	Per cent.	£
Kihindini Old Pier	70,490	66½	1½	1,057	3	2,114
Wharf and Jetties	16,276	33½	3	488	3	488
Fenders	1,199	10	10	120	3	36
Railways and Sidings	40,538	33½	3	1,216	3	1,216
Electrical Installation, Cranes and Equipment	82,756	20	5	4,138	5	4,138
Crane Roads	8,579	33½	3	257	4	343
Macadamised Roadways	20,251	10	10	2,025	4	810
Tugs, Launches and Pontoons	53,041	20	5	2,652	5	2,652
Lights, Buoys and Beacons	13,878	13½	7½	1,018	5	679
Water Supply	2,437	33½	3	73	3	73
Brick Transit Sheds	214,009	100	1	2,140	1	2,140
Transit Sheds and Goods Sheds, etc.	18,633	50	2	373	3	559
Fencing	2,221	33½	3	67	3	67
Stations and Offices, etc.	8,590	25	4	344	3	257
Godowns	5,961	50	2	119	3	179
Staff Quarters	28,464	100	1	285	3	854
TOTAL	587,021			16,372		16,605

STATEMENT

A 5.

Summary of Depreciation Contributions.	Present	Proposed	Increase	Decrease
RAILWAYS	339,562	385,156	15,594	
MARINE	22,835	13,701		9,134
ROAD SERVICES	7,526	6,216		1,310
HARBOURS	16,605	16,372		233
Net	386,528	391,445	15,594	10,677

130

22,017
19,021
6,216
16,605
814,874

8
RAILWAYS—BASIS OF DEPRECIATION, PRESENT AND PROPOSED.

A 1.

1	2	3	4	5	6	7
Details of Assets.	Capital value on which Depreciation is based.	Estimated life.	Percentage recommended.	Amount of Depreciation contribution recommended.	Present percentage.	Present contribution.
	£	Years	Per cent.	£	Per cent.	£
BRIDGE WORK—						
Major Bridges	810,123	75	1½	10,802	3	24,304
Minor Bridges	480,732	100	1	4,807	3	14,422
FENCING—						
Fencing	19,588	12½	8	1,567	3	588
Road Crossings	7,621	10	10	762	3	229
Mile and Gradient Posts	6,333	50	2	127	3	190
TELEGRAPH—						
Telegraph	115,854	15½	6½	7,530	3	3,476
Tyler Tablets	26,883	15½	6½	1,747	3	806
PERMANENT WAY—						
Permanent Way	3,287,841	33½	3	98,635	3	98,635
STATIONS AND BUILDINGS—						
Stations and Offices:						
Temporary	107,444	25	4	4,298	3	3,223
Permanent	349,375	100	1	3,494	3	10,481
Workshops and Stores	257,765	66½	1½	3,866	3	7,733
Staff Quarters:						
Temporary	242,813	25	4	9,713	3	7,284
Permanent	790,438	100	1	7,904	3	23,713
Station Machinery	411,561	22½	4½	18,520	3	12,346
ROLLING STOCK—						
Locomotives	1,433,231	20	5	71,662	3	42,997
Carriages and Wagons	2,096,099	30	3½	69,870	3	62,883
Road Vehicles						40†
PLANT—						
Engineering	44,994	6½	15	6,749	3	1,350
Locomotive	181,384	15	6½	12,092	3	5,442
Station and Office Furniture	24,344	20	5	1,217	3	730
Stores	20,135	25	4	806	3	604
JETTIES AND FERRIES—						
Jetties and Ferries	200,992	25	4	8,040	3	6,000
TOTAL	10,915,550			344,207		327,506
*MAGADI RAILWAY	401,860			10,949	3	12,056
GRAND TOTAL	11,317,410			355,156		339,562
*Magadi Railway:						29,291
Major Bridges	37,500	75	1½	500	3	1,126
Minor Bridges	37,500	100	1	375	3	1,126
Permanent Way	300,000	33½	3	9,000	3	9,000
Buildings	26,860	25	4	1,074	3	806
	401,860			10,949		12,056

†Transferred to Motor Services.

9
MARINE—BASIS OF DEPRECIATION, PRESENT AND PROPOSED.

A 2.

1	2	3	4	5	6	7
Details of Assets.	Capital value on which Depreciation is based.	Estimated life.	Percentage recommended.	Amount of Depreciation contribution recommended.	Present percentage.	Present contribution.
	£	Years	Per cent.	£	Per cent.	£
Steamers, Tugs, Lighters, Plant, etc.	456,716	33½	3	13,701	5	22,835

MOTOR SERVICES—BASIS OF DEPRECIATION, PRESENT AND PROPOSED.

A 3.

1	2	3	4	5	6	7
Details of Assets.	Capital value on which Depreciation is based.	Estimated life.	Percentage recommended.	Amount of Depreciation contribution recommended.	Present percentage.	Present contribution.
	£	Years	Per cent.	£	Per cent.	£
Motor Vans, Lorries and Trailers	31,079	5	20	6,216	25	7,526
TOTAL	31,079	5	20	6,216	25	7,526

HARBOURS—BASIS OF DEPRECIATION, PRESENT AND PROPOSED.

A 4.

1	2	3	4	5	6	7
Details of Assets.	Capital value on which Depreciation is based.	Estimated life.	Percentage recommended.	Amount of Depreciation contribution recommended.	Present percentage.	Present contribution.
	£	Years	Per cent.	£	Per cent.	£
Kilindi Old Pier	70,490	66½	1½	1,057	3	2,114
Wharf and Jetties	16,276	33½	3	486	3	488
Fenders	1,197	10	10	120	3	36
Railways and Sidings	40,538	33½	3	1,216	3	1,216
Electrical Installation, Cranes and Equipment	82,786	20	5	4,138	5	4,138
Crane Roads	8,579	33½	3	257	4	343
Macadamised Roadways	20,281	10	10	2,028	4	810
Tugs, Launches and Pontoons	53,041	20	5	2,652	5	2,652
Lights, Buoys and Beacons	13,578	13½	7½	1,018	5	879
Water Supply	2,437	33½	3	73	3	73
Brick Transit Sheds	214,009	100	1	2,140	1	2,140
Transit Sheds and Goods Sheds, etc.	18,633	50	2	373	3	599
Fencing	2,221	33½	3	67	3	67
Stations and Offices, etc.	8,590	25	4	344	3	257
Godowns	5,961	50	2	119	3	179
Staff Quarters	28,464	100	1	285	3	854
TOTAL	587,021			16,372		16,608

STATEMENT

A 5.

Summary of Depreciation Contributions.	Present	Proposed	Increase	Decrease
	£	£	£	£
RAILWAYS	339,562	388,186	15,894	9,134
MARINE	22,835	13,701		1,310
ROAD SERVICES	7,526	6,216		233
HARBOURS	16,608	16,372		
Net	386,528	391,445	15,894	10,677

RAILWAYS—CONTRIBUTIONS TO RENEWALS FUND.

Details of Assets.	Year.						Total Contribution.	Total Expenditure.	Balance.
	Balance 1923	1924	1925	1926	1927	1928				6 months 1929
BRIDGE WORK—									
Major Bridges	17,582	16,311	16,790	16,862	17,679	20,546	13,465	99,546	56,342
Minor Bridges	7,746	7,187	8,034	9,905	10,253	11,922	59,121	2,779	2,779
Fencing		520	524	537	549	600	3,466	806	2,680
Electricity		2	102	107	110	133	359		350
Road Crossings		92	102	107	110	190	752		752
Mile and Gradient Posts		1,922	2,196	2,326	2,641	2,997	15,258		15,258
TELEGRAPH—		182	171	371	530	567	2,193		2,193
Telegraph									
Tyler Tables, etc									
Permanent Way		50,900	49,719	52,089	68,566	73,437	397,818	495,011	Dr. 97,193
STATIONS AND BUILDINGS—									
Stations and Offices	3,473	3,222	3,223	3,223	3,223	3,223	20,661	26,338	5,677
Temporary	1,866	1,735	2,100	2,617	3,312	6,533	20,817	30,304	20,513
Permanent	3,877	3,598	4,176	4,459	5,063	5,771	29,204	4,091	25,113
Workshops and Stores	7,847	7,283	7,283	7,285	7,284	7,284	46,692	14,617	14,617
Staff Quarters	4,225	3,921	4,764	4,994	5,129	6,218	51,298	32,075	32,075
Plant	7,608	7,760	8,101	8,286	8,286	10,079	52,440	7,470	44,970
Rolling Stock—									
Locomotives	23,631	21,923	25,096	26,029	30,395	34,145	173,821	112,625	61,196
Carnages and Wagons	21,938	20,352	23,186	30,748	36,799	40,100	190,659	189,997	189,997
Road Vehicles	1,192	1,106	1,121	1,121	1,154	1,165	7,271	7,271	7,271
Engineering	2,198	2,068	3,256	3,352	3,661	4,576	20,779	20,779	20,779
Station and Office Furniture	641	595	598	598	598	598	3,828	2,503	3,943
Stores	21	20	23	98	115	115	277	277	277
JERRIES AND FRANKS—									
Jeries and Ferris	5,443	5,051	5,078	5,969	5,132	5,788	34,453	8,703	28,750
Total	153,390	154,089	167,938	198,698	224,061	247,772	1,246,692	669,763	566,929
Magadi Railway									
Transferred from Marine Fund				382	12,056	12,056	28,131	299	27,830
Grand Total	163,390	154,089	167,938	175,525	209,911	259,828	1,313,621	699,384	623,237
Miscellaneous Receipts									
Loan to Harbours Fund									
Transferred to Stores Fund									
Net Total	163,390	156,328	170,765	216,780	268,819	281,718	1,187,447	690,384	477,053

MARINE—CONTRIBUTION TO RENEWALS FUND.

Details of Assets.	Year.						Total Contribution.	Total Expenditure.	Balance.
	Balance 1923	1924	1925	1926	1927	1928				6 months 1929
STEAMERS, TUGS, LIGHTERS, PLANT, ETC., ETC.	£ 29,436	£ 15,490	£ 16,137	£ *17,528	£ *20,891	£ 23,072	£ 7,545	£ 91,680	£ 19,248
									£ 72,432

* Transferred to Railway Fund.

MOTOR SERVICES—CONTRIBUTION TO RENEWALS FUND

Details of Assets.	Year.				Total Contribution.	Total Expenditure.	Balance.
	1926	1927	1928	6 months 1929			
MOTOR VANS, LORRIES AND TRAILERS	£ *382	£ 6,425	£ 6,512	£ 2,508	£ 15,445	£ 15,445	

* Transferred to Railway Fund.

HARBOURS—CONTRIBUTION TO RENEWALS FUND.

Detail of Assets.	Year.			Total contribution.	Total Expenditure.	Balance.
	1927	1928	6 months 1929			
Kilindini Old Pier	£ 2,114	£ 2,114	£ 1,067	£ 5,285	£ 5,285	
Wharf and Jetties	339	333	194	855	855	
Fenders	14	14	14	42	42	
Railways and Sidings	1,092	1,117	586	2,795	2,795	
Electrical Installation, Cranes and Equipment	2,045	3,874	2,072	7,991	7,991	
Cranes Roads	600	810	171	1,615	1,615	
Macadamised Roadways	920	920	645	2,485	1,461	1,024
Tugs, Launches and Pontoons	258	258	225	746	7,676	6,941
Lights, Buoys and Beacons	72	72	36	180		180
Water Supply	2,000	2,140	1,070	5,210		5,210
Brick Transit Sheds	410	427	266	1,103		1,103
Transit Sheds, Goods Sheds, etc.			33	33		33
Fencing	150	181	116	447		447
Stations and Offices, etc.	23	23	89	89		89
Godowns			319	319		319
Staff Quarters						
Total	10,023	12,623	7,282	29,898	9,187	20,711
Miscellaneous Receipts	46		24	70		70
Loan from Railways Fund	10,000			10,000		10,000
Net Total	10,069	22,623	7,276	39,968	9,187	30,811

RAILWAYS—EXPENDITURE AGAINST RENEWALS FUND. C. 1.

Details of Assets	Year						Total Expenditure
	1924	1925	1926	1927	1928	6 months 1929	
BRIDGE WORK—	£	£	£	£	£	£	£
Major Bridges	..	24	4,885	6,516	1,004	1,036	13,465
Minor Bridges	1,689	812	196	82	2,779
FENCING—
Fencing	..	772	34	..	..	..	806
Road Crossings
Mile and Gradient Posts
TELEGRAPH—
Telegraph
Tyer Tablets
PERMANENT WAY—
Permanent Way	151,985	173,911	Cr 17,124	21,384	83,746	81,109	495,011
STATIONS AND BUILDINGS—
Stations and Offices
Temporary	1,841	4,310	12,958	11,667	4,947	615	26,338
Permanent	3,434	219	85	304
Workshops and Stores	312	3,434	342	3	4,091
Staff Quarters
Temporary	4,382	2,533	558	715	906	5,523	14,617
Permanent	3,798	4,088	Cr 811	395	7,470
Station Machinery
ROLLING STOCK—
Locomotives	19	6,550	102,444	2,929	436	247	112,625
Carriages and Wagons	427	..	662	389
Road Vehicles	38	..	..
PLANT—
Engineering	2,503	2,503
Locomotive
Station and Office Furniture
Stores
JETTIES AND FERRIES—
Jetties and Ferries	..	4,133	508	511	2,087	1,464	8,703
Total	£ 158,227	£ 192,233	£ 100,062	£ 52,483	£ 93,034	£ 93,724	£ 689,763
Magadi Railway	299	..	299
Transferred from Motor Services	322	..	..	322
Grand Total	£ 158,227	£ 192,233	£ 100,384	£ 52,483	£ 93,333	£ 93,724	£ 690,384

MARINE—EXPENDITURE AGAINST RENEWALS FUND. C. 2.

Details of Assets	Year						Total Expenditure
	1924	1925	1926	1927	1928	6 months 1929	
Steamers, Tugs, Lighters, Plant, etc.	£ 4,602	£ 3,919	£ 7,629	£ 1,735	£ 585	£ 778	£ 19,248

MOTOR SERVICES—EXPENDITURE AGAINST RENEWALS FUND. C. 3.

Details of Assets	Year 1926	Total
Motor Vans, Lorries and Trailers	£ 322	*322

*Transferred to Railway Fund.

HARBOURS—EXPENDITURE AGAINST RENEWALS FUND. C. 4.

Details of Assets	Year		Total Expenditure
	1928	6 months 1929	
Tugs, Launches and Pontoons	£ 786	£ 695	£ 1,481
Lights, Buoys and Beacons	£ 7,563	£ 113	£ 7,676
Total	£ 8,349	£ 808	£ 9,157

Kenya and Uganda Railways and Harbours

GENERAL MANAGER'S OFFICE.

NAIROBI, 15th October, 1929.

No. E. F. 391.

THE CHIEF ACCOUNTANT,
(Chairman of Committee),
NAIROBI.

DEPRECIATION AND RENEWALS FUND.

I have to acknowledge the receipt of your Committee on the above subject. A considerable amount of useful work has been done in convey with this matter and I should therefore be glad if you would convey to your Committee my appreciation of their efforts.

2. There are, however, a number of points which, in my view, require further consideration, in view of the importance of the subject, and also because it is necessary for me to send the report home for consideration by the Treasury in support of any policy that I may feel called upon to recommend as a result of the facts disclosed. I feel also that sufficient study has not been given to several principles of importance that have been fully discussed by the South African Railways Committee. I will deal with some of these points below, in the order in which they are referred to in your report.

LIFE OF WASTING ASSETS.

3. I do not wish to go into this in detail at the moment, as, in many cases, this Railway is not yet old enough to provide sufficient experience regarding the life of its assets. Where, however, the life shown by the Committee is less than experience seems to show to be necessary in other countries, and especially in a country under very similar conditions, such as South Africa, it is essential that the Committee should support their view by quoting facts and figures.

Take, for example, locomotives, which your Committee give a life of 20 years, but to which other countries give a life of 30 or more years, especially if one boiler renewal is allowed for. The Committee must support their recommendation of 20 years by figures, showing our actual experience on this Railway, making full allowance for such facts as failures due to faulty design (e.g. Mallets) and previous age if taken over from other railways, and lack of suitable maintenance due to war conditions, etc. In this connection see paras. 23 and 24 and 78—87 and statements 28 and 31 and 59 of the South African Report. Similar information should be produced by your Committee in support of their recommendation.

Permanent Way.—No differentiation has been allowed as between rails and sleepers. In view of our experience, can we say that sleepers have the same life as rails? Also, it should be clearly stated whether renewals of ballast have been allowed for; also whether labour has been included. See paras. 25, 52, 53, 55, 56, 57, 64, 65, 66, 67, 68, 96 and 121 (a).

Small Items.—I note also that the Committee have included a number of small items, such as Fencing, Road Crossings, Gradient Posts, Tyer Tablets, Furniture, Stores, etc. Is it not a fact that few of these items would be renewed out of the Renewal Fund?

ASSETS SCRAPPED AND NOT REPLACED.

4. I note a considerable sum is involved and that the Committee recommend that they should not be written out of capital, but that they should be treated as assets to be replaced as soon as possible. While this may be sound in some cases, such as rolling stock, it will be dangerous to accept it as a principle for future guidance, especially as, in the present case, many of the items have not in fact contributed to the Renewals Fund, owing to

RAILWAYS—EXPENDITURE AGAINST RENEWALS FUND.

C 1.

Details of Assets	Year						Total Expenditure
	1924	1925	1926	1927	1928	6 months 1929	
BRIDGE WORK—	£	£	£	£	£	£	£
Major Bridges	..	24	4,885	6,516	1,004	1,036	13,465
Minor Bridges	1,689	812	196	82	2,779
FENCING—	..	772	34	..	..	..	806
Fencing
Road Crossings
Mile and Gradient Posts
TELEGRAPH—
Telegraph
Tyer Tablets
PERMANENT WAY—	151,985	173,911	Cr 17,124	21,384	83,746	81,109	495,011
Permanent Way
STATIONS AND BUILDINGS—
Stations and Offices:
Temporary	1,841	4,310	12,958	11,667	4,947	615	26,338
Permanent	312	3,434	219	85	304
Workshops and Stores	342	3	4,091
Staff Quarters:
Temporary	4,382	2,533	558	715	906	5,523	14,617
Permanent	3,798	4,088	Cr 811	395	7,470
Station Machinery
ROLLING STOCK—
Locomotives	19	6,550	102,444	2,929	436	247	112,625
Carriages and Wagons	662	662
Road Vehicles	427	38	..	389
PLANT—
Engineering
Locomotive	2,503	2,503
Station and Office Furniture
Stores
JETTIES AND FERRIES—	..	4,133	508	511	2,087	1,464	8,703
Jetties and Ferries
Total	£ 156,227	192,233	100,062	52,483	93,034	93,724	689,763
Magadi Railway	299
Transferred from Motor Services	322	..	299	..	322
Grand Total	£ 158,227	192,233	100,384	52,483	93,333	93,724	690,384

MARINE—EXPENDITURE AGAINST RENEWALS FUND.

C 2.

Details of Assets	Year						Total Expenditure
	1924	1925	1926	1927	1928	6 months 1929	
Steamers, Tugs, Lighters, Plant, etc.	£ 4,602	£ 3,919	£ 7,629	£ 1,735	£ 585	£ 778	£ 19,248

MOTOR SERVICES—EXPENDITURE AGAINST RENEWALS FUND.

C 3.

Details of Assets	Year 1926	Total
Motor Vans, Lorries and Trailers	£ 322	*322

*Transferred to Railway Fund

HARBOURS—EXPENDITURE AGAINST RENEWALS FUND.

C 4.

Details of Assets	Year		Total Expenditure
	1928	6 months 1929	
Tugs, Launches and Pontoons	£ 786	£ 695	£ 1,481
Lights, Buoys and Beacons	7,563	113	7,676
Total	£ 8,349	808	9,157

Kenya and Uganda Railways and Harbours

GENERAL MANAGER'S OFFICE,

NAIROBI, 15th October, 1929.
KENYA COLONY.

No. E. F. 391.

THE CHIEF ACCOUNTANT,
(Chairman of Committee),
NAIROBI.

DEPRECIATION AND RENEWALS FUND.

I have to acknowledge the receipt of your Committee on the above subject. A considerable amount of useful work has been done in connection with this matter and I should therefore be glad if you would convey to your Committee my appreciation of their efforts.

2. There are, however, a number of points which, in my view, require further consideration, in view of the importance of the subject, and also because it will be necessary for me to send a report to the consideration by the Treasury in support of any policy that I may feel called upon to recommend as a result of the facts disclosed. I feel also that sufficient study has not been given to several principles of importance that have been fully discussed by the South African Railways Committee. I will deal with some of these points below, in the order in which they are referred to in your report.

LIFE OF WASTING ASSETS.

3. I do not wish to go into this in detail at the moment, as, in many cases, this Railway is not yet old enough to provide sufficient experience regarding the life of its assets. Where, however, the life shown by the Committee is less than experience seems to show to be necessary in other countries, and especially in a country under very similar conditions, such as South Africa, it is essential that the Committee should support their view by quoting facts and figures.

Take, for example, locomotives, which your Committee give a life of 20 years, but to which other countries give a life of 30 or more years, especially if one boiler renewal is allowed for. The Committee must support their recommendation of 20 years by figures, showing your actual experience on this Railway, making full allowance for such facts as failures due to faulty design (e.g. Mallets) and previous age if taken over from other railways, and lack of suitable maintenance due to war conditions, etc. In this connection see paras. 23 and 24 and 78—87 and statements 28 and 31 and 59 of the South African Report. Similar information should be produced by your Committee in support of their recommendation.

Permanent Way.—No differentiation has been allowed as between rails and sleepers. In view of our experience, can we say that sleepers have the same life as rails? Also, it should be clearly stated whether renewals of ballast have been allowed for; also whether labour has been included. See paras. 25, 52, 53, 55, 56, 57, 64, 65, 66, 67, 68, 96 and 121 (a).

Small Items.—I note also that the Committee have included a number of small items, such as Fencing, Road Crossings, Gradient Posts, Tyer Tablets, Furniture, Stores, etc. Is it not a fact that few of these items would be renewed out of the Renewal Fund?

ASSETS SCRAPPED AND NOT REPLACED.

4. I note a considerable sum is involved and that the Committee recommend that they should not be written out of capital, but that they should be treated as assets to be replaced as soon as possible. While this may be sound in some cases, such as rolling stock, it will be dangerous to accept it as a principle for future guidance, especially as, in the present case, many of the items have not in fact contributed to the Renewals Fund, owing to

the latter not having been started until comparatively recently. It has not been shown that funds are available for this purpose. See also paras. 58, 59 and 121 (b) of the South African Report.

REDUCTION ON ACCOUNT OF SINKING FUNDS.

5. I note the recommendations of the Committee, but feel they have failed to appreciate the full force of the arguments that can be produced in this connection. A few of these are referred to in paras. 70, 71, 72, 73, 74 and 121 (e). This question is one of considerable importance at the present time, as it is contended that the present generation is being made to finance the future generations to too great an extent. There appears to be some force in this argument and if Sinking Fund contributions are obligatory, there would appear to be some case for reducing Renewals Fund contributions accordingly.

CREDITS FOR RECOVERED MATERIAL.

6. This may be a small factor at the present moment, but may grow, vide paras. 93, 94 and 121 (h) of the South African Report. It is advisable that the correct procedure should be laid down.

CREDITS DUE TO RENEWALS OVERDUE, OVERDUE EXPENDITURE AND ANNUAL EXPENDITURE DURING THE NEXT 10 YEARS.

7. I do not think the Committee have given sufficient thought to this question. My chief cause for anxiety is to know whether we have sufficient funds to meet renewals as they come due, bearing in mind the fact that our fund was started very late.

It is essential that the Committee should prepare complete tables, such as those shown in the South African Report. I agree that no one can foretell future growth and expansion. If, however, a suitable rate of contribution is fixed, this can be safely left. I must, however, know what expenditure on assets already known will be necessary in the next 10 years, at least. The Committee have already calculated the assets now known; they can also, no doubt, fix the approximate dates by years of capital expenditure. Employing then the agreed life of each form of asset, the date of renewal and amount involved can be calculated. I should be glad if the Committee would go into this point further. See paras. 12, 13, 14, 27, 28, 29, 30, 31, 32, 33, 34, 38, 39, 40, 41, 42, 43, 44, 45, 46 and relevant tables of the South African Report.

EXPENDITURE AGAINST ACCRUED DEPRECIATION.

8. I appreciate the arguments for and against this procedure, but at this stage would only draw your attention to paras. 109, 110, 111, 112, 113, 114, 115 and 116 of the South African Report.

MINIMUM PERCENTAGE OF REVENUE.

9. The Committee has missed the point. There is no suggestion that the rates of depreciation should be altered, but rather that a further sum should be added due to excessive wear and tear in any one year. See paras. 117, 118, 119, 120, 121 (i) of the South African Report.

FULL CONTRIBUTION ACCORDING TO RATES FIXED.

10. Finally, the Committee have ignored completely the points dealt with in paras. 34, 35, 36, 37, 97, 99, 100, 101, 102 and 121 (d). These are most important and should be fully considered.

11. I should be glad if you would discuss this letter with me before re-assembling your Committee.

G. D. RHODES,
Acting General Manager.

Kenya and Uganda Railways and Harbours.

CHIEF ACCOUNTANT'S OFFICE.

GAP. 430.

NAIROBI, 30th November, 1929.
KENYA COLONY.

THE HON. AG. GENERAL MANAGER,
Kenya and Uganda Railways and Harbours,
NAIROBI.

Re: DEPRECIATION AND RENEWALS FUND.

Ref. Your E.F. 391, dated 15-10-29.

We were gratified to learn from your above quoted letter that you were of opinion that a considerable amount of useful work had been done in connection with this matter.

2. We also noted that you required us to further consider a number of points, and also that sufficient study had not been given to several matters of importance that have been fully discussed by the South African Railways.

LIFE OF WASTING ASSETS.

3. In this connection we wish to refer specially to your direction that, "Where, however, the life shown by the Committee is less than experience seems to show to be necessary in other countries, and especially in a country under very similar conditions, such as South Africa, it is essential that the Committee should support their view by quoting facts and figures."

After detailed consideration, we are not of opinion that the conditions in South Africa are very similar to the conditions prevailing in Kenya and Uganda.

South Africa is a sub-tropical country, and practically the whole of their railway labour is European.

Kenya and Uganda are tropical countries, and a very large proportion of the railway labour here is Indian or African.

In our opinion these factors of climate and labour must reflect to an extent on the life of some wasting assets. We suggest that a better comparison of the life of wasting assets could be made with the Nigerian Railways.

The question of the life of wasting assets is dealt with later in detail, where we make comparisons both with Nigeria and South Africa.

PERMANENT WAY.

4. All items—rails, steel sleepers, ballast, crossings, wooden sleepers—in connection with permanent way had been considered by us and duly taken into account in arriving at our recommendation of 3 per cent. Please see our remarks under "Percentage of Wasting Assets" for further details.

SMALL ITEMS.

5. The items referred to by you were included, as it was laid down by the late Sir C. L. N. Felling, when settling the basis of the Renewals Fund, that they should be taken into account. However, we agree that certain of the items should disappear and have deleted Road Crossings, Gradient Posts and Station and Office Furniture. The other items we consider should remain, and in this connection we would invite attention to the paragraph of this report—No. 13—dealing with the question of the life of wasting assets in detail.

the latter not having been started until comparatively recently. It has not been shown that funds are available for this purpose. See also paras. 58, 59 and 121 (b) of the South African Report.

REDUCTION ON ACCOUNT OF SINKING FUNDS.

5. I note the recommendations of the Committee, but feel they have failed to appreciate the full force of the arguments that can be produced in this connection. A few of these are referred to in paras. 70, 71, 72, 73, 74 and 121 (e). This question is one of considerable importance at the present time, as it is contended that the present generation is being made to finance the future generations to too great an extent. There appears to be some force in this argument and if Sinking Fund contributions are obligatory, there would appear to be some case for reducing Renewals Fund contributions accordingly.

CREDITS FOR RECOVERED MATERIAL.

6. This may be a small factor at the present moment, but may grow, vide paras. 93, 94 and 121 (h) of the South African Report. It is advisable that the correct procedure should be laid down.

CREDITS DUE TO RENEWALS OVERDUE, OVERDUE EXPENDITURE AND ANNUAL EXPENDITURE DURING THE NEXT 10 YEARS.

7. I do not think the Committee have given sufficient thought to this question. My chief cause for anxiety is to know whether we have sufficient funds to meet renewals as they come due, bearing in mind the fact that our fund was started very late.

It is essential that the Committee should prepare complete tables, such as those shown in the South African Report. I agree that no one can foretell future growth and expansion. If, however, a suitable rate of contribution is fixed, this can be safely left. I must, however, know what expenditure on assets already known will be necessary in the next 10 years, at least. The Committee have already calculated the assets now known; they can also, no doubt, fix the approximate dates by years of capital expenditure. Employing then the agreed life of each form of asset, the date of renewal and amount involved can be calculated. I should be glad if the Committee would go into this point further. See paras. 12, 13, 14, 27, 28, 29, 30, 31, 32, 33, 34, 38, 39, 40, 41, 42, 43, 44, 45, 46 and relevant tables of the South African Report.

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FULL CONTRIBUTION ACCORDING TO RATES FIXED.

10. Finally, the Committee have ignored completely the points dealt with in paras. 34, 35, 36, 37, 97, 99, 100, 101, 102 and 121 (d). These are most important and should be fully considered.

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G. D. RHODES,
Acting General Manager.

Kenya and Uganda Railways and Harbours. CHIEF ACCOUNTANT'S OFFICE,

No. GAP. 430.

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KENYA COLONY.

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Kenya and Uganda Railways and Harbours,
NAIROBI.

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3. In this connection we wish to refer specially to your direction that, "Where, however, the life shown by the Committee is less than experience seems to show to be necessary in other countries, and especially in a country under very similar conditions, such as South Africa, it is essential that the Committee should support their view by quoting facts and figures."

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The question of the life of wasting assets is dealt with later in detail where we make comparisons both with Nigeria and South Africa.

PERMANENT WAY.

4. All items—rails, steel sleepers, ballast, crossings, wooden sleepers—in connection with permanent way had been considered by us and duly taken into account in arriving at our recommendation of 3 per cent. Please see our remarks under "Percentage of Wasting Assets" for further details.

SMALL ITEMS.

5. The items referred to by you were included, as it was laid down by the late Sir C. L. N. Felling, when settling the basis of the Renewals Fund, that they should be taken into account. However, we agree that certain of the items should disappear and have deleted Road Crossings, Gradient Posts and Station and Office Furniture. The other items we consider should remain, and in this connection we would invite attention to the paragraph of this report—No. 13—dealing with the question of the life of wasting assets in detail.

ASSETS SCRAPPED AND NOT REPLACED.

6. The amount involved in our recommendation was £170,190, which you have accepted to the extent of £125,000, made up as follows:—

Engines	£	50,000
Coaching Vehicles		25,000
Goods Vehicles		50,000
		<u>£125,000</u>

The balance outstanding, £45,190, is made up as follows:—

Buildings	£	20,000
Water Supplies		5,000
Engineering Plant		5,000
Ferries and Jetties		1,500
Workshop Machinery		10,000
Lighthouses, Boats, etc.		3,500
Buoys and Beacons		190
		<u>£45,190</u>

As an alternative to our previous recommendations, we suggest for consideration that these items be written out of the Capital Account as Assets Abandoned, and that the debit be as follows:—

Betterment	£	35,190
Renewals		10,000
		<u>£45,190</u>

The £10,000 is an approximation of what the book value of these assets has contributed to the Renewals Fund, whilst the balance of £35,190 can be regarded as an amount which would have been debited to Net Revenue Account. Write off of dead Assets had the procedure now in force, and instructions contained in "Expenditure on New Works," para. 7, Withdrawal of Assets from Service, been in force when these assets actually ceased to exist. The result would have been that Betterment would have been short by the amount in question.

REDUCTION ON ACCOUNT OF SINKING FUNDS.

We had fully considered all the arguments referred to by you, before making our previous recommendations, and we have again reviewed them in detail.

Depreciation must be allowed for on all wasting assets, whether the assets are provided for under expenditure of a non-interest bearing nature or of an interest bearing nature. Sinking funds are to redeem interest bearing capital. Non-interest bearing capital should not release the Administration from the proper upkeep of their assets through the medium of depreciation funds.

The Committee can see no full force or reason in any of the arguments that have been produced in this connection.

CREDITS FOR RECOVERED MATERIAL.

8. At present any credits are credited to the Renewal Fund. We are of opinion that this is the correct procedure, and recommend that it should be continued.

We do not recommend that any reduction on account of depreciation should be made on this account, until such time as credits for recovered material represent an appreciable contribution to the Renewals Fund. At the present time they only amount to some £2,000 per annum or 1 per cent of the annual contribution, based at 2 per cent.

CREDITS TO RENEWALS OVERDUE—OVERDUE EXPENDITURE AND ANNUAL EXPENDITURE DURING THE NEXT TEN YEARS.

9. We have prepared tables dealing with the expenditure for the next ten years, 1931 to 1940, Railways, Harbours and Motor Services, which to make it clear that the figures are not "Audited." In the absence of old engineering and accounting records, it has been necessary in some cases to use approximate figures. But we are satisfied that they are as near correct as it is humanly possible for them to be, bearing in mind the incomplete information at our disposal. No statement has been prepared as regards Marine Assets; owing to our remarks in our previous report under "4. A. Marine" we are of opinion that if our suggestions are adopted, there will be ample funds for any expenditure that is ever likely to be required under this head.

EXPENDITURE AGAINST ACCRUED DEPRECIATION.

10. There is not the slightest possibility of the Committee reaching any agreement on this point. The paragraphs referred to by you had been fully considered by all of us, and after again reviewing them in detail, the situation remains unaltered.

MINIMUM PERCENTAGE OF REVENUE.

11. As far as the South African Railways are concerned, the figure of 6 per cent is recommended. Had the depreciation as far as these railways were concerned been fixed at 3 per cent of wasting assets, it would have meant a minimum percentage of revenue of nearly 13 per cent, whilst as it is on the reduced contribution for 1930, based at 2½ per cent of wasting assets, the figure amounts to over 10 per cent.

After full consideration we do not recommend that any minimum percentage of revenue should be laid down as a minimum contribution to the Renewals Fund.

Broadly speaking, excessive wear and tear chiefly applies to rolling stock, which is adequately provided for in our recommendations.

FULL CONTRIBUTIONS ACCORDING TO THE RATES FIXED.

12. We note your remarks to the effect that the Committee have completely ignored this question, but would point out that there is no direction in your letter of the 3rd August, either specific or general. After full consideration we do not recommend that any reduction be made.

Whilst fully appreciating what is contained in paragraphs 34, 35, 36, 37, 97, 99, 100, 101, 102 and 121 of the South African Report, the fact remains that the Renewals Fund, so far as this Administration is concerned, was brought into operation many years ago, and this factor alone, apart from any other considerations, has determined us in our opinion.

From calculations that have been made, it has been approximated that had the fund been in existence during the period of years the profits of the Railways were handed over to Government, the balance of the fund would have been increased by some £2,000,000.

COMPARISON OF LIFE OF WASTING ASSETS (RAILWAYS).

13. We now make, item by item, as far as possible, comparison with Nigeria and South Africa.

(A) MAJOR BRIDGES.

Kenya	Nigeria	South Africa
75 years	30 years	50 years

Our conclusions are arrived at as follows:—

Concrete and masonry	100 years.
Steelwork	50 years.

Take half of each, allowing for viaducts ... 75 years.

In arriving at the lives of concrete, masonry and steelwork, consideration has been given to the excessive percentage of steelwork in our main line bridging, due to the Kikuyu and Mau viaducts. Though putting the life

ASSETS SCRAPPED AND NOT REPLACED.

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9. We have prepared tables dealing with the expenditure for the next ten years, 1931 to 1940, Railways, Harbours and Motor Services. We wish to make it clear that the figures are not "Audited." In the absence of many old engineering and accounting records, it has been necessary in some cases to use approximate figures. But we are satisfied that they are as near correct as it is humanly possible for them to be, bearing in mind the incomplete information at our disposal. No statement has been prepared as regards Marine Assets; owing to our remarks in our previous report under "4. A. Marine" we are of opinion that if our suggestions are adopted, there will be ample funds for any expenditure that is ever likely to be required under this head.

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11. As far as the South African Railways are concerned, the figure of 6 per cent is recommended. Had the depreciation as far as these railways were concerned been fixed at 3 per cent of wasting assets, it would have meant a minimum percentage of revenue of nearly 13 per cent, whilst as it is on the reduced contribution for 1930, based at 2½ per cent of wasting assets, the figure amounts to over 10 per cent.

After full consideration we do not recommend that any minimum percentage of revenue should be laid down as a minimum contribution to the Renewals Fund.

Broadly speaking, excessive wear and tear chiefly applies to rolling stock, which is adequately provided for in our recommendations.

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Kenya.	Nigeria.	South Africa.
75 years	36 years	50 years

Our conclusions are arrived at as follows:—

Concrete and masonry	100 years.
Steelwork	50 years.
Take half of each, allowing for viaducts	75 years.

In arriving at the lives of concrete, masonry and steelwork, consideration has been given to the excessive percentage of steelwork in our main line bridging, due to the Kikuyu and Mau viaducts. Though putting the life

at 75 years, the possibility of relaying with heavier rails must be borne in mind, which would necessitate premature renewal.

(B) MINOR BRIDGES.

Kenya	Nigeria	South Africa
100 years	30 years	50 years
Concrete and Masonry: 100 years.		

The life of minor bridges has been placed at 100 years, owing to the fact that the bulk of our minor bridges are now permanent concrete structures.

(C) FENCING.

Not shown by Nigeria or South Africa. As fencing is likely to be a fairly large item in future, we consider that it should remain in the statement of Wasting Assets for Depreciation.

Our life of 12½ years is based on cheap fencing with local timber poles, which will be necessary when the Fencing Ordinance is passed, and which will be particularly liable to rot and damage by fire and gales.

(D) TELEGRAPHS

Kenya	Nigeria	South Africa
15½ years	20 years	30 years

In this case we were largely guided by the opinion of the experts of the Postal and Telegraph Department.

It was necessary also to take into account that large numbers of timber poles will have to be replaced at a comparatively early date, and also that the "Control System" may necessitate considerable alteration to the present installation.

Approximately 40 per cent of the telegraph system on the Railway are borne on timber poles, some of which are already showing signs of decay after only seven years' life. These poles also are very liable to damage by fire.

(E) TELEGRAPH TABLETS

Kenya	Nigeria	South Africa
10½ years	20 years	10 years

Our remarks re opinion of Postal and Telegraph experts apply to this item.

We are of opinion that this item should remain in the statement of Wasting Assets for Depreciation.

When a section of main line or a branch line is opened, the whole of the cost of the installation is charged to Capital, and each instrument would become due for renewal about the same date, therefore the installation and not the individual instrument must be considered, so we do not recommend that they should be renewed from Revenue.

(F) PERMANENT WAY.

Kenya	Nigeria	South Africa
33½ years	30 years	30 years

Our recommendation of 33½ years is arrived at as follows:—

Rails, etc.	Life, Years	Percentage of total cost	Percentage of annual depreciation	Percentage
Rails	50	39.75	2	79.50
Steel Sleepers	30	48.50	3½	161.66
Ballast	50	9.60	2	19.20
Crossings	10	1.50	10	15.00
Timber Sleepers	12½	.65	8	5.20
				260.56
				260.56
Combined percentage			100	
Equals 2.80			say 3 per cent.	

This answers the points raised by you under the head "Permanent Way."

Labour, in this case, as in all other cases, has been included. This was determined by the late General Manager, when deciding the basis of the fund.

In connection with this item, we invite your special attention to Statement B.L. 1.

The life of rails and steel sleepers has been based on actual experience. The 50 lb. rails released from the main line are good for another 20 years, but at the same time it should be remembered that the 50 lb. rails used on the Usin Gishu Railway and the Uganda Extension, also the 80 lb. material used between the Coast and Makindu, were of low carbon steel, and it is very questionable whether these particular rails will have a life of more than 30 years.

As regards crossings, the life of a crossing in a busy station is certainly not more than ten years. In the past it has been customary to renew these crossings individually from revenue, but at the present time several large station yards require complete renewal of crossings, which will be a natural charge against the Renewal Fund.

(G) STATIONS AND OFFICES—TEMPORARY.

Kenya	Nigeria	South Africa
25 years	20 years	25 years

The comparisons are so close that no remarks are necessary.

(H) STATIONS AND OFFICES—PERMANENT.

Kenya	Nigeria	South Africa
100 years	66½ years	80 years

Our recommendations under this head follow previous items, where the estimated life of concrete and masonry is given as 100 years. For example, we see no reason why the Headquarters Offices should not last 100 years.

(I) WORKSHOPS AND STORES.

Kenya	Nigeria	South Africa
66½ years	Not shown	66½ years

In this case the South African estimate of life and ours are the same. The life of these buildings has been placed between the life of a temporary building and that of a permanent one, as they are mainly steel structures with galvanised iron roofs and sides.

(J) STAFF QUARTERS—TEMPORARY.

Kenya	Nigeria	South Africa
25 years	20 years	25 years

The comparisons are so close that no remarks are necessary.

(K) STAFF QUARTERS—PERMANENT.

Kenya	Nigeria	South Africa
100 years	66½ years	80 years

Please see remarks under (H).

(L) STATION MACHINERY.

Kenya	Nigeria	South Africa
22½ years	20 years	30 years

In our opinion this is the maximum life that could be estimated, after allowing for all local conditions.

It will be noted in this case our life is longer than estimated by Nigeria.

(M) LOCOMOTIVES.

Kenya	Nigeria	South Africa
* 20 years	25 years	+ 29 years

* Allows for one new boiler. † See page 70 of S.A. Report.

at 75 years, the possibility of relaying with heavier rails must be borne in mind, which would necessitate premature renewal.

(B) MINOR BRIDGES.

Kenya.	Nigeria.	South Africa.
100 years	30 years	50 years
Concrete and Masonry: 100 years.		

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Our life of 12½ years is based on cheap fencing with local timber poles, which will be necessary when the Fencing Ordinance is passed, and which will be particularly liable to rot and damage by fire and game.

(D) TELEGRAPHS.

Kenya.	Nigeria.	South Africa.
15½ years	20 years	30 years

In this case we were largely guided by the opinion of the experts of the Postal and Telegraph Department.

It was necessary also to take into account that large numbers of timber poles will have to be replaced at a comparatively early date, and also that the Control System may necessitate considerable alteration to the present installation.

Approximately 40 per cent of the telegraph system on the Railway are borne on timber poles, some of which are already showing signs of decay after only seven years. These poles also are very liable to damage by fire.

(E) TELEGRAPH TABLETS.

Kenya.	Nigeria.	South Africa.
15½ years	2 years	10 years

Our remarks regarding telegraphs and Telegraph experts apply to this item.

We are of opinion that this item should remain in the statement of Wasting Assets for Depreciation.

When a section of main line or a branch line is opened, the whole of the cost of the installation is charged to Capital, and each instrument would become due for renewal about the same date, therefore the installation and not the individual instrument must be considered, so we do not recommend that they should be renewed from Revenue.

(F) PERMANENT WAY.

Kenya.	Nigeria.	South Africa.
33½ years	3 years	30 years

Our recommendation of 33½ years is arrived at as follows:—

Rails, etc.	Life Years	Percentage of total cost	Percentage of annual depreciation	Percentage
Rails	50	39.75	2	79.50
Steel Sleepers	30	48.50	3½	161.66
Ballast	50	9.60	2	19.20
Crossings	10	1.90	10	18.50
Timber Sleepers	12½	.65	8	8.20
				290.56

Combined percentage

290.56

100

Equals 2.80

say 3 per cent.

This answers the points raised by you under the head "Permanent Way."

Labour, in this case, as in all other cases, has been included. This was determined by the late General Manager, when deciding the basis of the fund.

In connection with this item, we invite your special attention to Statement R.L. 1.

The life of rails and steel sleepers has been based on actual experience. The 50 lb. rails released from the main line are good for another 20 years, but at the same time it should be remembered that the 50 lb. rails used on the Usin Gishu Railway and the Uganda Extension, also the 80 lb. material used between the Coast and Mombasa, were of low carbon steel, and it is very questionable whether these particular rails will have a life of more than 30 years.

As regards crossings, the life of a crossing in a busy station is certainly not more than ten years. In the past it has been customary to renew these crossings individually from revenue, but at the present time several large station yards require complete renewal of crossings, which will be a natural charge against the Renewal Fund.

(G) STATIONS AND OFFICES—TEMPORARY.

Kenya.	Nigeria.	South Africa.
25 years	20 years	25 years

The comparisons are so close that no remarks are necessary.

(H) STATIONS AND OFFICES—PERMANENT.

Kenya.	Nigeria.	South Africa.
100 years	66½ years	80 years

Our recommendations under this head follow previous items, where the estimated life of concrete and masonry is given as 100 years. For example, we see no reason why the Headquarters Offices should not last 100 years.

(I) WORKSHOPS AND STORES.

Kenya.	Nigeria.	South Africa.
66½ years	Not shown	66½ years

In this case the South African estimate of life and ours are the same. The life of these buildings has been placed between the life of a temporary building and that of a permanent one, as they are mainly steel structures with galvanised iron roofs and sides.

(J) STAFF QUARTERS—TEMPORARY.

Kenya.	Nigeria.	South Africa.
25 years	20 years	25 years

The comparisons are so close that no remarks are necessary.

(K) STAFF QUARTERS—PERMANENT.

Kenya.	Nigeria.	South Africa.
100 years	66½ years	80 years

Please see remarks under (H).

(L) STATION MACHINERY.

Kenya.	Nigeria.	South Africa.
22½ years	20 years	30 years

In our opinion this is the maximum life that could be estimated, after allowing for all local conditions.

It will be noted in this case our life is longer than estimated by Nigeria.

(M) LOCOMOTIVES.

Kenya.	Nigeria.	South Africa.
* 20 years	25 years	+ 20 years

* Allows for one new boiler. † See page 70 of S.A. Report.

Our estimate of 20 years, which is really 25 years allowing for one new boiler at the end of 15 years, is arrived at as follows:—

Assuming that an engine is purchased complete for £5,000: of this one-fifth (= £1,000) is to be regarded as the cost of the original boiler, and cost of replacement.

	Percentage.
Therefore depreciate £4,000 for 25 years at 4 per cent	= 16
Also depreciate £2,000 for 15 years at 6 2/3rds per cent	= 13.33
	29.33

1/2 of 29.33 = 4.90 (say) 5 per cent

Or applying this basis of calculation to any engine would give —

Engine	2 x 4	=	8
Boilers	1 x 6 2/3rds	=	6.66
	3		14.66
			14.66
			3
			= 4.90 (say) 5 per cent

We might mention that the evidence of four witnesses, officials of the Administration with mechanical knowledge, in no way suggested that our period was too short rather the reverse.

Against this the evidence of officials of the Administration with extensive experience was in favour of a longer life than we are proposing.

It will serve a useful purpose if we refer briefly to the various classes of engines that have completed their lives in the service of this Administration.

1. Four A class engines received 1898 written off 1904 not new when received.
2. Three locomotives B class received 1898 written off 1904 not new when received.
3. Two locomotives A class received 1898 written off 1904 not new when received.
4. Fifteen locomotives N class received 1898 written off 1904 not new when received.
5. Thirty-six locomotives F class 20 received in 1899 and 16 received in 1900

Our records show the life of these engines as follows —

	Years
1	15 3/4
2	15
2	7
1	7
4	7
2	21
2	27
3	24
5	25
5	26
2	27
3	25
2	25
5	25

Still on books, but should have been written off.

It must be taken into account that for years many of these engines, owing to the small traffic, did little or no work, that many were reboilered, and that several of these engines underwent very heavy repairs and renewals, practically amounting to rebuilding them, uneconomic as they were

As a direct result of the non-existence of renewals fund, and lack of availability of new capital, uneconomic repairs were done and charged to revenue working expenses.

(f) Thirty-four locomotives, F Class, 21 received in 1898, 13 received in 1899.

Our records show the life of these engines as follows —

	Years
1	17
1	19
2	21
2	22
12	24
3	25
5	26
5	27
1	27

Still on books, but should have been written off.

Our remarks under B Class engines equally apply.

(g) Eighteen Mallet engines, 2 received in 1913 and 16 in 1914.

Written off books before attaining 20 years' life. There are, however, special circumstances as regards these engines that you are aware of.

It will be remembered in taking into account the foregoing life of engines, that the "pooling" system was not in force in their time.

The evidence we have received points to the fact that the life of a "pooled" engine will be five years shorter than that of a "non-pooled" engine, but that its mileage during its life will be greater than that of a "non-pooled" one, in spite of the longer life.

(N) CARRIAGES AND WAGONS.

Kenya.	Nigeria.	South Africa.
30 years	25 years	33 1/2 years

The differences in life are small and do not call for any special comment.

(O) ENGINEERING PLANT.

Kenya.	Nigeria.	South Africa.
6 1/2 years	15 years	20 years

Presumably the plant referred to as Engineering Plant on the other railways refers mainly to "Workshop Plant."

On this system it has been the policy to concentrate such plant in the Chief Mechanical Engineer's Workshops, consequently by far the greater portion of these items refers to Engineering Construction Plant, such as concrete mixers, stone crushers and transport plant, such as motor lorries and trolleys; this style of plant deteriorates rapidly and our lives are based on actual experience. If at any future date the policy changes and workshops are added to the Engineering Department, this figure will have to be revised.

(P) LOCOMOTIVE PLANT.

Kenya.	Nigeria.	South Africa.
15 years	15 years	20 years

No special comment necessary, but the weak policy of retaining obsolete machinery should be borne in mind.

(Q) STORES PLANT.

Kenya.	Nigeria.	South Africa.
25 years	15 years	20 years

In this case, our estimate gives a longer life than both Nigeria and South Africa, and may have to be revised later, when more varied machinery has to be used by this Department.

(R) JETTIES AND FERRIES.

Kenya	25 years
-------	----------

Our estimate of 20 years, which is really 25 years allowing for one new boiler at the end of 15 years, is arrived at as follows:—

Assuming that an engine is purchased complete for £5,000: of this one-fifth (= £1,000) is to be regarded as the cost of the original boiler, and cost of replacement.

	Percentage.
Therefore depreciate £4,000 for 25 years at 4 per cent	= 16
Also depreciate £2,000 for 15 years at 6 2/3rds per cent	= 13.33
	29.33

$\frac{1}{3}$ of 29.33 = 4.90 (say) 5 per cent.

Or applying this basis of calculation to any engine would give —

Engine	2 x 4	=	8
Boilers	1 x 6 2/3rds	=	6.66
	3		14.66

$= \frac{14.66}{3} = 4.90$ say 5 per cent

We might mention that the experience of four witnesses, officials of the Administration with mechanical knowledge in no way suggested that our life period was too short, rather the reverse.

Against this the evidence of an official of the Administration with mechanical experience was a basis of longer life than we are proposing.

It will serve a useful purpose to refer briefly to the various classes of engines that have been in service in the service of this Administration.

- a. Four engines received 1898 written off 1904 not new when received.
- b. Three engines received 1898 written off 1904 not new when received.
- c. Two engines received 1898 written off 1904 not new when received.
- d. Sixteen locomotives received 1898 written off 1904 not new when received.
- e. Thirty-six locomotives received 1899 and 18 received in 1900.

Our records show the life of these engines as follows:—

	Years
4	15
2	17
1	18
4	21
2	22
3	23
5	25
3	27
2	28
5	Still on books, but should have been written off.

It must be taken into account that for years many of these engines, owing to the heavy traffic, did little or no work, that many were reboilered, and that several of these engines underwent very heavy repairs and renewals, practically amounting to rebuilding them, uneconomic as they were.

As a direct result of the non-existence of renewals fund, and lack of availability of new capital, uneconomic repairs were done and charged to revenue working expenses.

- (f) Thirty-four locomotives, F Class, 21 received in 1898, 13 received in 1899.

Our records show the life of these engines as follows:—

	Years
1	17
1	18
2	21
2	22
12	24
3	25
5	26
2	27
1	Still on books, but should have been written off.

Our remarks under B Class engines equally apply.

- (g) Eighteen Mallet engines, 2 received in 1913 and 16 in 1914.

Written off books before attaining 20 years' life. There are, however, special circumstances as regards these engines that you are aware of.

It will be remembered in taking into account the foregoing life of engines, that the "pooling" system was not in force in their time.

The evidence we have received points to the fact that the life of a "pooled" engine will be five years shorter than that of a "non-pooled" engine, but that its mileage during its life will be greater than that of a "non-pooled" one, in spite of the longer life.

(N) CARRIAGES AND WAGONS.

Kenya.	Nigeria.	South Africa.
30 years	28 years	33 1/2 years

The differences in life are small and do not call for any special comment.

(O) ENGINEERING PLANT.

Kenya.	Nigeria.	South Africa.
6 1/2 years	15 years	20 years

Presumably the plant referred to as Engineering Plant on the other railways refers mainly to "Workshop Plant."

On this system it has been the policy to concentrate such plant in the Chief Mechanical Engineer's Workshops, consequently by far the greater portion of these items refers to Engineering Construction Plant, such as concrete mixers, stone crushers and transport plant, such as motor lorries and trolleys; this style of plant deteriorates rapidly and our lives are based on actual experience. If at any future date the policy changes and workshops are added to the Engineering Department, this figure will have to be revised.

(P) LOCOMOTIVE PLANT.

Kenya.	Nigeria.	South Africa.
15 years	15 years	20 years

No special comment necessary, but the weak policy of retaining obsolete machinery should be borne in mind.

(Q) STORES PLANT.

Kenya.	Nigeria.	South Africa.
25 years	15 years	20 years

In this case, our estimate gives a longer life than both Nigeria and South Africa, and may have to be revised later, when more varied machinery has to be used by this Department.

(R) JETTIES AND FERRIES.

Kenya	25 years
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No comparison can be made in this case, as the information is not available from the Nigerian and South African Reports.

We are of opinion that an outside life is 25 years, owing to the fact that the bulk of these assets are timber, and that the absence of a fund in the past has mitigated against thorough renewals when due.

LIFE OF WASTING ASSETS (HARBOURS).

14. We do not consider it necessary to go into this in any detail, as whatever is decided in the case of railways must be necessarily followed, to a large extent, as regards harbours, and as regards essentially deep-water assets, we have followed the advice of the Resident Engineer who was in charge of construction.

LIFE OF WASTING ASSETS, MOTOR SERVICES.

Kenya .. 5 years .. *Nigeria* .. 8 years

15. Having regard to our experience in connection with the motor service on the Masindi-Butiaba Road, we are not prepared to estimate a longer life than five years.

LIFE OF WASTING ASSETS, MARINE

16. In this connection we invite attention to our recommendations vide para. (4) A. of our letter of 27-9-29.

GENERAL

17. Your attention is invited to the following statements which accompany this report—

"A" Revised. From which it will be seen that if our proposals are adopted the railway rates work out to 3.1 per cent.

R.I. (Railways)	H.L. (Harbours)	M.I. (Motor Services)
1	1	1
2	2	
3	3	
4	4	
5	5	
6	6	
7	7	
8	8	
9	9	
10	10	
11	11	
11A	12	
12	13	
13	14	
14	15	
15	16	

Owing to Mr Andrews (Acting Chief Mechanical Engineer) having proceeded on leave, it is not possible for him to sign this Report.

Before he proceeded on leave he attended all the meetings of the Committee and we can assure you that he was entirely in accord with what we have now submitted.

We have the honour to be,

Sir,

Your obedient servants,

H. E. GOODSHIP,
Chief Accountant, Chairman.

A. E. HAMP,
Acting Chief Engineer, Member.

C. H. BLOOMFIELD,
Secretary.

A. 1. REVISED.

RAILWAYS—BASIS OF DEPRECIATION PROPOSED.

1	2	3	4	5
Details of Assets	Capital value on which Depreciation is based.	Estimated Life	Percentage recommended.	Amount Depreciation contribution recommended.
	£	Years	Per cent.	£
BRIDGE WORK—				
Major Bridges	810,123	75	1½	10,802
Minor Bridges	480,732	100	1	4,807
FENCING—				
Fencing	19,588	12½	8	1,567
TELEGRAPH—				
Telegraph	60,367	15½	6½	3,274
Tyler Tablets	31,520	15½	6½	2,049
PERMANENT WAY—				
Permanent Way	3,476,845	33½	3	104,305
STATIONS AND BUILDINGS—				
Stations and Offices:				
Temporary	107,444	25	4	4,298
Permanent	349,375	100	1	3,494
Workshops and Stores	257,765	60	1½	3,866
Staff Quarters:				
Temporary	242,813	25	4	9,713
Permanent	790,438	100	1	7,904
Station Machinery	411,861	22½	4½	18,520
ROLLING STOCK—				
Locomotives	1,433,231	20	5	71,662
Carriages and Wagons	2,096,099	30	3½	69,870
Road Vehicles				
PLANT—				
Engineering	44,994	6½	15	5,749
Locomotive	181,384	15	6½	12,092
Stores	20,135	25	4	805
JETTIES AND FERRIES—				
Jetties and Ferries	200,992	25	4	8,040
Total	11,005,406			343,817
* Magadi Railway	401,860		*	10,949
Grand Total	11,407,266			354,766
	342,216			
* MAGADI RAILWAY—				
Major Bridges	37,500	75	1½	500
Minor Bridges	37,500	100	1	375
Permanent Way	300,000	33½	3	9,000
Buildings	26,860	25	4	1,074
	401,860			10,949

11407241 334,766 3-11
342,216 208
1,95,480 20
11407241
1140754

RAILWAYS STATEMENT SHOWING THE ESTIMATED EXPENDITURE ON RENEWALS ON LIFE BASIS FOR A PERIOD OF TEN YEARS FROM 1ST JANUARY, 1931

Revised 1931-32

Details of Assets	YEAR										Total	
	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940		
BUILDING WORK												
Main Bridges												
Minor Bridges												
ELECTRIC TRAMWAYS												
Type Trolley Instruments, etc.	3,152											3,152
Type Trolley	5,666											5,666
PREMISES												
Main Structures	278,444	121,023	83,980									483,447
Bridges	10,000	6,511	6,803	6,803	6,800	6,800	6,800	6,800	6,800	6,800	6,800	78,000
Cranways	4,000	2,118	2,118	2,118	2,118	2,118	2,118	2,118	2,118	2,118	2,118	26,500
STATIONS AND BUILDINGS												
Temporary	34,855	28,404	28,404	28,404	28,404	28,404	28,404	28,404	28,404	28,404	28,404	348,816
Workshops and Stores												
Staff Quarters												
Temporary												
Permanent												
STEAM MACHINERY												
ROLLING STOCK												
Locomotives	58,978	34,962	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	79,200
Coaches	91,314	59,700										151,014
Gauges												
Platys	33,699	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	41,899
Engines	4,780	2,606	2,606	2,606	2,606	2,606	2,606	2,606	2,606	2,606	2,606	26,060
Locomotives	18,729	4,280	4,280	4,280	4,280	4,280	4,280	4,280	4,280	4,280	4,280	59,909
Stores												
JETTIES AND FERRIES												
Total	810,931	283,892	146,011	43,330	46,566	61,600	38,748	38,702	118,990	65,060	1,716,791	

MOTOR SERVICES STATEMENT SHOWING THE ESTIMATED EXPENDITURE ON RENEWALS ON LIFE BASIS FOR A PERIOD OF TEN YEARS FROM 1ST JANUARY, 1931

Details of Assets	YEAR										Total	
	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940		
MOTOR VANS, LOBBIES AND TRAILERS												
Overdue at 31-12-1930	4,916	13,417	1,190	4,506	4,800	2,700	18,303	1,190	4,506		64,688	
Total	4,916	13,417	1,190	4,506	4,800	2,700	18,303	1,190	4,506		64,688	

HARBOURS STATEMENT SHOWING THE ESTIMATED EXPENDITURE ON RENEWALS ON LIFE BASIS FOR A PERIOD OF TEN YEARS FROM 1ST JANUARY, 1931

Details of Assets	YEAR										Total	
	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940		
REPAIRS OLD JETTS												
REPAIRS OLD JETTS												
RAILWAYS AND SIDINGS												
ELECTRICAL INSTALLATION, CRANES AND EQUIPMENT												
CRANE ROARS												
MAGAZINES ROADWAYS												
TUGS, BUCKS AND BEACONS												
WATER SUPPLY												
BRICK TRANSIT SHEDS												
TRANSIT SHEDS, GOODS SHEDS, ETC.												
FENCING												
STATIONS AND OFFICES												
GIDDOONS AND OFFICES												
STAFF QUARTERS												
Total	250	135	124	2,751	4,586	84	15,378	475	7,893	1,841	98,768	

RAILWAYS.

R.L. 6.

STATEMENT SHOWING THE ORIGINAL COST OF WORKSHOPS AND STORES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 60 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
25	1972	82,072
20	1977	111
17	1980	1,529
16	1981	8,900
15	1982	2,559
14	1983	7,888
13	1984	3,561
12	1985	1,484
10	1987	674
9	1988	38
9	1988	653
8	1989	465
7	1990	115
6	1991	9,799
5	1992	19,237
4	1993	9,444
3	1994	20,142
2	1995	23,565
1	1996	34,364
1	1997	31,065
		£257,765

STATEMENT SHOWING THE ORIGINAL COST OF STAFF QUARTERS (PERMANENT) AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 100 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
17	2012	10,549
16	2013	27,446
15	2014	26,190
14	2015	18,962
13	2016	8,158
12	2017	2,857
12	2019	4,364
9	2020	4,134
8	2021	16,439
7	2022	6,490
6	2023	4,472
5	2024	19,789
4	2025	26,575
3	2026	190,268
3	2027	192,702
2	2028	132,958
1	2029	97,985
		£790,438

R.L. 7.

STATEMENT SHOWING THE ORIGINAL COST OF STATION MACHINERY AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 25 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
25	Overdue at 31-12-1928	131,051
24	31-12-1928	6,274*
23	31-12-1928	4,045*
22	1929	4,542*
		145,912
21	1930	1,744*
20	1931	930
18	1933	332
17	1934	10,268
16	1935	11,014
15	1936	5,073
14	1937	2,539
13	1938	3,148
12	1939	1,106
11	1940	584
10	1941	4,419
9	1942	933
8	1943	5,736
7	1944	5,430
6	1945	7,911
5	1946	18,710
5	1946	55,843
3	1948	41,410
2	1949	70,542
1	1950	17,977
1	1951	17,977
		£411,561

*Overdue at 31-12-1930 £147,656
Less Expenditure up to 1930 20,075

£127,581

STATEMENT SHOWING THE ORIGINAL COST OF STAFF QUARTERS (TEMPORARY) AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 25 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
25	1929	214,741*
24	1930	1,645*
23	1931	1,499
22	1932	3,022
21	1933	2,476
20	1934	1,900
19	1935	3,588
18	1936	4,295
17	1937	5,681
16	1938	394
15	1939	1,296
14	1940	433
13	1941	525
8	1946	69
6	1948	1,072
4	1950	55
		£242,813

*Overdue at 31-12-1930 £216,406
Less Expenditure up to 1930 54,844

£161,562

RAILWAYS.

R.L. 11A.

STATEMENT SHOWING THE NUMBER, COST, NUMBER OF YEARS IN SERVICE, AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 20 YEARS' LIFE, OF ALL ENGINES AS AT 31ST DECEMBER, 1928.

Number of Engines in service	Number of years in service	Year in which Renewal is due	Original cost
3	15	1934	9,000
5	14	1935	17,180
10	13	1936	39,330
17	8	1941	163,064
19	7	1942	183,584
20	5	1944	135,540
18	4	1946	121,986
43	2	1947	272,290
3	1	1948	35,403
23	1	1949	271,776
161	Average age 5 years	..	£1,249,153
			Average cost: £7,769

R.L. 11.

STATEMENT SHOWING THE NUMBER, COST, NUMBER OF YEARS IN SERVICE, AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 30 YEARS' LIFE, OF ALL COACHING STOCK AS AT 31ST DECEMBER, 1928.

Number of Coaches in service	Number of years in service	Year in which Renewal is due	Original cost
16	30	1929	8,852*
104	29	1930	50,006*
99	28	1931	34,965
2	28	1934	6,307
2	22	1937	1,620
6	21	1938	3,240
6	20	1939	12,706
6	19	1940	17,398
3	18	1941	5,319
6	17	1942	8,896
14	16	1943	15,596
2	14	1946	1,300
5	13	1947	1,660
3	12	1948	11,523
13	11	1949	9,577
5	7	1952	17,745
5	6	1953	14,864
25	5	1954	41,813
5	3	1956	12,450
1	2	1957	5,767
43	1	1958	78,472
46	1	1959	159,139
391	Average age 17 years	..	£515,034
			Average cost: £1,317
			*Overdue at 31-12-1930: £58,978

STATEMENT SHOWING THE NUMBER, COST, NUMBER OF YEARS IN SERVICE, AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 30 YEARS' LIFE, OF GOODS WAGONS AS AT 31ST DECEMBER, 1928.

Number of Wagons in service	Number of years in service	Year in which Renewal is due	Original cost
303	30	1929	58,664*
209	29	1930	32,850*
336	28	1931	59,702
5	26	1933	1,080
4	18	1941	5,213
104	16	1943	62,365
81	15	1944	94,000
162	14	1945	62,920
85	13	1946	19,792
7	12	1947	1,827
42	11	1948	7,180
10	9	1950	5,130
117	8	1951	60,212
46	7	1952	19,876
12	6	1953	4,723
115	5	1954	83,965
151	4	1955	84,277
651	3	1956	284,691
103	2	1957	57,978
324	1	1958	118,719
228	1	1959	176,231
3,105	Average age 12 years	..	£1,197,608
			Average cost £386
			*Overdue at 31-12-1930: £91,514

R.L. 12.

STATEMENT SHOWING THE ORIGINAL COST OF PLANT (ENGINEERING) AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 64 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
28	Overdue at 31-12-1928	29,095*
16	31-12-1928	196*
13	31-12-1928	94*
15	31-12-1928	5,914*
12	31-12-1928	1,567*
		36,866
5	1931	810
3	1933	830
2	1934	630
1	1935	4,428
1	1936	1,730
		£44,994

*Overdue at 31-12-1930 £36,866
Less Expenditure up to 1930 3,167

£33,699

RAILWAYS.

R.L. 13.

STATEMENT SHOWING THE ORIGINAL COST OF PLANT (LOCOMOTIVE) AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 15 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
	Overdue at 31-12-1928	36,712*
25	31-12-1928	891*
17	31-12-1928	5,038*
16	31-12-1928	4,041*
15	1929	
		46,682
14	1930	4,410*
13	1931	2,695
12	1932	94
7	1937	6,414
6	1938	7,684
5	1939	41,896
4	1940	1,859
3	1941	14,463
2	1942	26,340
1	1943	13,184
..	1944	15,663
		£181,384
		* Overdue at 31-12-1930 .. £51,092
		Less Expenditure up to 1930 .. 3,166
		£47,926

R.L. 14.

STATEMENT SHOWING THE ORIGINAL COST OF PLANT (STORES) AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 25 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
25	1929	6,793*
15	1939	7,705
14	1940	4,768
13	1941	630
9	1945	47
3	1951	192
		£20,135

* Overdue at 31-12-1930 .. £6,793

R.L. 15.

STATEMENT SHOWING THE ORIGINAL COST OF JETTIES AND FERRIES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 25 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
25	1929	22,784*
24	1930	3,959*
23	1931	4,260
22	1932	5,648
21	1933	11,751
20	1934	5,008
19	1935	41
17	1937	1,299
16	1938	5,590
15	1939	6,883
14	1940	5,426
13	1941	71
12	1942	1,518
11	1943	561
10	1944	188
9	1945	2,345
8	1946	5,143
7	1947	3,740
6	1948	3,262
5	1949	879
4	1950	29,725
3	1951	50,995
2	1952	21,866
1	1953	6,274
..	1954	1,777
		£200,992

* Overdue at 31-12-1930 .. £26,743
Less Expenditure up to 1930 .. 11,014

£15,729

R.L. 16.

STATEMENT SHOWING THE ORIGINAL COST OF MAJOR BRIDGES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 75 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
29	1975	102,372
28	1976	102,372
27	1977	102,372
26	1978	102,371
25	1979	102,371
24	1980	249
23	1981	26,994
15	1989	3,292
5	1999	15,981
4	2000	2,400
3	2001	28,550
2	2002	102,327
1	2003	22,190
..	2004	96,312
		£810,123

RAILWAYS.

R.L. 17.

STATEMENT SHOWING THE ORIGINAL COST OF MAJOR BRIDGES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 100 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
29	2000	43,935
28	2001	43,836
27	2002	43,835
26	2003	43,835
25	2004	4,445
22	2007	2,345
21	2009	5,522
20	2010	832
19	2013	3,855
16	2014	2,330
15	2016	765
13	2024	28,239
5	2025	52,355
4	2026	11,607
3	2028	55,627
2	2028	10,009
1	2029	73,323
		£480,732

HARBOURS.

H.L. 1.

STATEMENT SHOWING THE ORIGINAL COST OF FERRIES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 60 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
22	1974	2,426
21	1975	15,536
20	1976	26,187
19	1977	11,846
18	1978	5,134
16	1980	2,514
15	1981	2,079
14	1982	5,171
13	1983	445
11	1985	180
		£30,493

H.L. 2.

STATEMENT SHOWING THE ORIGINAL COST OF WHARF AND JETTIES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 33½ YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
14	1948	600
13	1949	1,019
12	1950	646
8	1954	920
4	1958	464
3	1959	3,472
2	1960	7,305
1	1961	684
..	1962	1,229
		£16,276

M.L. 1.

MOTOR SERVICES.

STATEMENT SHOWING THE ORIGINAL COST OF MOTOR SERVICES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 5 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
7	Overdue at 31-12-1928	6,000*
4	1930	13,417
3	1931	868
2	1932	4,086
1	1933	
		£31,079
		* Overdue at 31-12-1930 .. £12,896
		Less Expenditure up to 1930 .. 7,822
		£4,916

H.L. 3.

STATEMENT SHOWING THE ORIGINAL COST OF FERRIES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 10 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
8	1931	135
7	1932	124
6	1933	211
1	1938	475
..	1939	282
		£1,197

H.L. 4.

STATEMENT SHOWING THE ORIGINAL COST OF RAILWAYS AND SIDINGS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 33½ YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
14	1948	159
13	1949	183
7	1955	101
6	1956	1,002
5	1957	4,300
4	1958	23,386
3	1959	9,223
2	1960	791
..	1962	1,453
		£40,538

RAILWAYS.

R.L. 13.

STATEMENT SHOWING THE ORIGINAL COST OF PLANT (LOCOMOTIVE) AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 15 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
25	Overdue at 31-12-1928	36,712*
17	31-12-1928	891*
16	31-12-1928	5,038*
15	1929	4,041*
		46,682
14	1930	4,410*
13	1931	2,695
12	1932	94
12	1933	6,414
7	1938	7,684
5	1939	41,896
4	1940	1,859
3	1941	14,463
2	1942	26,340
1	1943	13,184
..	1944	15,663
		£181,384
* Overdue at 31-12-1930		£51,092
Less Expenditure up to 1930		3,166
		£47,926

R.L. 14.

STATEMENT SHOWING THE ORIGINAL COST OF PLANT (STORES) AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 25 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
25	1929	6,793*
15	1939	7,705
14	1940	4,768
13	1941	630
9	1945	47
3	1951	192
		£20,135

* Overdue at 31-12-1930 ... £6,793

R.L. 15.

STATEMENT SHOWING THE ORIGINAL COST OF JETTIES AND FERRIES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 25 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
25	1929	22,784*
24	1930	3,959*
23	1931	4,260
22	1932	5,648
21	1933	11,751
20	1934	5,008
19	1935	41
17	1937	1,299
16	1938	5,690
15	1939	6,883
14	1940	5,426
13	1941	71
12	1942	1,518
11	1943	561
10	1944	188
9	1945	2,345
8	1946	5,143
7	1947	3,740
6	1948	3,262
5	1949	879
4	1950	29,725
3	1951	50,995
2	1952	21,866
1	1953	6,274
..	1954	1,777
		£200,992

* Overdue at 31-12-1930 ... £26,743
Less Expenditure up to 1930 11,014

£15,729

R.L. 16.

STATEMENT SHOWING THE ORIGINAL COST OF MAJOR BRIDGES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 75 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
29	1975	102,372
28	1976	102,372
27	1977	102,372
26	1978	102,371
25	1979	102,371
24	1980	249
23	1981	26,994
15	1989	3,292
5	1999	15,981
4	2000	2,400
3	2001	28,550
2	2002	102,377
1	2003	22,190
..	2004	96,312
		£810,123

RAILWAYS.

R.L. 17.

STATEMENT SHOWING THE ORIGINAL COST OF MAJOR BRIDGES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 100 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
29	2000	43,735
28	2001	43,835
27	2002	43,835
26	2003	43,835
25	2004	4,648
22	2007	2,345
21	2008	5,622
20	2009	832
19	2010	3,855
16	2013	2,330
13	2014	765
5	2024	28,239
4	2025	52,353
3	2026	11,607
2	2027	55,627
1	2028	10,009
..	2029	73,323
		£480,732

HARBOURS.

H.L. 3.

STATEMENT SHOWING THE ORIGINAL COST OF KILINDINI OLD PIER AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 66 2/3 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
22	1974	2,420
21	1975	15,536
20	1976	28,187
19	1977	11,848
18	1978	5,136
16	1980	2,514
15	1981	2,079
14	1982	5,171
13	1983	445
11	1985	190
		£30,490

H.L. 2.

STATEMENT SHOWING THE ORIGINAL COST OF WHARF AND JETTIES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 3 1/2 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
14	1948	600
13	1949	1,030
12	1950	642
8	1954	830
4	1958	464
3	1960	3,472
2	1960	7,305
1	1961	684
..	1962	1,229
		£16,276

M.L. 1.

MOTOR SERVICES.

STATEMENT SHOWING THE ORIGINAL COST OF MOTOR SERVICES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 5 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
7	Overdue at 31-12-1928	6,000*
4	1930	6,738*
3	1931	13,417
2	1932	866
1	1933	4,066
		£31,079
* Overdue at 31-12-1930		£12,738
Less Expenditure up to 1930		7,522
		£4,916

H.L. 4.

STATEMENT SHOWING THE ORIGINAL COST OF FERRIES AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 10 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
8	1931	135
7	1932	124
6	1933	211
1	1936	475
..	1939	252
		£1,197

H.L. 4.

STATEMENT SHOWING THE ORIGINAL COST OF RAILWAYS AND SIDINGS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 3 1/2 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
		£
14	1948	159
13	1949	183
7	1958	101
6	1956	1,002
5	1957	4,300
4	1958	23,286
3	1959	9,223
2	1960	701
..	1962	1,453
		£40,538

HARBOURS.

H.L. 5.

STATEMENT SHOWING THE ORIGINAL COST OF ELECTRICAL INSTALLATION, CRANES AND EQUIPMENT AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 20 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
16	1933	£ 1,193
15	1934	4,586
14	1935	84
3	1946	33,182
2	1947	31,565
1	1948	11,508
	1949	638
		£82,756

H.L. 6.

STATEMENT SHOWING THE ORIGINAL COST OF CRANE ROADS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 33½ YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	1957	£ 5,201
2	1960	2,796
1	1961	560
		£8,579

H.L. 7.

STATEMENT SHOWING THE ORIGINAL COST OF MACADAMISED ROADWAYS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 10 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	1936	£ 15,000
2	1937	5,251
		£20,251

H.L. 8.

STATEMENT SHOWING THE ORIGINAL COST OF TUGS, LAUNCHES AND PONTOONS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 20 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
16	1933	£ 1,347
8	1941	285
3	1946	18,735
2	1947	1,235
1	1948	2,197
	1949	29,242
		£53,041

H.L. 9.

STATEMENT SHOWING THE ORIGINAL COST OF LIGHTS, BUOYS AND BEACONS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 13½ YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
18	Overdue at 31-12-1928	£ 250*
6	1936	378
3	1939	7,502
2	1940	833
	1942	4,615
		£13,578

*Overdue at 31-12-1930: £250.

H.L. 10.

STATEMENT SHOWING THE ORIGINAL COST OF WATER SUPPLY AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 33½ YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	1959	£ 2,152
2	1960	285
		£2,437

HARBOURS.

H.L. 11.

STATEMENT SHOWING THE ORIGINAL COST OF BRICK TRANSIT SHEDS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 100 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	2026	£ 200,000
2	2027	14,009
		£214,009

H.L. 12.

STATEMENT SHOWING THE ORIGINAL COST OF TRANSIT SHEDS AND GOODS SHEDS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 50 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
15	1964	£ 2,369
14	1965	1,425
13	1966	1,195
12	1967	123
11	1968	176
10	1969	2,517
9	1970	2,670
8	1971	1,276
7	1972	681
4	1975	556
3	1976	650
2	1977	1,313
	1979	3,662
		£18,633

H.L. 13.

STATEMENT SHOWING THE ORIGINAL COST OF FENCING AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 33½ YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	1959	£ 108
2	1960	1,768
1	1961	345
		£2,221

H.L. 14.

STATEMENT SHOWING THE ORIGINAL COST OF STATIONS AND OFFICES, ETC., AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 25 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
15	1939	£ 139
14	1940	1,008
7	1947	549
3	1951	3,272
2	1952	3,622
		£8,590

H.L. 15.

STATEMENT SHOWING THE ORIGINAL COST OF GODOWNS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 50 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	1976	£ 5,961

H.L. 16.

STATEMENT SHOWING THE ORIGINAL COST OF STAFF QUARTERS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 100 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	2026	£ 6,049
2	2027	1,267
1	2028	14,814
	2029	6,344
		£28,474

HARBOURS.

H.L. 5.

STATEMENT SHOWING THE ORIGINAL COST OF ELECTRICAL INSTALLATION, CRANES AND EQUIPMENT AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 20 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
16	1933	£ 1,193
15	1934	4,586
14	1935	84
3	1946	33,182
2	1947	31,565
1	1948	11,508
..	1949	638
		£82,756

STATEMENT SHOWING THE ORIGINAL COST OF TUGS, LAUNCHES AND PONTOONS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 20 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
16	1933	£ 1,347
8	1941	285
3	1946	18,735
2	1947	1,235
1	1948	2,197
..	1949	29,242
		£53,041

H.L. 9.

STATEMENT SHOWING THE ORIGINAL COST OF LIGHTS, BUOYS AND BEACONS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 13½ YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
18	Overdue at 31-12-1928	250*
6	1936	378
3	1939	7,502
2	1940	833
..	1942	4,615
		£13,578

*Overdue at 31-12-1930: £250.

H.L. 7.

STATEMENT SHOWING THE ORIGINAL COST OF MACADAMISED ROADWAYS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 10 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	1936	£ 15,000
2	1937	5,251
		£20,251

H.L. 10.

STATEMENT SHOWING THE ORIGINAL COST OF WATER SUPPLY AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 33½ YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	1959	£ 2,152
..	1960	285
		£2,437

HARBOURS.

H.L. 11.

STATEMENT SHOWING THE ORIGINAL COST OF BRICK TRANSIT SHEDS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 100 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	2026	£ 200,000
2	2027	14,009
		£214,009

H.L. 12.

STATEMENT SHOWING THE ORIGINAL COST OF TRANSIT SHEDS AND GOODS SHEDS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 50 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
15	1964	£ 2,369
14	1965	1,425
13	1966	1,195
12	1967	123
11	1968	176
10	1969	2,517
9	1970	4,670
8	1971	1,276
7	1972	681
4	1975	556
3	1976	650
2	1977	1,313
..	1979	3,962
		£18,633

H.L. 15.

STATEMENT SHOWING THE ORIGINAL COST OF GODOWNS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 50 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	1976	£ 5,961

H.L. 13.

STATEMENT SHOWING THE ORIGINAL COST OF FENCING AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 33½ YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	1969	£ 108
2	1960	1,768
1	1961	345
		£2,221

H.L. 16.

STATEMENT SHOWING THE ORIGINAL COST OF STAFF QUARTERS AS AT 31ST DECEMBER, 1928, AND NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 100 YEARS' LIFE.

No. of years in service	Year in which Renewal is due	Original Cost
3	2026	£ 6,049
2	2027	1,267
1	2028	14,814
..	2029	6,344
		£28,474

Kenya and Uganda Railways and Harbours

No. E. F. 391.

GENERAL MANAGER'S OFFICE,
NAIROBI, 17th January, 1930
KENYA COLONY.

THE CHIEF ACCOUNTANT,
NAIROBI.

DEPRECIATION AND RENEWALS FUND.

Your Ga.A.P. 430/ dated the 30th November, 1929.

I have now had an opportunity of carefully studying the report of the Committee, of which you are Chairman, on the Depreciation and Renewals Fund.

2. I wish again to thank you, and through you your Committee, for having rendered a most useful report.

3. There is, I think, only one point on which I should like further information. It is evident that the period of 10 years for which I asked you to prepare expenditure figures is too short a period to demonstrate whether the finances of the Fund are satisfactory. I should be glad therefore if you could extend this table to cover a period of 100 years.

4. All data appears to be available and already tabulated to enable you to do this.

5. Please also show on that table the annual contribution to the Fund and the estimated condition of the Fund as a whole somewhat on the lines of Table R.L. 1.

G. D. RHODES,
General Manager.

Kenya and Uganda Railways and Harbours. No. G.A.P. 430.

CHIEF ACCOUNTANT'S OFFICE.

NAIROBI, January 24th, 1930.
KENYA COLONY.

THE HON. GENERAL MANAGER,
NAIROBI.

DEPRECIATION AND RENEWALS FUND.

Ref. your E.F. 391, dated 17/1/30.

We beg to thank you for your letter as above.

2. As instructed we now forward statement in triplicate giving the information as asked for, based on the percentage 3.11, vide Statement "A" Revised (see paragraph 17 of our letter of 30/11/29).

3. Another statement is also enclosed, which shows the estimated position of the Fund at the end of 100 years, calculated on the following annual percentages of contribution:—

3.11	...	3.00	...	2½	...	2½	...	2½	...	2½	...	2
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We have the honour to be,

Sir,

Your obedient servants,

H. E. GOODSHIP,
Chief Accountant.

A. E. HAMP,
Acting Chief Engineer.

STATEMENT SHOWING THE ESTIMATED EXPENDITURE ON RENEWALS ON LIFE BASIS FOR A PERIOD OF 100 YEARS FROM 1ST JANUARY, 1931, AND BALANCE OF FUND AT END OF EACH FINANCIAL YEAR AFTER ALLOWING FOR ANNUAL CONTRIBUTION OF £354,766, ASSUMING ALL OVERHEAD EXPENDITURE INCURRED IN 1931.

RAILWAYS—Continued.

YEAR

DETAILS OF ASSETS	YEAR										Total	
	1931	1962	1963	1964	1965	1966	1967	1968	1969	1970		
BRIDGE WORK—												
Major Bridges	156	156	156	156	156	156	156	156	156	156	156	156
Minor Bridges												
FENCING												
TELEGRAPH—												
Temporary				5,512								
Permanent				5,668								
PERMANENT WAY—												
Rails	31,511	21,120	66,330	14,650		148,880						
Ballast	5,911	6,811	83,900									
Consumption	18	4,160	20,180	5,811	6,811	6,811	6,811	6,811	6,811	6,811	6,811	6,811
Timber Sleepers												
STATIONS AND BUILDINGS—												
Temporary												
Permanent												
JETTIES AND FERRIS												
Major Railway												
Minor Bridges												
Permanent Way												
Buildings												
Total Estimated Expenditure £	146,827	548,972	461,820	146,376		178,019	171,587	295,286	77,712	302,888	26,860	2,411,113
Estimated Balance of Fund at the end of each Financial Year, assuming all Overhead Expenditure incurred in 1931 and after allowing for Annual Contribution of £354,766	2,347,779	2,186,533	2,049,479	2,339,389	2,527,779	2,704,526	2,887,735	2,947,215	3,228,269	3,276,447		

STATEMENT SHOWING THE ESTIMATED EXPENDITURE ON RENEWALS ON LIFE BASIS FOR A PERIOD OF 100 YEARS FROM 1ST JANUARY, 1931, AND BALANCE OF FUND AT END OF EACH FINANCIAL YEAR AFTER ALLOWING FOR ANNUAL CONTRIBUTION OF £354,766, ASSUMING ALL OVERHEAD EXPENDITURE INCURRED IN 1931.

RAILWAYS—Continued.

YEAR

DETAILS OF ASSETS	YEAR										Total	
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980		
BRIDGE WORK—												
Major Bridges												
Minor Bridges												
FENCING												
TELEGRAPH—												
Temporary	567	1,567	1,567	1,567	1,567	1,567	1,567	1,567	1,567	1,567	1,567	15,670
Permanent												
PERMANENT WAY—												
Rails												
Ballast												
Consumption	6,800	6,800	6,800	6,800	6,800	6,800	6,800	6,800	6,800	6,800	6,800	68,000
Timber Sleepers	2,150	2,150	2,150	2,150	2,150	2,150	2,150	2,150	2,150	2,150	2,150	21,500
STATIONS AND BUILDINGS—												
Temporary	323	4,781	673	694		1,841	4,310	2,986	11,667	4,947		32,164
Permanent												
JETTIES AND FERRIS												
Major Railway												
Minor Bridges												
Permanent Way												
Buildings												
Total Estimated Expenditure £	162,278	178,267	249,415	213,375	311,068	615,077	574,100	508,824	247,874	32,074		3,092,272
Estimated Balance of Fund at the end of each Financial Year, assuming all Overhead Expenditure incurred in 1931 and after allowing for Annual Contribution of £354,766	3,465,935	3,645,334	3,780,785	3,892,176	3,995,834	3,675,543	3,456,209	3,302,151	3,409,043	3,731,735		

STATEMENT SHOWING THE ESTIMATED EXPENDITURE ON RENEWALS ON LIFE BASIS FOR A PERIOD OF 100 YEARS FROM 1ST JANUARY, 1931, AND BALANCE OF FUND AT END OF EACH FINANCIAL YEAR AFTER ALLOWING FOR ANNUAL CONTRIBUTION OF £354,766, ASSUMING ALL OVERDUE EXPENDITURE INCURRED IN 1931.

DETAILS OF ASSETS	YEAR.										TOTAL	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		
BRIDGE WORK—												
Major Bridges	28,530	1,247	27,900	96,312	...	...	4,648	2,345	5,622	832	246,349
Minor Bridges	43,835	41,832	41,832	43,655	1,587	1,587	1,587	1,587	1,587	1,587	188,787	
FENCING	1,567	1,567	1,567	1,567	1,567	1,567	1,567	1,567	1,567	1,567	15,670	
TELEGRAPH—												
Temporary	17	17	17	17,624	5,572	6,743	14,445	3,026	381	...	41,885	
Permanent Way	...	...	...	4,792	...	7,365	7,752	...	...	...	28,822
PERMANENT WAY												
Steel Sleepers	...	9,020	67,330	...	...	...	...	...	...	...	263,340
Ballast	...	8,300	69,004	...	...	176,285	...	...	...	...	304,235
Timber Sleepers	...	...	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	159,004
Stations and Buildings	...	...	2,150	2,150	2,150	2,150	2,150	2,150	2,150	2,150	58,000
Staff Quarters	...	...	4,310	2,468	11,667	4,947	9,450	8,900	35,119	...	79,192
Workshops and Stores	...	4,437	2,533	588	715	906	27,580	18,200	163,061	3,022	220,982	
Temporary	...	332	10,268	11,014	5,073	2,539	3,148	1,106	584	4,419	3,483	
Permanent	...	12,706	17,398	163,064	181,584	135,540	1,300	1,660	121,866	272,290	876,464	
Buildings	...	3167	7,684	839	42,368	62,900	1,300	1,660	11,523	9,577	83,674	
Plant	...	6,314	1,859	1,859	839	26,340	4,426	1,720	3,167	...	169,310	
Locomotive	...	879	29,725	58,128	44,441	26,340	13,184	15,643	6,793	...	48,161	
Stores	...	244,736	364,833	450,379	426,428	276,836	3,684	3,778	19,989	...	130,669	
JETTIES AND FERRIS												
Magadi Railway	...	...	450,379	426,428	276,836	296,337	82,990	383,047	313,185	...	148,167
Minor Bridges	...	...	...	...	...	...	...	...	...	...	...
Permanent Way	...	...	...	...	...	...	...	...	...	...	...
Buildings	...	...	...	...	...	...	...	...	...	...	...
Total Estimated Expenditure	244,736	364,833	450,379	426,428	276,836	296,337	82,990	383,047	313,185	...	1,136,659	
Total Estimated Expenditure	4,040,796	4,000,728	3,935,115	3,960,453	3,921,333	4,000,263	4,056,692	4,328,468	4,300,187	4,341,768	3,136,659	

Estimated Balance of Fund at the end of each Financial Year, assuming all Overdue Expenditure incurred in 1931 and after allowing for Annual Contribution of £354,766

STATEMENT SHOWING THE ESTIMATED EXPENDITURE ON RENEWALS ON LIFE BASIS FOR A PERIOD OF 100 YEARS FROM 1ST JANUARY, 1931, AND BALANCE OF FUND AT END OF EACH FINANCIAL YEAR AFTER ALLOWING FOR ANNUAL CONTRIBUTION OF £354,766, ASSUMING ALL OVERDUE EXPENDITURE INCURRED IN 1931.

DETAILS OF ASSETS	YEAR.										TOTAL
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
BRIDGE WORK—											
Major Bridges	1,867	1,867	3,886	2,330	1,967	765	1,867	1,867	1,867	1,867	6,880
Minor Bridges	5,668	5,668	5,668	5,668	5,668	5,668	5,668	5,668	5,668	5,668	15,670
FENCING	...	...	...	...	...	...	...	...	...	...	...
TELEGRAPH—	...	...	...	...	...	...	...	...	...	...	...
Temporary	1,294	1,294	6,208	668	4,808	6,417	2,972	1,860	1,440	...	249,630
Permanent Way	...	...	...	...	...	...	...	...	...	...	1,415,695
Steel Sleepers	...	...	...	...	...	...	...	...	...	...	146
Ballast	...	...	...	...	...	...	...	...	...	...	68,000
Timber Sleepers	...	...	...	...	...	...	...	...	...	...	26,183
Crossings	...	...	...	...	...	...	...	...	...	...	10,480
Stations and Buildings	...	...	...	...	...	...	...	...	...	...	...
Staff Quarters	...	...	...	...	...	...	...	...	...	...	...
Workshops and Stores	...	...	...	...	...	...	...	...	...	...	...
Temporary	2,476	1,900	3,668	4,296	5,661	394	1,296	433	525	4,104	79,203
Permanent	93	10,949	27,648	26,196	18,731	8,156	2,887	45,208	73,819	17,977	162,660
Locomotive	...	...	...	...	...	...	...	...	...	...	29,369
Stores	...	...	...	...	...	...	...	...	...	...	167,111
Wagons	...	...	...	...	...	...	...	...	...	...	699,771
PLANT—											
Engineering	34,209	5,300	60,212	19,876	4,428	1,730	3,167	7,684	41,996	1,889	168,868
Locomotive	50,623	94	800	630	4,028	6,014	6,814	4,768	6,130	...	37,588
Stores	11,781	5,028	41	1,299	6,883	5,890	6,883	5,425	71	1,518	...
JETTIES AND FERRIS											
Magadi Railway	161,106	310,556	213,987	146,945	204,494	504,808	363,900	939,856	392,792	481,192	3,691,636
Minor Bridges	...	...	...	...	...	...	...	...	...	...	...
Permanent Way	...	...	...	...	...	...	...	...	...	...	...
Buildings	...	...	...	...	...	...	...	...	...	...	...
Total Estimated Expenditure	161,106	310,556	213,987	146,945	204,494	542,308	663,900	939,856	419,652	481,192	4,658,996
Total Estimated Expenditure	4,535,428	4,579,638	4,720,417	4,926,238	5,076,510	4,888,968	4,579,634	3,994,744	3,929,859	3,833,432	3,500,000

Estimated Balance of Fund at the end of each Financial Year, assuming all Overdue Expenditure incurred in 1931 and after allowing for Annual Contribution of £354,766

RAILWAYS.—Continued.
STATEMENT SHOWING THE ESTIMATED EXPENDITURE ON RENEWALS ON LIFE BASIS FOR A PERIOD OF 100 YEARS FROM 1ST JANUARY, 1931, AND BALANCE OF FUND AT END OF EACH FINANCIAL YEAR AFTER ALLOWING FOR ANNUAL CONTRIBUTION OF £35,766, ASSUMING ALL OVERDUE EXPENDITURE INCURRED IN 1931.

DETAILS OF ASSETS.	YEAR.										TOTAL	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030		
BRIDGE WORK—												
Major Bridges				28,239								
Minor Bridges		1,567	1,567	1,567								
FENCING					62,355	11,607	58,627	10,009	73,323	241,160		
TELEGRAPH		6,743	14,441	3,226	1,567	1,567	1,567	1,567	1,567	15,670		
TELEPHONE		7,366	7,752	35			8,512			27,726		
PERMANENT WAY							5,688			36,728		
Ballast	121,500	121,030	21,760	15,870	92,070	179,310	155,610	286,060		719,680		
Timber Sleepers			43,960	28,000	26,721	6,940	70,151	61,613		328,910		
Iron Sleepers		6,500	6,500	6,500	6,500	6,500	6,500	6,500		218,425		
Stations and Buildings		2,150	2,150	2,150	2,150	2,150	2,150	2,150		65,000		
Stations and Other Buildings										21,500		
Temporary			323	4,751	673	694	82,275	1,841	4,310	15,556		
Permanent		441	3,895	5,448	7,988	76,950		70,531	57,244	322,942		
Work Quarters												
Temporary				60		1,072	192,702	55	97,985	1,196		
Permanent	16,439	6,470	4,472	15,789	26,675	100,268	11,014	132,958	2,589	37,768		
Steam Machinery	5,000	5,000	128,511		342			5,073		173,885		
Rolling Stock						183,584	6,307	135,540		604,174		
Locomotives				15,746	163,064	1,086				251,009		
Wagons				15,746						328,527		
Plant—												
Engineering			4,428	1,728	3,167		34,209	94	830	46,484		
Administrative	53	53	13,194	18,566	3,166		50,621	192	123,239	123,239		
Stores			2,345	5,140	3,340	3,262	879	29,725	55,128	123,345		
JETTIES AND FERRIES												
Magadi Railway—												
Buildings	58,122	194,424	322,259	377,455	440,168	675,252	683,812	713,716	301,768	162,933		
Minor Bridges												
Permanent Way												
Buildings												
Total Estimated Expenditure £	58,122	194,424	322,259	377,455	400,168	675,252	683,812	713,716	301,768	162,933	4,356,009	
Estimated Balance of Fund at the end of each Financial Year, assuming all Overdue Expenditure incurred in 1931 and after allowing for Annual Contribution of £354,766	3,664,076	3,329,418	3,056,825	2,824,136	2,781,734	3,466,246	3,139,202	2,780,252	2,533,250	3,025,083		

46

DEPRECIATION.

Paragraphs of Report of South African Railways and Harbours referred to in correspondence between General Manager and Committee of Inquiry into Depreciation of Assets and Renewals Fund :—

Paragraph 12.

To do this, it was considered essential to endeavour to forecast the expenditure that would be incurred on the renewal of the various assets, as and when renewal would become necessary, also, the expenditure that might be incurred on renewal of the same assets on a purely theoretical basis, that is, assuming that the renewal of each class of asset occurred, in each case, on the termination of the theoretical life allotted to each class.

Paragraph 13.

By so doing, it would be possible to establish the gross amount of the contributions that would be required to meet such expenditure, and also determine the annual contribution that would be necessary so as to always have sufficient funds in hand to meet the expenditure on renewals in every year and concurrently accumulate sufficient funds to meet the expenditure of the peak year, that is the year in which the expenditure will be the highest for a considerable number of years before and after that year.

Paragraph 14.

Statements are attached hereto (Nos 1 to 36) in which this information is given for each year, from the year 1925-26 to the year 1979-80 (inclusive), a total period of 55 years, and in respect of each of the classes of assets separately.

Paragraph 23.

It will be observed that, particularly in the case of engines and carriages, and to a certain extent in the case of wagons, the proposed rates in South Africa are higher than on other railways.

Paragraph 24.

This is more evident when it is remembered that the rate for engines on the British railways includes the cost of one boiler renewal during the lifetime of each engine.

Paragraph 25.

On the other hand, it is to be noted that in the case of the permanent way, the British Railways life is only 21½ years compared with the 30½ years for rails and 21 years for sleepers in South Africa.

Paragraph 27.

The result of employing the life basis in determining the equal annual contribution for depreciation, that is applying the proposed percentage rates corresponding to the estimated lives of the respective wasting assets, shows that the annual contribution from revenue to the Renewals Fund should be as is set out in Statements Nos. 27 and 29, commencing with a contribution of £2,603,296 for the first year, 1925-26, and the same amount in the second year, 1926-27, but augmented by £81,904 to provide for the estimated annual increase due to expansion of the Railways, or a total of £2,684,500 for the second year, and making the accumulated total for the two years £5,287,796, and £8,053,500 for the three years, and so on, increasing steadily each year thereafter.

Paragraph 28.

Statements Nos. 42, 44 and 46 show in detail, and No. 48 in gross, the estimated expenditure that would be incurred on the renewal of assets each year, if the assets remained in service the exact number of estimated years of life.

Paragraph 29.

The amount expended in 1925-26 would be £5,021,092, and in the year 1935-36 the expenditure of £3,624 on the first renewal of the increase in

149

assets due to the estimated expansion of the Railway from 1925-26 onwards occurs.

Paragraph 30.

Owing to a very large quantity of the assets in service at the 31st March, 1925, being overdue for renewal, their theoretical life having terminated, the expenditure for the year 1925-26 is made to reflect the whole of these assets as being renewed in that year. This, of course, is now known not to have taken place—an impossibility almost by reason of the magnitude—and to the extent to which it has not taken place, the expenditure of the following years will be increased correspondingly.

Paragraph 31.

This phase is dealt with later herein and for the purpose of the moment it is sufficient to note the abnormality in this respect.

Paragraph 32.

The extent, and the cost, of assets overdue for renewal at the 31st March, 1925, on the theoretical life basis is as follows:—

Assets	Overdue Renewal Expenditure.	Length or Quantity	Vide Statement Nos.
* Sleepers	£2,401,789	2,318 miles	6 and 8
Rails	114,280	83 miles	1 and 2
Locomotives	646,640	223 in quantity	28
Carriages	562,422	499 in quantity	31
Wagons	496,218	2,850 in quantity	34
	<u>Total £4,221,349</u>		

* These amounts are arrived at by deducting the amounts due for renewal in 1925-26, but not overdue.

Paragraph 33.

Data is not available from which to determine the extent to which other classes of assets were overdue for renewal, but as they form a very small portion of the whole of the assets (certainly not more than 1 per cent) they can safely be ignored for the purpose of determining the incidence of the renewal expenditure thereon during the first ten years after 1924-25.

Paragraph 34.

A comparison of the contributions with the expenditure for each year is shown on Statement No. 47, and it will be observed, that throughout the whole of the 55 years, allowing for the balance of moneys on hand at 31st March, 1925, of £980,603 and the fact that the assets overdue for renewal amounting as stated above to over £4,000,000 were not all renewed in 1925-26 nor will be for many years thereafter, the accumulated contributions would be always greater than the accumulated expenditure, and in consequence there would be always a considerable unexpended balance of moneys on hand. This is more apparent from a study of Statement No. 50, which is dealt with later on herein.

Paragraph 35.

It will be observed also, that the balance at the credit of the Fund is constantly increasing and that if the contributions due to the annual increase in assets brought about by the expansion of the Railways is excluded from the balance (*vide* Statement No. 43) and the "overdue" renewal expenditure shown as being all incurred in the one year 1925-26 is allowed for, it will be found that there is a tendency for the accumulated balance at the credit of the Fund to remain constant from 1965 onwards.

Paragraph 36.

This proves, of course, what has been stressed at various times in connection with the subject of depreciation, namely, that the contributions for renewal of assets on the life basis will always provide more funds than will ever be required, and is readily understood when it is remembered that at no time in the history of the railways will the whole of the assets be entirely new, and so, as the life basis implies having moneys in the Renewals Fund corresponding to the difference between the original cost and the present-day value of the assets in service, there must always be moneys in the Renewals Fund that will never be required.

Paragraph 37.

By "never required" of course your Committee means that as liquidation or sequestration of the Railways is a very remote and improbable contingency, there is no need, at least for many years to come there is no need, to provide funds to meet such a contingency and therefore there is no need to have in cash, always, the full difference between the original cost and present-day value of the wasting assets, or in other words, the full accrued depreciation on the wasting assets in service at any given time.

Paragraph 38.

Turning now to Statements Nos. 49 to 55, in which an endeavour has been made to forecast the expenditure as it is likely to be experienced in actual practice, that is, by still observing the same life in respect of each class of asset, but assuming that each class will be renewed at the rate of one-tenth of the total, annually, over a period of ten years, that is, from four years before until five years after the year of theoretical renewal, it will be observed that the balance at the credit of the Fund at the close of each year remains considerable, and represents the extent to which the contributions are more than the sum required to meet the calls upon the Fund for the expenditure on renewals, and further, that the amount of the credit balance or excess contributions is more or less constant and to a greater degree is this so than the case where the renewal expenditure of each class is not spread over the five years before and after the year of renewal. The reason for this, of course, is the flattening effect which the "spread over" of ten years has upon the expenditure-year by year.

Paragraph 39.

From all this, then, it becomes obvious that contributions to the Fund need not exceed in amount the sum that is necessary to meet the expenditure on actual renewals as they fall due. To determine that sum it is only necessary to observe the period within which the first highest or peak year is reached, and then to determine the annual average sum that would accumulate in the early years sufficient to meet the heavy call in the peak year, when it arrives.

Paragraph 40.

Then, if that annual average is not greater than the expenditure of the year following the peak year, it will be necessary—because the peak year will have exhausted the moneys in the Fund—to increase the annual contributions from the year following the peak year, onwards, so as to more than meet the expenditure of those following years and thereby accumulate sufficient to meet the next peak year, and so on, from peak period to peak period.

Paragraph 41.

To demonstrate this, take the figures given on Statement No. 55 in respect of the assets in service at 31st March, 1925, only, and on which the first peak year is shown to be 1934-35, the peak amount £3,244,125, and the accumulated amount to the end of that year, £22,312,946, as shown on Statement No. 50.

Paragraph 42.

The period up to the peak year is ten years, and the amount to be accumulated to that year is £22,312,946, reduced by the amount of £980,603,

which was available in the Fund at the 31st March, 1925 (*vide* Statement No. 56), making the net amount to be accumulated £21,332,343. The annual average contribution would therefore require to be £2,133,234, being £21,332,343 divided by ten—the number of years from 1925-26 to 1934-35 (inclusive).

Paragraph 43.

The period up to the next peak year, i.e. 1949-50, is fifteen years, the peak amount £3,143,474, and the amount to be accumulated £60,321,064; less £22,312,946, equals £38,008,118. The annual average contribution during these fifteen years would therefore require to be £2,533,874, and as this sum is greater than the previous annual average, and greater than the expenditure of the first year following the peak year (1934-35) it would not be inequitable to make the increased annual contribution of £2,533,874 effective from 1935-36.

Paragraph 44.

Of course an equal annual contribution could be determined for both of these peak periods combined, but as this would mean a much higher contribution in the earlier years and for the first year, viz. 1925-26, and a much heavier increase in the contribution for the first year after the second peak year, it is considered inadvisable to envisage any more than one peak period at a time, and so avoid placing an unduly heavy burden on the railway users of the present generation.

Paragraph 45.

In regard to the annual contribution of £2,133,234 stated in Paragraph 42 to be the annual contribution necessary to meet the renewal expenditure during the period commencing with 1925-26 and terminating in 1934-35, it will be observed from Statements Nos. 9 and 28 to 36 that this has been arrived at by assuming that all assets in service at the 31st March, 1925, which were overdue for renewal by more than one year by reason of their theoretical life having expired will be renewed equally during the following ten years.

Paragraph 46.

This has the effect of unduly increasing the renewal expenditure and, consequently, also of placing an unduly heavy burden upon revenue during these ten years—1925-26 to 1934-35 (inclusive)—inasmuch that the moneys to renew these assets, which should have been available in the Fund at the 31st March, 1925, have now to be found before 1934-35. As previously stated, the balance available in the Renewals Fund at the 31st March, 1925, was only £980,603 (*vide* Statement No. 56).

Paragraph 52.

The first and perhaps the most important by reason of its relative magnitude is that whereby contributions to the Renewals Fund in respect of the track have not included specific provision in respect of the labour costs in the relaying and renewing of continuous stretches of one half-mile and over of sleepers, rails and fastenings.

Paragraph 53.

These costs were charged to working expenditure, as and when incurred, up to the 31st March, 1923, but since that date they have been charged to the Renewals Fund without any specific provision having been made in the contributions from revenue to the Fund to meet such costs.

Paragraph 55.

From Statement No. 37 it will be observed that the value of the permanent way material, recorded in the Assets Registers of the Administration at the 31st March, 1925, was £19,626,819 while from Statements Nos. 2 and 8 and the footnote to Statement No. 37 it will be seen that the present day cost of renewing the whole of the permanent way material, including the labour costs in doing so is estimated at: Rails, £16,731,824; sleepers, £12,868,085; a total of £29,599,909, or an increase of £9,973,060.

Paragraph 56.

This difference, to the extent of one-third, may be regarded as due to labour costs not included in the figure of £19,626,819 at the 31st March, 1925, and the balance to present day prices of rails and sleepers being in excess of the prices when the lines were first constructed, second-hand rails and sleepers being employed in some cases.

Paragraph 57.

If the practice of charging to the Renewals Fund, therefore, the cost of labour when renewing and relaying rails and sleepers is continued—and your Committee recommends that this be done, because the amount of expenditure to be incurred in future years in this respect is so large in one year and small in another that a Fund will be necessary in order to accumulate moneys against the time when they will be required, and at the same time by equalising the contributions over a number of years avoid unduly taxing the revenue of any one year—then it is imperative that the contributions be based upon the labour costs of renewal as well as the material costs. Your Committee has borne this in mind throughout this report and has taken it into consideration wherever necessary.

Paragraph 58.

Attention must also be directed to the fact that partly as a set-off against the charging of labour costs in renewal of the track to the Renewals Fund, it has been the practice to write out of Capital as a charge to net revenue (profit and loss) all assets that are scrapped and not replaced, including those assets on which contributions for renewal have been made to the Renewals Fund out of Revenue. In this way the Renewals Fund is allowed to retain the contributions that strictly speaking should have been applied to "writing off" the assets out of Capital Account.

Paragraph 59.

It is not possible at this date to state the exact extent to which the Renewals Fund has benefited in this way, but it is of assistance to know that since the 1st April, 1923, the original costs of all assets scrapped and not replaced, and written out of Capital Account as a charge to net Revenue, has been:—

1923-24	£26,114
1924-25	50,511
1925-26	50,573
1926-27	51,345

Paragraph 64.

Another feature of the machinery for operating on the Renewals Fund is that whereby the cost of renewing ballast on the permanent way is charged to the Fund, notwithstanding that contributions from revenue to the Fund to meet the cost thereof have at no time been made.

Paragraph 65.

This has operated since the 1st of April, 1923, and was the outcome of the opinion then held that the contributions then made to the Fund were sufficiently large to meet this expenditure also, and without increasing the contribution specifically for the purpose. In this respect, the justification advanced is on a par with that advanced in respect of the labour costs in relaying and renewing rails and sleepers, and in the opinion of your Committee is distinctly unsound.

Paragraph 66.

Either contributions to meet the cost of re-ballasting should be made to the Fund or the expenditure should be charged to the ordinary working votes.

Paragraph 67.

From the 1st of April, 1923, to the 31st March, 1927, the expenditure in this respect charged to the Renewals Fund has been:—

CHARGED TO THE RENEWALS FUND FOR RE-BALLASTING.

1923-24	.. .. .	£27,636
1924-25	.. .. .	70,749
1925-26	.. .. .	49,125
1926-27	.. .. .	102,699
1927-28	.. .. .	106,371 (9 months: April to December, 1927)

Total £356,580

Average per annum: £78,069.

Paragraph 68.

While no great damage has been done that cannot be repaired, your Committee strongly advocates the inclusion of a lump sum, with the other contribution to the Renewals Fund to meet the cost of re-ballasting. If the difficulties in the way of estimating the expenditure that is likely to be incurred on re-ballasting over a long period of years are insurmountable at present—your Committee understands that such is the case—the lump sum should be determined by a survey of what may be necessary and, at the same time, what can be accomplished in re-ballasting during, say, the next five or six years.

Paragraph 70.

Another financial provision out of Revenue which has an indirect bearing upon the provision that should be made for depreciation is the contribution of £250,000 that has been made annually since the year 1925-26 as a "Contribution towards reduction of Interest-bearing Capital." £750,000 altogether has been contributed in this respect up to 31st March, 1928.

Paragraph 71.

In actual practice this money is placed with other capital moneys that are interest-bearing, and the gross amount is then employed as a whole in financing the cost of new capital works and assets. By this means the net result achieved is the same as if the contribution had actually been applied to the reduction of "Interest-bearing Capital" already incurred.

Paragraph 72.

The effect of this contribution, however, is to reduce the loan liability of the Administration and also its annual liability for interest out of Revenue, while at the same time Revenue is being taxed to provide for the renewal of the major portion of the same assets on which there will ultimately be no loan obligations.

Paragraph 73.

Such a sound financial position of course is one that is more idealistic than practical and is undoubtedly indulged in only by private companies that have a superabundance of profits to dispose of, but so far as Government Railways are concerned constitutes an undue tax upon the railway users of the present time, inasmuch that rates and tariffs must be higher than they should be, otherwise such financial provision for reduction of capital would not be possible. The provision in the Act of Union in this respect should not be overlooked.

Paragraph 74.

Your Committee would suggest therefore that if assets are maintained to a satisfactory standard of efficiency and safety out of Revenue annually, and provision is also made concurrently to build up a fund to meet the complete renewal of all wasting assets, as such become necessary, then the Revenue of each year is being sufficiently taxed for, and is meeting all the demands that can legitimately be made upon it, and at the same time adherence thereto provides an equitable distribution of the burden between the railway users of this and future generations.

Paragraph 78.

The last of the fundamental principles connected with the Renewals Fund is that of changing the cost of new boilers used in re-boiling locomotives to the Fund, although no specific provision therefor has been made in the contribution from Revenue to the Renewals Fund.

Paragraph 79.

This is on a par with the practice in regard to re-ballasting the permanent way, and also the labour costs in renewing the rails and sleepers thereof. The reason for this your Committee understands is the same as in the cases mentioned, namely that the lump sum contribution was looked upon as sufficiently large to meet the cost of one boiler renewal in the lifetime of each locomotive, and without increasing it specially for the purpose.

Paragraph 80.

In this connection see paragraph 24 herein, in which reference is made to the fact that the practice in Great Britain is to allow one boiler renewal as a charge to the Renewals Fund during the lifetime of each locomotive, and that although the contribution to the Fund is at a lower percentage rate than that proposed for South Africa—the respective rates being: Great Britain 3 per cent, South Africa 4 per cent—it includes provision to meet the cost of one boiler renewal as well as the cost of ultimately renewing the complete locomotive.

Paragraph 81.

In this respect therefore your Committee recommends that the Administration should also regard the percentage rate of 3½ per cent as being sufficient to provide for the cost of boilers in re-boiling locomotives as a charge to the Renewals Fund.

Paragraph 82.

Taking the average cost of boilers at £1,000 and the average cost of locomotives to be re-boiled as £6,000, and maintaining the rate of contribution as 3½ per cent per annum the effect of regarding ½ per cent thereof as the contribution for re-boiling is to make the life accorded to locomotives 33½ years that is, 3 per cent per annum, in place of 28½ years, which your Committee considers can be safely adopted until the experience of the next five to ten years is secured, when an alteration, if necessary, can then be made and the rate of contribution adjusted.

Paragraph 83.

From Statement No. 28 it will be observed that the average age of all locomotives in service at the 31st March, 1925, was eighteen years (excluding the electric locomotives by reason of these not being employed on the completely electrified section until 1925-26), and that 293 had been in service from 29 to 49 years. This fact taken in conjunction with the fact that the average age of locomotives scrapped during the period from date of Union to 31st March, 1925, was 23 years (vide Statement No. 59) and that this average is low by reason of second-hand engines being included which only lasted a few years in service, your Committee is of the opinion that the life recommended of 33½ years or 3 per cent, plus ½ per cent for re-boiling is safe and should be adopted.

Paragraph 84.

Statement No. 31 shows that the average life of coaches in service at the end of 1924-25 was 19 years, of which 499 had been in service from 29 to over 43 years. Statement No. 59 shows that the average age of coaches scrapped during 1910-11 to 1924-25 was 23 years and this notwithstanding the early scrapping of many of these coaches due to their having been taken over from private railway companies in certain instances and destroyed in collisions, derailments, etc., in other instances. Your Committee is satisfied that in this case also the average life to be adopted should be advanced to 33½ years, or an annual contribution of 3 per cent.

Paragraph 85.

These lives for locomotives and carriages if adopted will be more in keeping with the lives employed by the Continental and British Railways being shorter, and therefore safer, in the case of engines by roughly seven years, and in the case of the coaches three years longer life than the British Railways, but anything from seven to seventeen years shorter life than the Continental Railways.

Paragraph 86.

The comparative figures are :—

ESTIMATED LIFE.			
	Engines	Carriages	Wagons
	Years	Years	Years
SOUTH AFRICA—			
Present life	25	25	25
Recommended life	33½	33½	33½
HOLLAND	40	50	50
GERMANY	25	40	40
BELGIUM	43½	50	50
SWITZERLAND	43½	50	50
GREAT BRITAIN—			
London, Midland and Scottish	40	30	30
London and North Eastern	40	30	30
Great Western	40	40	40
Southern Railway	40	30	33½

EQUIVALENT PERCENTAGE RATES PER ANNUM.

	Engines	Carriages	Wagons
	Per cent.	Per cent.	Per cent.
SOUTH AFRICA—			
Present rate	4	4	4
Recommended rate	3½ (a)	3	3
HOLLAND	2½	2	2
GERMANY	4	2½	2½
BELGIUM	2.3	2	2
SWITZERLAND	2.3	2	2
GREAT BRITAIN—			
London, Midland and Scottish	3 (b)	3½	3½
London and North Eastern	3 (b)	3½	3½
Great Western	3 (b)	2½	2½
Southern Railway	3 (b)	3½	3

(a) Includes ½ per cent. to provide for re-boiling.

(b) Includes provision for re-boiling estimated at ½ per cent.

Paragraph 87.

The alteration in the life of the locomotives and coaches (including rail motors) from 25½ years to 33½ years will affect the annual contribution of £2,133,234, mentioned in paragraph 42 as being necessary from 1925-26 to 1934-35 (inclusive) to the extent of reducing it by £270,583 per annum, making the net figure £1,862,651 per annum.

Paragraph 93.

No allowance for the value of released material less the cost of demolishing the assets and securing the released material, has been made in the foregoing calculations, and this is not an inconsiderable source of revenue to the Renewals Fund. For a period of 13 years from 1912-13 to 1924-25 the receipts in this respect have been £2,545,294 or approximately £195,792 per annum. The details being as follows :—

SOURCE OF RELEASED MATERIAL.

From Permanent Way Assets	£2,026,053
From Rolling Stock	519,241
(including additional balers)	
Total	£2,545,294

Paragraph 94.

From what has already been said in regard to the renewal of assets that must take place within the next ten years, but on the other hand bearing in mind the tendency for the rate of constructing new branch lines to be less than in the past, thereby losing the employment of the released material from relaying on the construction of new branch lines, it is not unlikely that the value of the released material to be obtained from all sources, will be no more than £100,000 per annum during the next five years.

Paragraph 96.

This contribution of £1,551,584 makes no allowance for the expenditure on re-ballasting that will have to be carried out, and which during the last five years involved an annual cost to the Renewals Fund of £75,000 (vide Paragraph 37) while on the other hand, it includes provision for the expenditure that should form a charge to the Fund in respect of assets withdrawn from service, not replaced, and written out of Capital at the expense of Revenue.

Paragraph 97.

If for the moment the one can be regarded as a fair set-off against the other, and your Committee is of the opinion that this can be done, then the annual contribution of £1,500,000 for the renewal of the Permanent Way and Rolling Stock assets has been almost sufficient, the insufficiency being as stated approximately £50,000 per annum. In the opinion of your Committee the relationship of the sum of £1,551,584 to the sum that would have been necessary on the full life basis, viz. £2,603,996 (vide paragraph 37 and Statement No. 37)—adjusted by reason of the life of coaches being increased to 36½ years but not the locomotives, as the contribution remains the same, i.e. 3½ per cent, although the life is increased to 33½ years—should be employed during the next five to ten years in determining the annual contribution to be made for these years. This relationship is 60 per cent of the full life contribution adjusted as stated, i.e. £2,563,993.

Paragraph 99.

In this feature of the relationship of the contribution that is necessary to meet all renewal expenditure, to the contribution calculated on the full life basis, it is not a little gratifying to find that in a recent publication of the *Railway Age*, one of the foremost Railway Journals of America, dealing with Railways, it was therein reported that contributions to a Renewals Fund on a full life basis had been found to provide funds to the extent of 50 per cent more than were required. This is equivalent to saying that only 50 per cent of the full contribution is required and your Committee therefore, in determining and advocating 60 per cent to be worked upon, bearing in mind the special features of the fund contemplated by the Administration are satisfied that a thoroughly safe and sound basis is advocated.

Paragraph 100.

The reference to the *Railway Age* mentioned reads as follows :—

"It is contended that the making of such depreciation charges merely results in the accumulation of a huge reserve which will in time fluctuate round 50 per cent of the recorded investment; that such a reserve serves no useful purpose; and that it is a burden both upon the patrons of the Company and upon the investors in its securities. If it were to be assumed that the composite property would at a certain time come to the end of its life, there might be need for such a serve, but in most cases such properties may for all practical purposes it is asserted, be regarded as perpetual."

Paragraph 101.

It should not be overlooked in regard to the Committee's finding generally that, by reason of the prices employed in the calculation in the cost of relaying rails and renewing sleepers, and the tendency that there will be, in future, for these prices to be stabilised rather than to increase, the contribution recommended by the Committee will, if anything, be higher than will be

required. This is all to the good, and when taken in conjunction with the fact that the lives recommended for the various assets herein, particularly Rolling Stock, Rails and Sleepers, by reason of their life being prolonged through being employed on Branch lines, are generally shorter than is likely to be the actual experience, your Committee has every confidence in the equity of its recommendation.

Paragraph 102.

It may not be without interest to know that the American Railways have had the question of provision for depreciation under intense consideration for many years, in fact, ever since 1914, and only now after most exhaustive inquiries by the Inter-State Commerce Commission, have they come to a decision to provide for depreciation on all wasting assets.

Paragraph 109.

Turning now to the question of employing the accumulated moneys in the Renewals Fund in respect of rolling stock, to the purchase of new rolling stock, as referred to in the Report of the Select Committee on Railways and Harbours (paragraph 3) your Committee has given this feature of operating on the Renewals Fund the fullest consideration and while admitting that the practice has much to recommend it and that it has served an extremely useful purpose in the past, it will not be possible, in the future, to employ the accumulated funds to the same extent, for the reason that the contributions are estimated to be sufficient to meet the annual expenditure on replacements only.

Paragraph 110.

In the past the contributions have been considered sufficient to accumulate funds to provide for renewal as and when it occurred as well as the accrued depreciation on the rolling stock in service. In fact the justification for spending the moneys of the Fund upon new rolling stock has always been held to be, that by so doing, the expired portion of the life of the rolling stock in service was thereby made good, and provided full use could be made of such additional rolling stock then the best possible use was being made of the moneys.

Paragraph 111.

Since the year 1912 the amount spent in this respect to the 31st March, 1925, has been £14,547,878. At that date the accumulated depreciation on rolling stock based upon the lives recommended for adoption by your Committee in this report, i.e. 3 per cent in respect of all classes, amounted to £14,312,201 so that £235,677 had been spent out of Renewals Fund more than should have been spent. This, however, was corrected early in the following year, when the accrued depreciation not made good had amounted to £624,713 at the 31st March, 1926, *vide* Statement No. 66.

Paragraph 112.

It is also of interest to note that as a result of the policy that has been pursued the original capital cost of all rolling stock in service at the 31st March, 1925, amounted to £32,044,342 (excluding electric locomotives) while at the same time the total loan liability in respect of all rolling stock amounted to only £19,131,431. A saving of interest on borrowed moneys annually has therefore been effected to the extent of interest on £12,912,911, or roughly £500,000 per annum.

Paragraph 113.

It is true, of course, that as a set-off against this there would have been interest from the investment of £14,547,878 had it not been spent in buying new rolling stock, but it is doubtful whether to the same extent.

Paragraph 114.

In addition to this it is very doubtful whether loan moneys to purchase new rolling stock to the extent of £14,547,878 in addition to what has been spent out of loan moneys could have been obtained at the time that the Renewals Fund moneys were so spent.

Paragraph 115.

As events have proved if such loan moneys had been asked for and could not have been supplied then the Railways simply could not have been in such a forward and satisfactory position as they are to-day.

Paragraph 116.

Bearing in mind therefore the lesson to be learned from the past your Committee recommends that the practice of purchasing new rolling stock out of Renewals Fund to make good the accrued depreciation on rolling stock in service to the extent of 60 per cent thereof should be continued.

Paragraph 117.

There remains one other feature of the rate at which provision for the renewal of assets should be made and that has reference to the case where, owing to abnormal traffic requirements or development, the assets of the Railways are used to such an abnormal extent in one or more years as to materially shorten their lives.

Paragraph 118.

In such cases it may be contended that it is possible to correct this by increasing for the year, or years, in question, the percentage rates of contribution to the Renewals Fund, but in the opinion of your Committee this is an undesirable course to follow inasmuch as it would tend to destroy the annual distribution of the renewal expenditure equally over the lifetime of the assets.

Paragraph 119.

Your Committee, however, after careful consideration of the features in all its bearings, is of the opinion that it would suffice for the purpose in view if a percentage of the revenue were laid down as the minimum contribution for renewals in any one year. In this way, if traffic were abnormal in any one year, and the assets had thereby been used to such an extent as to shorten their life, then it would naturally follow that the Revenue of that year would be abnormal and so the application of the minimum percentage would act as a corrective in securing for the Renewals Fund the necessary additional contribution, to meet the cost of renewal at the date of retirement of the assets earlier than that estimated for and brought about by the more intensive use of the assets than was contemplated when fixing the respective lives.

Paragraph 120.

This percentage of Revenue as the minimum contribution of any one year your Committee recommends should be 6 per cent.

Paragraph 121.

Our conclusions and recommendations summarised are as follows:—

- (a) That the labour costs in relaying and renewing rails, sleepers and fastenings, should be included with the material costs on which the depreciation rates are to be calculated and that, for this purpose, the Assets Register of permanent way material in service should be increased accordingly, and a division effected between sleepers and rails so as to enable the application of the rates recommended for adoption herein, viz. sleepers 21 years' life, rails and fastenings 33½ years' life, to be made.
- (b) That assets in respect of which contributions are made to the Renewals Fund, when scrapped and not replaced, should be, when written out of capital, a charge to the Renewals Fund to the extent of the contributions that have been made thereon, and the balance to Net Revenue Account or Betterment Fund as the case may be.

- (d) That the annual contribution for the renewal of permanent way and rolling stock assets during the next five or ten years be 60 per cent of the sum arrived at by applying the various percentages, corresponding to the respective lives of each class of asset, to the full original cost of all such assets in service; and in addition, a lump sum to provide for one-fifth of the estimated expenditure on re-ballasting during the next five years.
- (e) That the annual contributions for the reduction of "Interest-bearing Capital" be discontinued, as it is in the opinion of your Committee a wholly unnecessary tax upon Revenue when full renewal of all wasting assets is being provided for out of revenue.
- (h) That the value of second-hand material released from assets on which contributions are calculated, less the cost of recovering and disposing of the material, etc., be credited to the Renewals Fund.
- (i) That as a safeguard against the undue wear and tear of assets in any one year due to abnormal traffic, the total contribution for Renewals of assets as indicated in (d) shall not be less than 6 per cent of the Revenue of the current year plus the lump sum for re-ballasting.

REPORT OF SOUTH AFRICAN RAILWAYS AND HARBOURS DEPARTMENTAL COMMITTEE ON THE ADEQUACY, OR OTHERWISE, OF THE CONTRIBUTION OF £1,500,000 PER ANNUM FOR DEPRECIATION OF PERMANENT WAY AND ROLLING STOCK ASSETS.

See page 70.

STATEMENT SHOWING THE NUMBER, COST, NUMBER OF YEARS IN SERVICE AND YEAR IN WHICH RENEWAL IS DUE ON A BASIS OF 29 YEARS' LIFE OF ALL ENGINES AS AT 31ST MARCH, 1925.

Number of Engines in Service.	Number of Years in Service.	Year in which Renewal is Due.	Original Cost.
			£
		Overdue on basis of 29 years' life at 31st March, 1925	2,270
1	49	Do.	5,980
2	48	Do.	8,352
3	43	Do.	18,829
3	42	Do.	4,006
2	40	Do.	8,607
4	37	Do.	30,000
10	36	Do.	148,602
52	35	Do.	12,592
4	34	Do.	45,344
16	33	Do.	159,056
56	32	Do.	2,526
1	31	Do.	200,476
66	29	Do.	646,640
223		Do.	262,358
86	28		
		1925-26	908,998
309		1926-27	364,250
96	27	1927-28	14,838
6	26	1928-29	168,951
49	25	1929-30	375,815
86	24	1930-31	768,136
185	23	1931-32	475,123
120	22	1932-33	544,395
127	21	1933-34	167,524
36	20	1934-35	11,402
2	19	1935-36	7,192
3	18	1936-37	4,518
2	17	1937-38	46,630
9	16	1938-39	295,115
65	15	1939-40	132,922
31	14	1940-41	218,336
44	13	1941-42	176,157
29	12	1942-43	611,470
92	11	1943-44	632,130
98	10	1944-45	194,808
89	9	1945-46	222,939
27	8	1946-47	412,033
30	7	1947-48	913,797
65	6	1948-49	1,615,876
111	5	1949-50	1,544,316
86	4	1950-51	262,335
20	3	1951-52	21,239
29	2	1952-53	64,587
8	1	1953-54	592,192
50*			
1,904	Average age 18 years		£11,768,023
			Average cost— £6,181

* Includes 42 Electric Locomotives at a cost of £505,344.