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ERCER SIR W.

1920

5th MAY

Last previous Paper.

21794

UASIN GISHU RAILWAY - ESTIMATES

Trans rough notes on

Sir H. Read

I do not know that Sir E. Northey is attempting any estimate.

If it is to be assumed that the construction of the line is decided on an estimate of net receipts below loan charges, a telegram might be required on the points raised at the last two lines of Sir W. Mercer's notes – otherwise a despatch will serve, if it is necessary at all.

I may point out that the proportion of net to gross receipts for the main line has been much greater before the war than the 38% mentioned by Sir W. Mercer.

Put by

ubsequent Paper.

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In 1912-13 the figure was 43.4 % & in 1913-14 37.5 %. Something higher than 30 % could be looked for, at all events as regards the additional main line traffic, which would have little additional expense beyond actual running expenses.

The decision astonishingly [illegible] arrived at as a result of the conference with the Governor on April 22nd was as follows —

"[illegible] 1920-21 Uganda & E.A.P. ~~Govt~~ ~~[illegible]~~ to share the annual surplus, but neither to look to the railway as a source of revenue. The railway itself to have the benefit of any surplus, either for improvements or for the reduction of rates.

"The question of the incidence of the annual charge for the Uasin Gishu Railway loan was also considered and it was decided that this should come out of railway revenue."

That appears to me to settle the matter. By the time the [illegible] become payable, the surplus on the existing system will be applied to reduction of rates

and to the Uasin Gishu loan charges, and there should be no question of a deficit. Sir G. [illegible] £700.000 in 10 years is little more than one third of what Sir C. Bowring regards as the yield (3½ % on the capital cost) which should be aimed at in fixing main line rates. The remaining two thirds can go to reduce rates, finance the Thika extension, &c.

G.G.J. 6.5.20.

Mr. [illegible]

I agree — & I think that this can be put by.

H. J. R.
7/V/20

Col. Amery

You may like to see.

[illegible] 8/5

WESTMINSTER
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Dear Reed –

I understand that Northey has been working out estimates for the Uasin Gishu Railway. But I have not seen any figures. I have had a shot at it myself and enclose notes. The Food committee seem to stipulate for "reasonable railway rates", and probably were far from contemplating a general increase of them.

seriously affect the already modest traffic contemplated.

Yrs sincerely

C O
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Rec'd 6 MAY 20

Uasin Gishu Railway. ~~Estimates~~

Assume that we borrow £2,000,000 at 6½ p.c., + sinking fund & charges at ½ = 7 p.c. or £140,000 a year. Assuming that payment of interest begins six months after commencement of construction the loan payments during 2 years of construction and the three following years estimated for by the local committee will = £630,000

Saving by borrowing as required before issue say 30,000

600,000

The yearly earnings three years after completion are estimated at

(1) on the new line	Rs 443,000
(2) from increased traffic on the old	" 1,362,000
total	1,805,000

Assuming that the net earnings are 30 p.c. of gross (this was about the average of 1917-18 and 1918-19), this gives

Rs 541,500

= £54150

It is estimated that 150,000 acres will be cultivated in the 3 years. Assume that 50,000 are cultivated in the 1st year 100,000 in the 2nd, and 150,000 in the 3rd and that traffic increases proportionately i.e. of the total Rs 1,800,000 the 1st year yields Rs 600,000 and the 2nd Rs 1,200,000 gross, and the net earnings are

£18000	1st year
36,000	2nd "
54,000	3rd "
total £108,000	

Leaving a deficit after 5 years from commencement of construction of say £500,000.

Seriously affect the above]

Assuming that increase of cultivation continues at the estimated rate (= £18,000 a year) it will be nearly 5 years more before the net earnings equal the loan payments and the deficit would be raised to say £700,000

The earnings however are estimated at existing rates, and the settlers are willing to pay rates equal to what they are now paying for road transport as they would get quicker transport. They reckon that it costs them R. 1 per ton per mile to get their produce to the existing line. [illegible] road distance to [illegible] from Eldoret = 60 miles at Rs 60, and as from [illegible] to Nakuru is about double that distance they would be paying R. ½ per mile. The estimated tonnage 3 years after completion is about 100,000 [illegible] gross earnings would be say Rs. 6,000,000 [illegible] £ [illegible] net £ 1[illegible] 000. The contribution to the traffic of the old line would also be taken into account.

But would the country expand [illegible] the estimated rate [illegible] a charge [illegible] paid

The Government [illegible] stated their strong [illegible] that the whole [illegible] should share by means of a general increase of rates over the Uganda railway. In that case the question arises what increase would be necessary to balance accounts and what effect that increase would have on existing traffic.

[illegible] had given [illegible] 1st 3 years [illegible] 000 only [illegible])

[illegible] the [illegible]

In 1918-19 the net revenue was £152.255. Distributing the above deficit of £700.000 over ten years, = £70,000 a year, the net revenue, to balance accounts, would have to be raised by nearly 50 p.c. Would the existing traffic stand this, and what would Uganda say?

On the other hand 1918-19 showed the lowest ~~and~~ net earnings since 1912-13, owing to various restrictions. It would be very useful to ascertain the general result of 1919-20. If the net earnings can be put at about £220,000 (a sum exceeded in 1915-16 and 1916-17) a reasonable equilibrium is established without any increase of charges so far as the extension is concerned. But it would have to be considered whether the expenditure in those years could be taken as a fair guide or whether it was abnormally low owing to the difficulty of getting supplies; also whether the traffic, being greatly swelled by military requirements, can be relied on as any guide for the future.

What we want to ascertain is what increase of rates would be required to meet a possible deficit of £70,000 a year for 10 years (a question for the Railway Accountant), and whether the Local committee in estimating the future traffic took such an increase into account, and if not what effect it would have on their estimate.

W.S.M.
5/5