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MADRAS RECORD OFFICE.

Government of Madras.

Financial DEPARTMENT.

G.O. No. 280 Press ~~Mis.~~

13-16.

Dated 6-6- 1861.

28/29

B/no- 13-16

Not to be folded or roughly handled

Proceedings of the Madras Government, Financial Department,
6th June 1861.

Read the following papers :—

No. 13. From R. P. HARRISON, Esq., Accountant General; to T. PYCROFT, Esq., Chief Secretary to the Government of Madras, dated 21st May 1861, No. 21.

With reference to the Orders of Government, dated 22nd ultimo, and to their subsequent Proceedings dated the 1st instant, No. 203, I have the honor to report that I forwarded, on the 3rd idem, the original enclosure* of Mr. Lushington's letter of the 1st of April last, No. 3,648, to your address, to the President of the Bank of Madras, and informed him that it was proposed to transfer to the Bank an allowance of Rupees 12,000 per annum, for the management of the Government Receipts and Disbursements, that amount being in excess of the cost, including contingencies, now incurred by Government, for performing such of the business of the General Treasury, as will henceforth be discharged by the Bank.

* *Herewith returned*

2nd. In reply to my communication the Secretary to the Bank has forwarded to me a memorandum of the Directors embodying their views upon the points which they were requested to consider, which is herewith submitted, together with Mr. McIver's letter in original for the consideration of Government.

3rd. The Directors having omitted to express their views on the subject of remuneration for the management of the Government currency, I addressed the President on the subject, and enclose a letter from the Secretary dated the 18th instant, which I had received in reply.

4th. With advertence to the 2nd paragraph of the Director's memorandum, I beg to state that I mentioned to the Directors at the last weekly meeting that if it could be shown that the amount offered viz., 12,000 Rupees, was not sufficient to secure the prompt and efficient performance of the additional duty which will be thrown upon the Bank by the transfer to it of the Government business, I was authorized to consider their objections and to tender such sum as might seem to myself and the Sub-Treasurer to be adequate. The Officers of the Bank were, however, unable to explain how the sum of Rupees 15,000, stated to be the probable cost of additional Establishment, was arrived at, or what extra establishment, it was thought would be necessary. I did not, therefore, consider it advisable to make any alteration in the offer of Rupees 12,000, previously made.

From JOHN McIVER, Esq., Secretary and Treasurer; to the Accountant General, Fort Saint George, dated 15th May 1861, No. 828.

In acknowledging receipt of your letter, No. 14 of the 3rd instant, addressed to the President of the Board, with the original papers which accompanied it, and which are herewith returned, together with the Proceedings of the Madras Government, No. 203, dated 22nd April, I have the honor by desire of the Directors of the Bank to hand you the accompanying memorandum, embodying their views on the points proposed for their consideration.

I am also desired to express the hope of the Directors that the Government may be disposed to view in a liberal and accommodating spirit the terms of arrangement which they have proposed.

The Directors have now under review the necessary modifications, in the Charter of the Bank which will be laid before you with as little delay as possible.

MEMORANDUM.

The Directors of the Bank of Madras have considered the papers laid before them by the Accountant General regarding the terms of agreement arranged between the Government of India, and the Bank of Bengal, in connection with the transfer to the latter of the management of the Government balances and paper currency; also Mr. Secretary Lushington's letter to the Government of Madras stating the points in the terms of agreement requiring to be modified with a view to adapting them to the circumstances of the Bank of Madras, and directing that negotiations be entered on without delay, in order that similar terms be obtained from the Bank of Madras, and finally the Order of the Madras Government, (No. 203, of 22nd April 1861) thereon.

In regard to Mr. Harrison's proposal to transfer to the Bank Rupees 12,000 per annum on account of establishment for the performance of duties now appertaining to the Sub-Treasurer's establishment, and which it is proposed shall hereafter be discharged by the Bank, the Directors would beg reference to their memorandum, dated 26th January last, in which Rupees 15,000 was stated as the probable cost of additional establishment.

The two principal points submitted as subjects for negotiation are

1st. The maximum Government Cash balance to be left at the disposal of the Bank as applicable to general Banking business, and

2nd. The minimum below which the Government should agree not to reduce their Cash balance without its being made up to the Bank by an allowance to be afterwards determined.

The Directors would propose that the maximum for the Bank of Madras be fixed at 35 lacs and the minimum at 20 lacs. Adverting to these points Mr. Lushington states in the 6th para. of his letter that, the average *actual* circulation is the correct standard by which to measure the loss to the Banks from the withdrawal of their circulation, but while laying this down as obviously the right principle on which to base the arrangement, he leaves out of view altogether the *actual* average circulation of the Bank of Madras which in 1860 was upwards of 24 lacs, (see appended Statement A) and goes back to the year 1856-57, to find an average on which to compute the loss, this average being 7¼ lacs, under that of 1860, which is the last ascertained average. From these palpably incorrect premises he draws a conclusion which (even supposing the principle he propounds to be a sound one) is wholly erroneous.

But the Directors do not admit that this is a question merely of proportion to be computed in the way Mr. Lushington suggests, they prefer to follow the rule which he laid down and which was adopted in treating with the Bank of Bengal, and to fix the minimum, not on the basis of a fanciful standard but as he has proposed in the 3rd paragraph of his memorandum of the terms of agreement with the Bank of Bengal on the basis of *the usual minimum balance at the General Treasury.*

Appended is a Statement (marked B) obtained from the Sub-Treasurer shewing the maximum and minimum balances in the Treasury in each month in the last 13 years, from this it will be seen that the average minimum for 3 years was 27 lacs, and the average maximum 38 lacs, and this notwithstanding the fact that in the last year the balances were unprecedentedly low.

The Directors therefore consider that in asking the Government to fix on 20 lacs as the minimum they are only demanding that, what experience has shewn to be a close approximation (on the safe side) to the actual limit, shall also be the recognized limit. When the subject which has led to these negotiations was first discussed by the late Mr. Wilson, repeated assurances were given of the desire of Government to deal liberally with the Banks and one of the most cogent arguments he made use of in favor of the contemplated abolition of the Sub-Treasurer's establishment, was the utilising of the Government balances which had hitherto lain idle in the vaults of the Presidency Forts. The Directors would therefore urge that, if this be so, instead of going back for years to find a small average on which to base their calculation, the Government will rather look in advance and estimating the rapid increase in the Bank's circulation, will see in this an argument for making a corresponding allowance to the proprietors and fixing the minimum on the safe and useful basis of the average monthly unemployed cash balance held in the Treasury.

By adopting this principle and complying with the Directors' wishes, no inconvenience or loss will accrue to the State, while the advantage to the Bank will be that of fixing a practical and useful limit, affording a fair margin for safe investment, instead of a limit which would just have sufficient reality to be vexatious and would aim at reducing to the lowest practicable point the advantage to be derived to the Bank and through it, to the community and country generally, from its management of the Government balances.

In dealing with this question of the Government balances, the Directors have devoted their attention mainly to the principle to be adopted in fixing the minimum.

In regard to the maximum it will be observed that 35 lacs is considerably under the average maximum monthly balance in the Treasury and does not bear an undue proportion to the minimum and while on this subject the Directors would take occasion to repeat that, whatever may be fixed as the maximum balance available for Banking purposes, it would be ruinous if possible, circumstanced as Madras is, to invest the surplus in Government Securities and that therefore

practically when the Government balance at the Bank is in excess of the maximum the surplus would require to be retained in specie—ear-marked as the property of Government—this they consider a fair argument for adopting a liberal maximum and, in the spirit of the modifications in the Charter of the Bank of Bengal, leaving a great deal to the discretion of the Directors.

(Signed) R O. CAMPBELL,
President of the Bank.

Madras, *15th May* 1861.

A.

Average weekly Circulation of the Bank of Madras for the year 1860.

1860.	January	7th...	19	40	155
"	"	14th...	19	68	775
"	"	21st....	19	76	445
"	"	28th...	22	16	730
"	Feb.	4th...	22	53	965
"	"	11th...	18	80	815
"	"	18th...	20	07	065
"	"	25th ..	19	33	480
"	March	3rd...	19	6)	775
"	"	10th...	18	15	585
"	"	17th...	20	28	240
"	"	24th...	21	32	160
"	"	31st....	21	87	660
"	April	5th...	24	43	120
"	"	14th...	26	04	975
"	"	21st....	25	98	085
"	"	28th...	24	31	035
"	May	5th...	24	32	895
"	"	12th...	23	58	245
"	"	19th...	24	81	340
"	"	26th...	25	29	725
"	June	2nd...	24	25	080
"	"	9th...	21	93	255
"	"	16th...	21	68	770
"	"	23rd...	23	40	640
"	"	30th...	25	64	045
"	July	7th...	26	89	630
"	"	14th...	27	78	830
"	"	21st...	26	62	555
"	"	28th...	26	02	990
"	August	4th...	25	12	875
"	"	11th...	30	14	275
"	"	18th...	27	33	325
"	"	25th...	26	59	365
"	September	1st..	27	10	690
"	"	8th...	25	72	950
"	"	15th...	25	89	285
"	"	22nd...	25	53	855
"	"	29th..	26	37	820
"	October	6th...	25	18	400
"	"	13th...	27	27	595
"	"	20th...	27	55	055
"	"	27th...	27	03	900
"	Novr.	3rd.	26	66	335
"	"	10th...	26	99	120
"	"	17th...	25	08	425
"	"	24th...	22	11	100
"	Decr.	1st...	23	05	690
"	"	8th...	24	62	805
"	"	1 th...	25	26	325
"	"	22nd...	25	10	380
"	"	31st...	25	67	595
			1257	63	230
Weekly Average....			24	18	523

B.

STATEMENT of Government Balances in the General Treasury, Fort Saint George, from 1858 to 1860.

		Maximum.	Annual average.	Minimum.	Annual average.
1858.	May	53 79 000		45 85 000	
	June	59 35		50 61	
	July	51 02		36 61	
	August	39 53		29 37	
	September	36 83		29 68	
	October	..		...	
	November	39 19		26 53	
	December	25 15		21 50	
1859.	January	28 32		19 21	
	February	27 51		14 86	
	March	38 78		24 18	
	April	45 18	40 42 000	29 62	29 82 000
	May	48 43		37 29	
	June	39 74		28 75	
	July	52 43		33 59	
	August	64 42		41 63	
	September	68 17		60 21	
	October	66 47		59 29	
	November	61 77		45 88	
	December	47 38		41 49	
1860.	January	46 95		38 57	
	February	41 39		31 58	
	March	50 24		32 93	
	April	40 98	52 37 000	29 49	40 06 000
	May	38 62		25 61	
	June	26 31		19 10	
	July	25 98		15 51	
	August	28 66		18 93	
	September	21 06		15 28	
	October	16 89		9 99	
	November	17 35		6 73	
	December	13 84		4 26	
1861.	January	12 12		5 68	
	February	18 75		5 44	
	March	19 70		11 70	
	April	21 41	21 72 000	8 22	12 20 000
		General average.	38 17 000		27 36 000

From JOHN McIVER, Esq., Secretary and Treasurer, Bank of Madras; to R. P. HARRISON, Esq., Accountant General, dated 18th May 1861.

In consequence of communications of dates the 16th and 17th instant, addressed by you to the President of the Bank, to the effect that it was intended the Directors should take into consideration, simultaneously with the subject of the Cash balances, that of remuneration for the management of the Government currency, I have the honor of intimating that at a meeting of the Directors held yesterday, I was directed to inform you that the rate of remuneration agreed upon by the Bank of Bengal viz., ¾ per cent. Commission on the average amount of the circulation, will be acceptable to the Directors.

In agreeing to these terms, I am instructed by the Directors to observe, that this arrangement will be much less profitable to the Bank of Madras than to the Banks of Bengal and Bombay, owing to its circulation bearing relatively so much smaller a proportion to its capital and therefore the Directors request you will, in considering the whole question of the Bank's negotiations with Government, view their acquiescence in this part of the proposed arrangement with a distinct reference to the sums they have asked to be fixed on as the maximum and minimum Government balances.

No. 14. From R. P. HARRISON, Esq., Accountant General; to T. PYCROFT, Esq., Chief Secretary to Government of Madras, dated 27th May 1861, No. 29.

In continuation of my letter of the 21st instant, No. 21, I have the honor to forward, in original, a letter to my address from the Secretary and Treasurer to the Bank of Madras, together with a copy of the Bank Charter in which the alterations acquiesced in by the Directors, are entered.

2nd. The copy of the Charter of the Bank of Bengal received with the Orders of Government, No. 203, dated the 22nd ultimo, is herewith returned.

From JOHN McIVER, Esq., Secretary and Treasurer, Bank of Madras; to R. P. HARRISON, Esq., Accountant General, Fort Saint George, dated 23rd May 1861.

I am instructed by the Board of Directors to forward, along with the copy of the Charter of the Bank of Bengal with the agreed to alterations in fly leaf, received from you, a copy of the Charter of the Bank of Madras having the alterations acquiesced in by the Directors, appended in in similar form, and I am directed to observe, that these alterations appear to have been so carefully considered by the Directors of the Bank of Bengal, that the Directors of the Bank of Madras have agreed to them with little alteration, only a slight modification of Clause 21 and altering Clauses 5 and 19, to meet the difference in the respective amounts of the shares capital and mode of voting—these alterations are made in red ink.

No. 15. ORDER THEREON, 6th June 1861, No. 279.

Resolved that the Accountant General be informed, that his letters above recorded and their enclosures, will be reported to the Government of India, and their further instructions on the subject awaited.

(Signed) T. PYCROFT,
Chief Secretary.

No. 16. To the Secretray to the Government of India, Financial Department, dated 6th June 1861, No. 280.

I am directed by His Excellency the Governor in Council to acknowledge the receipt of your letter of the 1st April last, Financial Department, No. 3,648, forwarding a copy of the correspondence regarding the terms of agreement accepted by the Bank of Bengal, in connection with the transfer to it of the management of the Government balances and paper currency.

2. The only modifications, it was remarked, which would have to be made in the terms of agreement for the Bank of Bengal with a view to adapting them to the circumstances of the Bank of Madras are such as relate

1st. To the present cost of the Subordinate establishment of the General Treasury.

2ndly. To the maximum Cash balance, and

3rdly. To the minimum.

3. The allowance on account of Subordinate establishments which should be transferred to the Bank of Madras for the management of the receipts and disbursements of Government could, it was stated, be best fixed by the Government of Madras.

4. With regard to the maximum and minimum balances, it was observed in your letter, that the average daily circulation of the Bank of Bengal for the years 1856 and 1857, was 150½ lacs. If on this, as the basis of calculation, the maximum and minimum balances for the Bank of Bengal have been fixed at 70 and 50 lacs respectively, then the maximum and minimum balances in the case of the Bank of Madras, will be 7½ and 5¼ lacs, respectively, 16¾ lacs being its average daily circulation, as ascertained from the monthly statements of the assets and liabilities of that Bank for the two years above mentioned. This principle, it was added, was obviously the right one on which to base the arrangement, as the average actual circulation measures the loss to the Banks from the withdrawal of the privilege, which it is proposed partly to meet by giving them Cash balances without interest.

Proceedings of the Madras Government, Financial Department, 6th June 1861.

5. With these modifications, this Government was requested to take the earliest opportunity to negotiate with the Bank of Madras, in order that terms of agreement similar to those approved by the Bank of Bengal might be obtained from the Bank of Madras, the necessary alterations in its present Charter being at the same time submitted for the sanction of the Supreme Government.

6. In reference to this, I have to inform you, that on the receipt of your letter, a copy of it, with its original enclosures, was forwarded to the Accountant General, who was requested, after settling in communication with the Sub-Treasurer the amount which should be allowed to the Bank of Madras on account of the establishment of the General Treasury on the principle laid down in paragraph 4 of that letter, to negotiate on behalf of Government, with the Bank Directors, in order that terms of agreement similar to those approved by the Bank of Bengal might be obtained from the Bank of Madras. Mr. Harrison was at the same time requested to submit for the sanction of the Government of India, the alterations which it would be necessary to make in the present Charter of the Bank.

7. The Accountant General in his letter of 26th April, No. 486, (of which a copy accompanies) for reasons therein fully shown, proposed to allow the Bank in round numbers Rupees 12,000 per annum, as the cost of the additional establishment which would have to be entertained by the Bank on the transfer to it of the Government business. The Government (Order 1st May, No. 223,) approved the proposed sum, but stated that if the Bank Directors could show that the amount thus offered was not sufficient to secure the prompt and efficient performance of the additional duty which would be thrown upon the Bank by the contemplated transfer, their objections should be duly considered, and such sum as might seem to the Accountant General and Sub-Treasurer to be adequate should be tendered. It did not appear to Government, that a profit should be made by the Bank out of the sum to be transferred to it.

8. I am now desired to submit, for the information and orders of the Government of India, the accompanying copy of a letter from the Accountant General, dated 21st May, No. 21, and of its enclosures. It will be seen that the Directors adhere to the sum mentioned in their previous memorandum of the 25th January last, as the probable cost of the extra establishment required, viz., Rupees 15,000 per annum, but as they were unable to explain how that amount had been arrived at, or what extra establishment it was thought would be necessary, Mr. Harrison did not consider it advisable to make any alteration in the offer of Rupees 12,000, which he had made.

9. The Directors are willing to accept, in remuneration for the management of the Government currency, the same rate as has been agreed to by the Bank of Bengal, viz., ¾ per cent. Commission on the average amount of the circulation.

10. With regard however to the maximum and minimum balances, the Directors, it will be perceived on the grounds assigned in their memorandum, propose that these be fixed at 35 and 20 lacs respectively. As these sums differ so widely from those suggested in your letter of the 1st April or 7½ and 5¼ lacs, I have been instructed, in reporting what has taken place, to solicit the further instructions of the Supreme Government in regard to these balances, and at the same time in respect of the amount to be made over to the Bank as the cost of the Sub-Treasurer's establishment for the despatch of the Government business.

11. I have at the same time to forward, for submission to the Government of India, the accompanying copy of the Charter of the Bank of Madras as modified by the Directors. It will be seen that they have adopted the alterations which have been proposed for the Charter of the Bank of Bengal, with such alterations only in Sections 5, 19 and 21, as were required by the circumstances of the Madras Bank.

(Signed) T. PYCROFT,
Chief Secretary.

Exd. T. O'Connor.

No 29

From
R. P. Harrison Esqr
Accountant General
To
T. Pycroft Esqr
Chief Secy to the Government of
Madras
Dated Madras, the 27 May 1861

Sir,

In continuation of my letter of the 21st Instant No 21 I have the honor to forward, in original, a letter to my address from the Secretary and Treasurer to the Bank of Madras, together with a Copy of the Bank Charter in which the alterations acquiesced in by the Directors are entered.

2d. The Copy of the Charter of the Bank of Bengal received with the orders of Government No 203 dated the 22d Ultimo is herewith returned.

I have the honor to be
Sir,
Your Obedient Servant
R P Harrison
Accountant General

Finl 1861 Septr

No ~

Fr Accountant General

To Chief Secretary to Govt

Madras

No 39

Dd 27 May 1861.

Recd 27th " — 2 Enclos.

No 293

In continuation of letter No 32 dated forwards in original a letter from the Secy & Treasurer to the Madras Bank together with Copy of the Madras Bank Charter in which the alterations requested by the Directors is entered — Returns Copy of the Charter of the Bank of Bengal, recd with letter of 23 & 22 Instant.

6

Bank of Madras

Madras 18 May 1861

R. A. Mawson Esqre

Accountant General

Sir,

In consequence of Communications of dates 16 & 17 Inst. addressed by You to the President of the Bank, to the effect that it was intended the Directors should take into Consideration, simultaneously with the Subject of the Cash balances, that of remuneration for the Management of the Government Currency I have the honor of intimating that at a Meeting of the Directors held Yesterday I was directed to inform You, that the rate of remuneration agreed upon by the Bank of Bengal viz 3/4 per Cent Commission on the average Amount of the Circulation, will be Acceptable to the Directors —

In Agreeing to these terms I am instructed by the Directors to observe that this arrangement will be much less profitable to the Bank of Madras than to the Banks of Bengal & Bombay, owing

& its Circulation bearing relatively so much smaller a proportion & its Capital and therefore the Directors request You will in Considering the whole question of the Bank's Negotiations with Government, view their acquiescence in this part of the proposed arrangement with a distinct reference to the Sums they have asked to be fixed on as the Maximum and Minimum Government balances.

I have the honor to remain
Sir
Your Mo Obed Servt
J. W. Ure [illegible]
Secy & Treasr

Fin/61 Dep
No 50. 2nd

Bank of Madras
23 May 1861

R. P. Harrison Esqre
Accountant General
Fort St. George

Sir

I am instructed by the Board of Directors to forward, along with the Copy of the Charter of the Bank of Bengal with the agreed to alterations in fly leaf, received from You, a Copy of the Charter of the Bank of Madras having the alterations acquiesced in by the Directors appended in similar form and I am directed to observe that these alterations appear to have been so carefully considered by the Directors of the Bank of Bengal, that the Directors of the Bank of Madras have agreed to them with little alteration, only a slight Modification of Clause 21 and altering Clauses 5 & 19 to meet the difference in the respective Amounts of the Shares Capital & Mode of Voting - these alterations are made in red ink

I have the honor to be
Sir
Your Mo. Obed. Sert
John Mc. Kat Secy & Treast

Note D.
Ld No. 293

A

(10)

Average Weekly Circulation of the Bank of Madras for the year 1860

1860	Jany	7	19	40	155
		14	19	68	775
		21	19	76	445
		28	22	16	750
	Feby	4	22	53	965
		11	18	80	815
		18	20	07	065
		25	19	33	480
	March	3	19	69	775
		10	18	15	585
		17	20	28	240
		24	21	32	160
		31	21	87	660
	April	5	24	43	120
		14	26	04	975
		21	25	98	085
		28	24	21	035
	May	5	24	32	895
		12	23	58	245
		19	24	81	340
		26	25	29	725
	June	2	24	25	080
		9	21	93	255
		16	21	68	770
		23	23	40	640
		30	25	64	045
	July	7	26	89	630
		14	27	78	830
		21	26	62	555
		28	26	02	990
	Augt.	4	25	12	875
		11	30	14	275
		18	27	33	325
		25	26	59	365
	Sept	1	27	10	690
		8	25	72	950
		15	25	89	285
		22	25	53	855
		29	26	37	820
	Oct.	6	25	18	400
		13	27	27	595
		20	27	65	055
		27	27	03	900
	Nov.	3	26	66	335
		10	26	99	120
		17	25	08	425
		24	22	11.	100
	Dec	1	23	05	690
		8	24	62	805
		15	25	26	325
		22	25	10	380
		31	25	67	595
			1257.	63	230

Weekly Average. 24 18 523.

B

Statement of Government Balances in the General Treasury, Fort St. George – from 1858 to 1860.

		Maximum	Annual Average	Minimum	Annual Average.
1858.	May	55. 79.000		45. 85.000	
	June	59 35		50 61	
	July	51 02		36 61	
	August	29 53		29 37	
	September	36 83		29 68	
	October				
	November	39 19		26 53	
	December	25 15		21 50	
1859	January	28 32		19 21	
	February	27 51		14 86	
	March	38 78		24 18	
	April	45 18	40 42 000	29 62	29. 82.000
	May	48 43		37 29	
	June	39 74		28 75	
	July	52 48		33 59	
	August	64 42		41 63	
	September	68 17		60 21	
	October	66 47		59 29	
	November	61 77		45 88	
	December	47 38		41 49	
1860	January	46 95		38 57	
	February	41 39		21 58	
	March	50 24		32 93	
	April	40 98	52. 37 000	29 49	40 06 000
	May	38 62		25 61	
	June	26 21		19 10	
	July	25 98		15 51	
	August	28 66		18 93	
	September	21 06		15 28	
	October	16 89		9 99	
	November	17 35		6 73	
	December	13 84		4 26	
1861.	January	12 12		5 68	
	February	18 75		5 44	
	March	19 70		11 70	
	April	21 41	21 72 000	8 22	12 20 000
		General Average	38. 17. 000		27 36 000

No 15/828.

To
The Accountant General
Fort St George

Sir,

In acknowledging receipt of your letter No 14 of the 3rd Instant, addressed to the President of the Board, with the original Papers which accompanied it, and which are herewith returned - together with the Proceedings of the Madras Govt. No 203 dated 22d April - I have the honor by desire of the Directors of the Bank to hand you the accompanying Memorandum, embodying their views on the points proposed for their consideration

10/5 May

I am also desired to express the hope of the Directors that the Government may be disposed to view in a liberal and accommodating Spirit the terms of Arrangement which they have proposed

The Directors have now under review the necessary modifications in the Charter of the Bank which will be laid before you with as little delay as possible.

I have the honor to be, Sir,
Your most Obedt Servant
John Mc Iver
Secretary & Treasurer.

Bank of Madras
15th May 1861.

No 21

(11)

From

R. P. Harrison Esqr.
Accountant General,

To

J. Pycroft Esqr.
Chief Secretary to the Government of
Madras

Dated, 21 May 1861.

Sir,

With reference to the orders of Government dated 22d Ultimo, and to their subsequent proceedings dated the 1st Instant No 203, I have the honor to report that I forwarded, on the 3d idem, the original enclosure* of Mr. Lushington's letter of the 1st of April last No 3648 to your address, to the President of the Bank of Madras, and informed him that it was proposed to transfer to the Bank an allowance of Rs 12,000 per annum, for the management of the Government Receipts and Disbursements, that amount being in excess of the cost, including contingencies, now incurred by Government for performing such of the business of the General Treasury as will henceforth be discharged by the Bank.

*herewith returned

2d. In reply to my communication the Secretary to the Bank has forwarded to me a memorandum of the Directors embodying their

views

Fin/60 Desp
Pr No 266

views upon the points which they were requested to consider, which is herewith submitted, together with Mr. McIver's letter in original for the consideration of Government.

3 The Directors having omitted to express their views on the subject of remuneration for the management of the Government Currency, I addressed the President on the subject, and enclose a letter from the Secretary dated the 10th Instant, which I have received in reply.

4. With advertance to the 2d paragraph of the Directors memorandum, I beg to state that I mentioned to the Directors at the last weekly meeting that if it could be shewn that the amount offered viz 12.000. Rs was not sufficient to secure the prompt and efficient performance of the additional duty which will be thrown upon the Bank by the transfer to it of the Government business, I was authorised to consider their objections and to tender such sum as might seem to myself and the Sub Treasurer to be adequate. The Officers of the Bank were, however, unable to explain how the sum of Rs 15,000, stated to be the probable cost of additional Establishment, was arrived at, or what Extra Establishment

it was

it was thought would be necessary. I did not, therefore, consider it advisable to make any alteration in the offer of Rs 12,000. previously made.

I have the honor to be
Sir,
Your obedient Servant
W Kennedy
Accountant General

Financial 1861 Dept C.
7
From The Accountant General
Madras
To Chief Secy. to Govt
Madras

No 21
Dy 21 May 1861.

No. 266 Enclos: 3

With reference to G. O. of 22 Ultimo, & subsequent proceedings of 1 Instant No 203, returns original enclosure of Mr Lushington's letter, & submits original communications from the Secy to the Madras Bank relative to the transfer to the Bank of the Government Receipts & Disbursements

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Memorandum

The Directors of the Bank of Madras have
Considered the Papers laid before them by the
Accountant General regarding the terms of
Agreement arranged between the Government
of India and the Bank of Bengal, in
Connection with the transfer to the latter of the
management of the Government Balances and
Paper Currency - Also Mr. Secretary Lushington's
letter to the Government of Madras stating the
points in the terms of Agreement, requiring to
be modified with a view to adapting them to
the Circumstances of the Bank of Madras - and
directing that negotiations be entered on without
delay in order that similar terms be obtained from
the Bank of Madras, and finally the order of the
Madras Government (No 203 of 22 April 1861) thereon.

In regard to Mr. Harrison's proposal to
transfer to the Bank Rup 12,000 per Annum
on account of Establishment for the performance
of Duties now appertaining to the Sub Treasurer's
Establishment, and which it is proposed shall
hereafter be discharged by the Bank, the Directors
would beg reference to their memorandum
dated 26th January last, in which Rs 15,000
was stated as the probable cost of additional
Establishment. -

The two principal points submitted as subjects for negotiation are;

1st — The maximum Govt: Cash Balance to be left at the disposal of the Bank as applicable to general Banking business - and

2nd — The Minimum below which the Government should agree not to reduce their Cash balance without its being made up to the Bank by an Allowance to be afterwards determined -

The Directors would propose that the maximum for the Bank of Madras be fixed at 35 Lacs & the Minimum at 20 Lacs.

Adverting to these points Mr. Lushington states in the 6th Para of his Letter that, the average Actual Circulation is the correct standard by which to measure the loss to the Banks from the withdrawal of their Circulation - but while laying this down as obviously the right principle on which to base the Arrangement - he leaves out of view altogether the Actual average Circulation of the Bank of Madras which in 1860 was upwards of 24 Lacs (see Appended Statement A) and goes back to the Year 1856/57 to find an Average on which to compute the loss - this Average being 7¼ Lacs, under that of 1860. which is the last ascertained Average - From these palpably incorrect premises he draws a conclusion which (even supposing the principle he propounds to be a sound one) is wholly erroneous.-

But the Directors do not admit that this is a question merely of proportion to be computed in the way Mr. Lushington suggests - they prefer to follow the rule which he laid down & which was adopted in treating with the Bank of Bengal and to fix the minimum, not on the basis of a fanciful Standard (but as he has proposed in the 8th Para: of his Memorandum of the terms of Agreement with the Bank of Bengal on the basis of the usual minimum) balance at the General Treasury.-

Appended is a Statement (marked B) obtained from the Sub Treasuries Shewing the Maximum & minimum balances in the Treasury in each month in the last 3 Years - from this it will be seen that the Average Minimum for three years was 27 Lacs & the average Maximum 38 Lacs & this notwithstanding the fact that in the last year the balances were unprecedentedly low.-

The Directors therefore consider that in asking the Government to fix on 20 Lacs as the Minimum they are only demanding that, which experience has shewn to be a close approximation (on the safe side) to the actual limit - shall also be the recognised limit - When the Subject which has led to these negotiations was first discussed by the late Mr. Wilson, repeated assurances were given of the desire of Government to deal liberally with the Banks and One of the most Cogent Arguments he made use of in favor of the Contemplated abolition of the Sub-Treasurer's establishment was the utilising of the Government balances which hade hitherto lain idle in the Vaults of the Presidency Forts - The Directors would therefore urge that, if this be so, instead of going back for years to find a small average on which to base their calculation - the Government will rather look in advance, and estimating the rapid increase in the Banks' Circulation, will see in this an argument for making a corresponding allowance to the Proprietors & fixing the Minimum on the safe and useful basis of the average monthly unemployed Cash balance held in the Treasury -

By adopting this principle & complying with the Directors wishes, no inconvenience or loss will accrue to the State - while the advantage to the Bank will be that of fixing a practical and useful limit, affording a fair margin for safe investment, instead of

a limit which would just have sufficient reality to be vexatious and would aim at reducing to the lowest practicable point the advantage to be derived to the Bank and thro' it, to the Community and Country generally - from its management of the Government balances.

In dealing with this Question of the Govt. Balances - the Directors have devoted their attention mainly to the principle to be adopted in fixing the Minimum -

In regard to the Maximum it will be observed that 35 p. cent is considerably under the average maximum monthly balance in the Treasury and does not bear an undue proportion to the Minimum and while on this Subject the Directors would take occasion to repeat that, whatever may be fixed as the Maximum Balance available for Banking purposes, it would be ruinous if possible, Circumstances so modify it, to invest the Surplus in Government Securities and that therefore practically when the Government Balance at the Bank is in Excess of the maximum the Surplus would require to be retained in Specie - Earmarked as the property of Government - this they consider a fair Argument for Adopting a liberal Maximum and, in the Spirit of the modifications in the Charter of the Bank of Bengal, leaving a great deal to the discretion of the Directors.—

Madras
15th May 1861

A. W. Campbell
President of the Bank

Fin: 61. Desp
Pr. No. 266.

Financial Department.

PROCEEDINGS of the MADRAS GOVERNMENT.

Read the following letter from the Accountant General.

(Here enter 21st & 27th May 1861, No. 21. & 29)

Order thereon 6th June ~~May~~ 1861, No. 279.

Resolved that the Accountant General be informed, that his letters above recorded, and their enclosures will be reported to the Govt. of India, and their further instructions on the subject awaited.

W. M

EM

JP

106

To the Acctt. Genl. – Desp. 6/6/61.

13-16

Madras Bank

(3)

Finl 1861. Department.

No. 279

PROCEEDINGS of the MADRAS
GOVERNMENT.

Dated

3829] Madras—Printed at the Government Press.

Desp. 6/6 3 Remesses
with 8 Annexures & 2 Enclos:
& Bank of Bengal Charter &c.

(22)

Financial Department.

No. 280.

To, The Secretary to the Govt.
of India.
Financial Departt.

Sir,

I am directed by His Excellency the Governor in Council to acknowledge the receipt of your letter of the 1st April last, Finl. Departt. No. 3648 forwarding a copy of the correspondence regarding the terms of Agreement accepted by the Bank of Bengal, in connection with the transfer to it of the management of the Govt. Balances and Paper currency.

The

2. The only modifications, it was remarked, which would have to be made in the terms of Agreement for the Bank of Bengal with a view to adapting them to the circumstances of the Bank of Madras are such as relate 1stly to the present cost of the subordinate Establishment of the General Treasury 2ndly to the maximum Cash Balance, & 3rdly to the minimum.

3. The allowance on account of Subordinate establishments which should be transferred to the Bank of Madras for the management of the receipts and disbursements of Govt. could, it was stated, be best fixed by the Govt. of Madras.

With

(23)

4. With regard to the maximum and minimum balances, it was observed in your letter, that the average daily circulation of the Bank of Bengal for the years 1856 and 1857 was 150½ lacs. If on this, as the basis of calculation, the maximum and minimum Balances for the Bank of Bengal have been fixed at 70 and 50 lacs respectively, then the maximum and minimum Balances in the case of the Bank of Madras, will be 7½ and 5¼ Lacs respectively, 16¾ lacs being its average daily circulation, as ascertained from the monthly Statements of the Assets and Liabilities of

that

that Bank for the two years above mentioned.— This principle, it was added, was obviously the right one on which to base the arrangement, as the average actual circulation measures the loss to the Banks from the withdrawal of the privilege, which it is proposed partly to meet by giving them Cash Balances without interest.—

5. With these modifications, this Govt. was requested to take the earliest opportunity to negotiate with the Bank of Madras, in order that terms of agreement similar to those approved by the Bank of Bengal

~~may~~

might ~~may~~ be obtained from the Bank of Madras, the necessary alterations in its present Charter being at the same time submitted for the sanction of the Supreme Govt.

6. In reference to this, I have to inform you, that on the receipt of your letter, a copy of it, with its original Enclosures, was forwarded to the Accountant General, who was requested, after setting in communication with the Sub Treasurer the amount which should be allowed to the Bank of Madras on account of the Establishment of the General Treasury on the principle laid down in paragraph 4

of

of that letter, to negotiate on behalf of Govt. with the Bank Directors, in order that terms of Agreement similar to those approved by the Bank of Bengal ~~may~~ might be obtained from the Bank of Madras. Mr. Harrison was at the same time requested to submit for the sanction of the Govt. of India the alterations which it would be necessary to make in the present Charter of the Bank.—

7. The Accountant General in his letter of 26th April (No. 486) (of which a copy accompanies) for reasons therein fully shown, proposed to allow the Bank in round numbers Rupees 12,000 per Annum,

as

as the cost of the additional Establishment which would have to be entertained by the Bank on the transfer to it of the Govt. busineſs.— The Govt. (Order 1st May No. 223) approved the proposed sum, but stated that if the Bank Directors could shew that the amount thus offered ~~is~~ was not sufficient to secure the prompt and efficient performance of the additional duty which ~~will~~ would be thrown upon the Bank by the contemplated transfer, their objections should be duly considered and such sum as ~~may~~ might seem to the Accountant General and Sub Treasurer to be adequate should be tendered.— It did not

appear

appear to Govt. that a profit should be made by the Bank out of the sum to be transferred to it.

8. I am now desired to submit, for the information and orders of the Govt. of India, the accompanying copy of a letter from the Accountant General dated 21st May No. 21 and of its enclosures. It will be seen that the Directors adhere to the sum mentioned in their previous memo: of the 25th January last, as the probable cost of the extra establishment required — viz: Rupees 15,000 per annum, but as they were unable to explain how that amount had

been

been arrived at, or what extra establishment it was thought would be necessary Mr. Harrison did not consider it advisable to make any alteration in the offer of Rupees 12,000 which he had made. —

9. The Directors are willing to accept, in remuneration for the management of the Government Currency, the same rate as has been agreed to by the Bank of Bengal, viz: 3/4 per cent commission on the average amount of the circulation.

10. With regard however to the maximum and minimum balances, the

Directors

Directors, it will be perceived on the grounds assigned in their Memo: propose that these be fixed at 35 and 20 lacs respectively. As these sums differ so widely from those suggested in your letter of the 1st April on $7\frac{1}{2}$ and $5\frac{1}{4}$ lacs, I have been instructed, in reporting what has taken place, to solicit the further instructions of the Supreme Govt. in regard to these balances, and at the same time in respect of the amount to be made over to the Bank as the cost of the Sub Treasurer's Establishment for the dispatch of the Government business.

the

11 I have at the same time to forward for submission to the Government of India, the accompanying copy of the Charter of the Bank of Madras as modified by the Directors. It will be seen that they have adopted the alterations which have been proposed for the Charter of the Bank of Bengal, with such alterations only in Sections 5, 19 & 21 as were required by the circumstances of the Madras Bank.

I have &c.

Fort Saint George,
6 June ~~May~~ 1861.

The two letters 21 & 29 with
here enclos- as numbered — [illegible]
Jn Dawe.

Financial 1861 Sept

No. 280

Fr
The Secretary to the
Govt. of India

D/6 June/61.

Informing the Acctt. General that his letters and their enclosures regarding the transfer to the Bank of the Govt. Receipts and Disbursements will be reported to the Government of India and their further instructions on the subject awaited.

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