

(1) Number of pages 13
(2) Date of repair 12-3-48
(3) Initials of the Referencer _____

MADRAS RECORD OFFICE.

Government of Madras.

Public works

DEPARTMENT.

G.O. No. 3916	Press Mis
190-191	
Dated 12-12-	1866.

Not to be folded or roughly handled

20/

*Proceedings of the Madras Government, Public Works Department,
12th December 1866.*

No. 190. Read the following Proceedings of the Government of India, in the Public Works Department, (Railway), dated Simla, 22nd October 1866.

No. 1,055 R:—

Apportionment of General Charges between Capital and Revenue.

Read again—

Public Works Department Resolution Nos. 194—6½, dated 16th February 1866, Despatch to Secretary of State, No. 21 of 1863.

Read—

From Government of Madras, No. 1,403, dated 2nd May 1866, and enclosure.

"	"	Punjab, "	128, "	29th "	"	and enclosures.
"	"	Bengal, "	1,406 G., "	23rd June "	"	"
"	"	Punjab, "	111, "	24th July "	"	and enclosure.
"	"	Bombay, "	1,680 "	7th August "	"	"
"	"	Bengal, "	1,963 G., "	23rd "	"	"

Read also—

Office Note, dated 14th September 1866.

Information as to the principles on which this division is made on open Railways, was called for (Proceedings, February 1866, No. 147), and has been received.

Madras.—The Agents of the Madras and Great Southern of India Railways adhere to the principle on which the division is made at present, viz.:—

“That the home expenses and the general expenses of Agencies in India, shall be apportioned ratably, between Capital and Revenue, according to the total expenditure on each account.”

In regard to the *home* expenses, it is to be noted that little or no *Revenue* expenditure is incurred in England. All English stores are, in the first instance, paid for out of *Capital*, as issued in India for Revenue purposes; they are charged off to *Revenue*, but it does not appear that the proportion of the cost of the home expenses incurred upon them is added to their value on the Indian books, to be recovered from Revenue.

It is manifest that if Revenue, which consumes the stores, justly pays for them, it should pay for the whole cost in connection with them, and that a permanent debit against Capital, for ordering them merely, is improper; yet this is the system now in force it may be inferred. Colonel DeLisle's opinion on this point will be found further on. He suggests a way of meeting the difficulty without complicating the *Stores Advance Account*.

In regard to the Bengal proposal of dividing general charges in the ratio of

* The Chief Auditor, East Indian Railway, concurs with the Agent of the Madras Railway, and, for the additional reason, that the entire cost of the audit of traffic receipts is charged to Revenue.

† It is to be presumed that the Agent rather means “Capital raised,” for there is no labor to the Agency or Board in receiving advances, (and very little to the Agency in raising Capital in India). The moment “Advances” or “Capital” are spent, they bear their proportion of general charges.

of Capital expenditure to Revenue expenditure, plus earnings, the Manager of the Madras Railway Company deprecates* it “as the whole expense of the collection of the Revenue is charged to that account; and it might also be fairly urged that, if Revenue receipts are to be taken into consideration, advances† made on Capital Account, demanding a proportionate share of care and labor, ought also to be considered.”

*Proceedings of the Madras Government, Public Works Department,
12th December 1866.*

The Bengal proposal, the Madras Consulting Engineer remarks, is not likely to be acceded to, for it would debit Revenue with a larger share of the charges.

Bombay.—The Agents of the Great Indian Peninsula, and Bombay, Baroda, and Central India Railways, and their London Boards, are in favor of a division in the proportion of Revenue and Capital expenditure. On the Sindh Railway, Capital charges are small and unimportant, as the line is complete, and no opinion has been invited thence.

The Consulting Engineer considers that the Agency charges should be divided in some ratio derived from the relative importance of Departments. These would stand thus, according as the line was more or less complete :—

Engineering	or	Traffic.
Traffic	or	Engineering.
Locomotive.		Locomotive.
Telegraph.		Telegraph.

For instance, as there are several important works in progress on the open line, Great Indian Peninsula Railway, the relative importance is thus estimated, at present, for this line :—

Engineering	...	...	...	...	...	...	4
Traffic	...	...	...	...	...	...	3
Locomotive	...	...	...	...	...	...	2
Telegraph	...	...	...	...	...	...	1

These proportions, it is stated, will require annual revision by the Consulting Engineer, in communication with the Railway Authorities.

The Consulting Engineer gives a Table showing the ratios under the different methods of apportionment, discussed or recommended by him, to be as follow :—

	Capital to Revenue
Shares as in margin	...
Capital outlay to Revenue earnings	432 to 396
Present practice, Bombay, Baroda, and Central India Railway	308 to 396
London Boards and Agents*	693 to 396
Bengal Government proposal	495 to 396
Bengal and Madras Government practice (added here) Capital to Revenue expenditure	220 to 396
Agency here includes the Audit and Account Office.	530 to 396

Where there is a special Revenue Audit Office, it should be charged entirely to Revenue, but the Chief Auditor and Accountant's Office should be charged according to proportionate amounts.

Colonel DeLisle questions whether this would be fair on lines constructed by contract, the payments being usually monthly, and of large amount, involving comparatively few entries. (Colonel Drummond also draws attention to this point).

In this view, Colonel DeLisle admits the merit of the Bengal plan, unless there is a special Revenue Audit Establishment, in which case the Head Office should be apportioned according to receipts or expenditure only.

* This is in the ratio of Capital to Revenue expenditure, rents excepted, which are divided equally.

*Proceedings of the Madras Government, Public Works Department,
12th December 1866.*

He suggests that, if the simple method be retained, the apportionment should be in ratio of Capital expenditure to Revenue gross earnings, as this would represent partially the receipts as well as the expenditure.

Colonel DeLisle omits the Stores Department from any share of the Agency expenses :—1st, because stores expended are included in the accounts for each branch ;* 2nd, because the apportionment, if made, would be chargeable to "Stores Advance Account," and it is not desirable to complicate this already troublesome account.

As to London Board charges, Colonel DeLisle divides their time as follows :—

Capital.—Raising, receiving, and paying into Government.

Capital and Revenue.—Purchasing and shipping stores. Engaging and sending out employes.

Revenue.—Payments of dividends to shareholders ;

and sees no great objection to apportioning the cost on the expenditure in *England*, the only doubt being in the case of stores purchased, as the charge would be debitable to "Stores Advance Account." The difficulty might, he thinks, be obviated by charging in proportion to stores expended on *Capital and Revenue in India* during the half-year.

Office-rent is divided equally between Capital and Revenue, and is so proposed to be.

The Agent and the Chief Accountant, Great Indian Peninsula Railway, agree that gross earnings should not be taken into consideration, as, with stations blocked, they have no trouble in getting traffic ; but if, as in *England* with competing lines, they had to devise means for attracting traffic, it might be admitted ; but then it would be equally fair to add the Capital receipts, thus agreeing somewhat with the Agent, Madras Railway Company.

Bengal.—The Agency and the Chief Auditor, East Indian Railway, are of opinion that the apportionment in the ratio of the Capital outlay to the Revenue expenditure is the nearest approximation to a fair distribution that can be made without involving minute particulars, which it would be impossible to obtain.

The Agent, Eastern Bengal Railway, thinks that the practice in force, viz., a division in ratio of Capital and Revenue expenditure, is the best.

The Agent, Calcutta and South-Eastern Railway, is in favor of an apportionment in the rates of Capital outlay to the sum of the Revenue earnings and expenditure ; but the Accountant of the Company proposes that the Agency (proper) expenses should be divided on a basis subject to revision each half-year, and the Account and Audit Office expenses in the ratio of number of bills audited, i. e., of work done on each account.

The Government of Bengal advocates—

- (1). A division of the Agency (proper) charges in ratio of Capital expenditure to Revenue expenditure, plus earnings, being of opinion that the functions of an Agency are three-fold :—

*Proceedings of the Madras Government, Public Works Department,
12th December 1866.*

- 1st.—To control construction.
- 2nd.—To develop the earnings.*
- 3rd.—To control the working expenditure, and that the cost of the Agency should, therefore, be divided in the direct ratio of the extent of the monetary transactions on each branch.

- (2). The cost of supervision in the several Executive Departments, including Office expenses, in the ratio of the departmental outlay on construction and working, inclusive of the cost of all stores, except the prime cost of rolling-stock and machinery.†
- (3). The cost of the Stores Establishment, in the ratio of value of stores issued to Capital and Revenue.‡
- (4). The cost of the Central and Departmental Offices of Account, in the ratio of the expenditure accounted for, prior to the adjustment, (*i. e.*, exclusive) of the supervising establishment charges.
- (5). The Traffic or Revenue Audit Department to Revenue.
- (6). The remainder of the independent Audit Department, in the ratio of expenditure passed to Capital and Revenue (after the adjustment, [*i. e.*, inclusive] of all other establishment and joint charges).
- (7). The duty of the apportionment devolves on the Audit Department, and the adjustment of all joint charges to be made half-yearly, when the books are closed for striking the half-yearly balance sheets.

With reference to the remarks by the Consulting Engineer to the Government of Bombay, alluded to in paragraph 8 of Public Works Department Resolution Nos. 194—6 R. of 16th February 1866, the Agency of the East Indian Railway Company expresses the opinion that the provision of stores and materials from England, which must be made at least fifteen months in advance of requirements, is one of the most troublesome and intricate parts of an Agent's duty, if properly looked after.

* On this point, it may be remarked, with reference to the opinion of the Agent of the Madras Railway Company, and, generally, that to omit all consideration of the gross earnings, is to admit tacitly that the Agency has no concern with the growth or development of traffic; and that there is the same labor in managing two Railways of which the working expenses are the same, but of which the gross earnings may differ very widely. If instances are required to prove the fallacy of this argument, we need only refer to that of the Eastern Bengal Railway—to the Agent of which, Mr. Prestage, the credit of developing the traffic has been fully acknowledged, and this may be quoted, notwithstanding that Mr. Prestage himself describes his duties, in the present papers, as administrative, and not executive, and is averse to the Bengal proposal as saddling Revenue unduly and unfairly. The Agent of the Great Indian Peninsula Railway is also opposed to the proposal, as, at present, there is no need for exertion on the part of the Agency or any one else, in attracting traffic; but this can only be true for a time, and will be a sure sign of bad management if it continues true for long.

† As to this exception, reference should be made to Bengal Government No. 1,963 G. of 23rd August 1866. For the same reason that they are "structures sent out ready-made," girders, weighing-machines for Revenue, and a hundred other things should be excluded.

‡ Presumably, a Stores Audit Office, if it exists, would follow this rule.

*Proceedings of the Madras Government, Public Works Department,
12th December 1866.*

The Agent, Eastern Bengal Railway Company, on the other hand, state that there is little trouble in ordering and arranging for English stores; but that the labor in transshipping them in India, and taking them into account, is considerable. He also points out that, when consumed, their cost is charged off and included in the Revenue expenditure, and then the apportionment of general charges is made. He proposes that the prime cost of rolling-stock and machinery should be treated as stores, and charged off as Capital outlay in India.

Punjab.—The Agent, Delhi and Punjab Railway, suggests that Agency should be divided equally between Capital and Revenue, except the Revenue branch which forms a charge against Revenue only; or, if not, then in the ratio of Capital, outlay to sum of earnings and expenditure on working.

Engineers and Permanent-way Establishment.—The salaries to be divided between Capital and Revenue, in a proportion to be settled by Chief Engineer.

Traffic—to Revenue.

Locomotive—to Capital and Revenue, in proportion to total expenditure in each half-year.

Stores—

ditto

ditto

ditto.

Telegraph—to Revenue.

Colonel Drummond, the Consulting Engineer, would apportion Agency proper to Capital, by a per-centage on the estimated expenditure varying from $\frac{1}{2}$ to 2 per cent. *Audit and Accounts* according to labor devoted to each, to be determined by Chief Auditor, or, if this be found impracticable, then in ratio of Capital expenditure to sum of Revenue receipts and payments.

Stores—Ratably on value issued to Capital and Revenue.

OBSERVATIONS.—The Resolution of the Government of India, the replies to which are now under consideration, referred exclusively to the apportionment between Capital and Revenue of the General Agency charges; but in one of its accompaniments, the views of the Bombay Authorities on the apportionment of mixed charges, generally, were recorded; and, consequently, the replies in some instances include an expression of opinion as respects them as well. The Government of India think it will be convenient to dispose of the broader question thus presented for consideration.

2. Under "General Charges" have to be considered the expenses of the Home Boards, Indian Agencies, and Offices of Account and Audit; and under "Mixed Charges" come the cost of supervision and of Office Establishment of certain Executive Departments, such as the Engineer, Locomotive, &c. These may not be inaptly termed "*Administrative*" and "*Executive General Charges*," respectively.

3. The balance of opinion, the Governor General in Council observes, is clearly in favor of an apportionment of all general charges, whether Administrative or Executive, in the ratio of the Capital and Revenue expenditure, and past and present practice is in accordance therewith in Madras and Bengal. This practice, in so far as it relates to the expenses of the Home Boards, has been approved by

*Proceedings of the Madras Government, Public Works Department,
12th December 1866.*

the Secretary of State generally, in his Despatch No. 26 of 1860. In Bombay and in the Punjab, the practice, as regards Indian general charges, differs.

4. The question may be considered to have arisen on a suggestion from the Government of Bengal, that the general charges should be divided in the ratio of Capital outlay to the sum of Revenue earnings and expenditure. This suggestion has met with small support and much opposition: the latter mostly taking the form of a general assertion that Revenue would be unfairly burdened thereby. Where detailed reasons are given, it is advanced that Revenue earnings cost the Agency no trouble, and that if they are to be taken into account, so also should Capital receipts. The fact, too, that the whole cost of the Traffic Department, as also where it exists of the Revenue Audit Office, is charged to Revenue, is adduced in support of this view, but the argument is untenable, the charges of these Departments being purely Revenue.

5. The general practice under the Government of Bombay appears to be to apportion in the ratio of the mileage under construction, and maintained out of Capital to the mileage of line maintained out of Revenue: but in the case of the Bombay, Baroda, and Central India Railway, this rule has been modified, so that, at present, the ratio is two of Capital to one of Revenue.

6. The other proposals that have been made in regard to the division of Agency Charges proper are—(1) by the Consulting Engineer to Government, Bombay,—(a) in a ratio derived from the relative importance of Departments to be fixed half-yearly; (b), in the ratio of Capital outlay to Revenue earnings as representing partially the receipts as well as the expenditure; (2) by the Consulting Engineer to the Government of the Punjab, and the Chief Accountant of the Calcutta and South-Eastern Railway, all to Revenue, less a per-centage to be fixed half-yearly for construction work executed; (3) by the Agent, Punjab and Delhi Railway Companies, half to Capital and half to Revenue: but he would accept the proposal of the Bengal Government as an alternative.

7. The only other important principles of apportionment of general or mixed charges that have been propounded, are—(1) that the actual labor of account and audit shall be estimated by the number rather than by the amount of the bills under each head; (2) that the Stores' Department should not bear any portion of the general charges, inasmuch as the cost of stores being reckoned with the expenditure in other Departments, they then bear their proportion of such charges; (3), that the Stores' establishment itself should be charged off to Capital and Revenue respectively, in the ratio of the value of stores issued on each account; (4) that, in the last case, the value of rolling-stock and machinery should not be reckoned as they are "structures sent out ready-made," (this reservation is proposed by the Government of Bengal); (5) that, on an open line, the Engineer Establishment should be charged wholly to Revenue, which shall receive a credit of 5 per cent. on outlay on construction work superintended. This is the present practice in Bombay.

8. It is admitted on all sides that, whatever method of apportionment be followed, it must be open to the objection of its being arbitrary. There is also a very general admission of the desirability of uniformity in this matter in respect of all Indian Railways. At present there is a want of uniformity, though there is a large amount of agreement on several points, both in opinion and practice.

*Proceedings of the Madras Government, Public Works Department,
12th December 1866.*

9. But whilst the Governor General in Council thinks that uniformity is desirable, it is essential that, whatever rules may be prescribed and adopted, they should be simple and invariable. If weight be given to the existing agreement in opinion and practice, the one simple rule of division in the ratio of Capital and Revenue expenditure might be made universal, and this principle has the merit of being applicable to executive as well as administrative general charges, though it has the demerit of entirely ignoring the labor connected with the earnings.

10. It would, however, be necessary, if this method were ordered to be adopted, to define (1), whether stores purchased in England or India for stock should be treated as expenditure; (2), whether any stores should, on issue, be excluded from the account of outlay on the ground of their being "structures sent out ready-made;" (3), whether the Stores' Department should bear any portion of general charges; and (4), whether the cost of Departmental Branch Offices of Audit and Account, such as for Stores, Engineer's Department, &c., when they exist, should be apportioned over other Departments, as in the case of the Agency proper, and the Offices of General Audit and Account, or whether they should be charged on the particular Executive Department the accounts of which they deal.

11. On the first of these points, it would appear that the cost of stores purchased, whether in England or in India, for stock, should not be reckoned as expenditure, inasmuch as, on issue, they will be included therewith. In like manner, the cost of the establishment of the Stores' Department would be distributed over Capital and Revenue previous to making the apportionment of administrative general charges.

12. On the second point, it may be admitted that there is some force in the view held by the Government of Bengal; but there would be much difficulty, and, probably, considerable dissatisfaction, in drawing the line of distinction between stores to be charged, and those not to be; and, as it is proposed under the first point to exclude from expenditure, till issued, all stores carried to Stock, and as the stores of which the exclusion is contemplated, would always be carried to Stock in the first instance, the Government of India consider that no exception whatever should be made, but that the cost of all stores issued should be included in the outlay on expenditure.

13. On the third point, the Governor General in Council inclines to the opinion that general charges should not be apportioned on the Stores' Department, inasmuch as, when the stores are issued, and their cost is included with the expenditure of Executive Departments, they then bear their proportion of general charges. Moreover, under this ruling, and that proposed under the first point, the "Stores Advance Account" will not be complicated by such charges.

14. On the fourth point, His Excellency in Council thinks that it would evidently be the more consistent course that the charges of such special Offices of Audit and Account should be carried against the Executive Departments concerned, and this course, though causing some want of uniformity in cases where such division of Offices is not made, might be adopted.

15. The Government of Bengal has proposed a set of rules which, though multifarious, are good; and, with the exception of the distinction desired to be introduced in the matter of stores, are such as might commend themselves to

*Proceedings of the Madras Government, Public Works Department,
12th December 1866.*

the Government of India were there any probability of their proving generally acceptable. For the ratio, however, in which the charges of the Agency proper are proposed to be divided, might be substituted that suggested by the Consulting Engineer to the Government of Bombay, viz., of Capital outlay to Revenue earnings; such a modification would probably meet many of the objections to the original proposal of the Government of Bengal.

16. Bearing in mind, however, the various opinions expressed by the Railway and other authorities in India, it does not, at present, seem likely that, if the simple ratio of the Capital and Revenue expenditure be rejected, any other plan would be willingly assented to than a division of "*Administrative* general charges" in the ratio of the total Capital receipts and expenditure to the total of Revenue earnings and expenses, excluding payment of dividends—Stores expenditure, when they are carried to Stock, being excluded as before—and a division of "*Executive* general charges," in the ratio of Capital to Revenue expenditure, including value of stores in each Department. The apportionments of administrative general charges in the ratio of Capital outlay to Revenue earnings, and of executive charges as above, might prove, on re-consideration, an acceptable modification to all, and would have the merit of simplicity. On the whole, perhaps, this is the method which the Government of India would prescribe, did the decision rest with them.

17. Thus, there are five courses here discussed,—*first*, that referred to in paragraphs 9 to 14; *second*, those in paragraph 15; *third*, those in paragraph 16. The matter has already been placed before the Secretary of State for consideration, in communication with the several Boards of Directors, and a decision is not, therefore, called for in this place. The Companies may be naturally expected to oppose any proposal which may have the effect of throwing a larger proportion of these charges on Revenue; but, while it rests with the Government to order that method which is most equitable, it is desirable to obtain the willing adhesion of the Companies to that method, and this is likely to be secured by a full and impartial consideration of the matter in all its bearings.

ORDER.—Ordered, that a copy of these Observations be forwarded to the Governments of Madras, Bombay, Bengal, and Punjab, for information.

Also to the Accountant General, Public Works Department, for information.

Ordered also, that they be communicated to the Secretary of State for India.

(Signed) W. McCLEERY, C. E.,

Offg. Asst. Secy. for Secy. to the Govt. of India.

No. 191.

ORDER THEREON, 12th December 1866, No. 3,916.

RAILWAY, No. 10.

Communicated to the Consulting
Engineer for Railways.

(True Extract.)

(Signed) CHARLES A. ORR, Colonel, R. E.,

Secretary to Government.

To the Consulting Engineer for Railways.

Exd. S. T. Augustin.

Communicated

No. 3916

*Communicated to the
Consulting Engineer for
Railways—*

Wm

N. G. P.

*The Consulting Engineer
for Railways—*

W. B.

*Fort St. George
12th Decr 1866*

twice

Recd. 14th December