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MADRAS RECORD OFFICE

Government of Madras

Public works

DEPARTMENT

G.O. No.

1241

B.P.-No.

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Dated

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1843.

Not to be folded or roughly handled

*Proceedings of the Madras Government, Public Works Department,
6th May 1873.*

No. 60. Read the following Proceedings of the Government of India in the Public Works Department, (Account—Guaranteed Railways), dated Fort William, 4th April 1873, No. 184—9 A. R.:—

Calculation of Interest on the Revenue Balances of Guaranteed Railway Companies in the hands of Government.

Read again—

Note by Lieutenant-Colonel P. P. L. O'CONNELL, R. E., Officiating Accountant-General, Public Works Department, on calculation of current interest on the Revenue Balances of the Great Indian Peninsula Railway, No. 1,109—R, dated 27th September 1872.

I BEG to lay before the Government of India for information the correspondence marginally noted, on the subject of the calculation of current interest on the Revenue balances of the Great Indian Peninsula Railway, and to furnish the following particulars in elucidation of the question raised therein.

2. In accordance with the recent arrangements for the management of the accounts of the Guaranteed Railways, the Examiner of Railway Accounts, Bombay, submitted to this office for approval the statement of interest on Revenue balances claimed by the Great Indian Peninsula Railway for the first half of 1872. On checking this statement it was discovered that the debits on account of stores, etc., had not been made against the months to which they related. It was therefore explained to the Examiner that, as by any postponement of adjustments the Railway Company might gain unduly, it was necessary in the interest of Government that *all* the adjustments for any month on account of stores, etc., should be shown against the receipts of that particular month in arriving at the balances upon which interest should be allowed, and not brought against any later month. A revised account, prepared in accordance with these principles, was at the same time called for, and when received showed a net result of Rupees 3,384-4-10 less than that entered in the statement first submitted. This reduced amount has been allowed, and has been included in the Company's accounts. The Auditor of the Company, however, still claims the difference, and contends that the original account was prepared as was intended by the Secretary of State and the Government of India.

3. The rules* in force since 1863 do not appear to lend any support to the Auditor's view of the matter, and, moreover, a difficulty having recently arisen in the matter of this interest as to the adjustments on account of stores, etc., (which have now to be made by *transfer*,) the Financial Department decided that, as the interest on the Railway Revenue balances is to be allowed at the close of each half year, the accumulation of the amounts to be allowed should be deferred till the actual value of stores issued to Revenue each month is known, when the amount due to the interest should be taken to account. The Financial Department also approved of a form for exhibiting the calculations on account of current interest, in which the debits on account of stores, etc., actually used in each month were set off against the receipts of that particular

* See Proceedings (Account—Railway) July 1868, Nos. 6—13, Part A.

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6th May 1873.*

month. The principle approved in this case is precisely that upon which this office has been acting.

4. I shall be glad to hear that my action in this matter meets with the approval of Government.

Despatch from the Government of India, to the Secretary of State for India, dated 29th October 1872, No. 206-R.

WE have the honour to forward, for your Grace's information, a copy of the under-noted correspondence, from which it will be seen that the amount claimed by the Great Indian Peninsula Railway on account of interest on their current balances in the hands of Government during the half-year ending 30th June 1872, was reduced owing to its having been discovered that certain debits on account of stores, etc., had not been made in the Company's interest account against the receipts of the month to which they related, and that an undue enhancement of the balances of the earlier months of the half year had been caused thereby.

2. Your Grace will observe that the Company's Auditor still contends that the account originally submitted by him was prepared in accordance with the principles hitherto recognized in the calculation of interest on the Revenue balances of the Guaranteed Railways, and claims the amount deducted from the account. We are, however, of opinion that the view taken by our Account Officers in regard to the principle to be followed in making up these interest accounts, as explained in our Accountant-General's Note of the 27th September last, is substantially correct; and we have, therefore, approved of their action in the matter of the Great Indian Peninsula Railway Company's claim referred to above.

Despatch from the Secretary of State for India, to the Government of India, dated 6th February 1873, No. 18-R.

WITH reference to your Excellency's Despatch of the 29th October last, No. 206, I transmit, herewith, a copy of a correspondence* with the Directors of the Great Indian Peninsula Railway Company, relative to the principle to be observed in calculating the amount of Revenue balances on which interest is to be allowed.

2. It will be seen that I entirely concur in the views expressed in the Official Accountant-General's letter of the 27th September 1872, No. 1,109.

From M. E. GRANT-DUFF, Esq., Under Secretary of State for India, to the Secretary of the London Board of the Great Indian Peninsula Railway Company, dated 28th November 1872.

I am directed by the Duke of Argyll to transmit, herewith, for the information of the Directors of the Great Indian Peninsula Railway Company, copies of a Despatch,* with enclosures, from the Government of India, relative to the Company's claim for interest on their current Revenue balances during the half-year ending 30th June last. It will be seen that the

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6th May 1873.*

amount has been reduced owing to its having been discovered that certain debits on account of stores, etc., had not been made in the Company's interest account against the receipts of the month to which they related, and that an undue enhancement of the balances of the earlier months of the half year had been caused thereby.

From T. R. WATT, Esq., Secretary, London Board, Great Indian Peninsula Railway Company, to the Under Secretary of State for India, dated 17th December 1872, No. 174.

I HAVE laid before the Board of Directors Mr. Grant-Duff's letter of the 28th ultimo, and its enclosures, from the Government of India, relative to the Company's claim for interest on their current Revenue balances in the hands of Government during the half-year ending the 30th June last; also Mr. Grant-Duff's letter of the 26th November, with copy of a Resolution of the Government of India explaining the procedure to be observed in the declaration of net profits of Guaranteed Railway Companies, the "Form No. 3" attached to which deals with the account of interest on the net Revenue balances during the half year.

2. The Board beg leave to submit to His Grace the Secretary of State in Council that the form in question and the correspondence evince, in their opinion, great misapprehension on the part of the Government authorities of the principles upon which alone the account can be prepared correctly, showing the interest payable to the Company upon the cash balances on Revenue account held from time to time by the Government.

3. Two matters perfectly distinct have been mixed up by the Government in a way to lead to confusion, and at the same time benefit the Government at the cost of the Company.

4. To make the matter clear, it is necessary to remind the Secretary of State of the circumstances under which interest upon the Revenue cash balances came to be allowed as a system, and of the Company's position in respect of stores supplied for working the railway.

5. The Secretary of State, by his letter to the Board of 15th February 1866, undertook to allow interest at the rate of 5 per cent. per annum up to the close of each half year, "on such sums as may be in the hands of Government at the expiration of each month during the half year arising from the traffic receipts, beyond the amount necessary to be kept as a balance to meet drafts for current expenditure." This undoubtedly means that the Government, having constituted themselves the receivers of all the Company's cash arising from the working of the railway, were prepared to place the Company in a position analogous to that which they had previously occupied when their receipts were paid into the Bank in Bombay, and accounted for to Government only at the end of the six months, the Bank having, in accordance with ordinary custom, allowed to the Company interest upon the minimum cash balance of the month. In the Despatch of the Government of India to the Secretary of State, No. 197 of 12th October 1872, furnished to the Board with the Secretary of State's letter of the 28th November 1872, the following expression occurs: "the Government are practically the Company's bankers." In such an account no question of stores could occur. It is made up solely of cash payments into the Bank, and of drafts thereon. The same process exactly has been since followed with Government; but Government now claim that the value of stores provided in the first instance out of Capital used for working the railway, shall be deducted by a book entry from the cash balance in their hands arising from revenue receipts, and interests be allowed only upon the difference.

6. The Board consider such a mode of making up the account to be wholly inadmissible. Stores are of necessity, as arranged with the Government, provided in the first instance out of Capital which bears guaranteed interest. Under the contract, however, the guaranteed interest is only advanced to the Company, and in any half year in which the net receipts are equal to the amount of the guaranteed interest, the Government repaid the amount of their advance. If, therefore, the value of stores be deducted from the minimum monthly cash balance held by the Government on Revenue account, the Government would in effect be charging the Company twice over with interest upon the amount of such deduction, as the Company, in re-paying the gross sum advanced as guaranteed interest, thereby the interest upon the whole of the Capital, including the portion of it employed in the purchase of stores, while

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No. 2488

GOVERNMENT OF INDIA.

PUBLIC WORKS DEPARTMENT.

ACCOUNT.

Guaranteed Railway.

To

Nos. 184—9 ^{A.}_{G-R.}

Dated April 4, 1873.

Received 21st.

Calculation of interest on the Revenue
Balances of Guaranteed Railway Compa-
nies in the hands of Government.

P. W. D. Press—7-4-73—66.

amined Railway Accounts

Comd to the Consulting Engr for Railways and the

No. 1241

The Comd for Railways

Office 15th May 1873

1873-74

Op. 2488

Gobt. of 1873 Madras.

PUBLIC WORKS.

To the Consulting for
Railways

Dated

Recd.

Encl.

G. O. 6th May 1873. No. 1271.

Not. 60 & 61

Maraukees Railway
Companies. Pro. of the
Govt. of India regarding
the calculation of in-
terest on the Revenue
Balances of Ry. Cos.
in the hands of Govt.,
and if the Officers con-
cerned.