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MADRAS RECORD OFFICE.

Government of Madras.

Public Works

DEPARTMENT.

G.O. No.	1742 W	Press
		Mis.
Dated	15th July	1881.

Not to be folded or roughly handled

Enclosure to Public Works Department Circular No. X Public Works of 1881.

No. 1, dated 6th January 1881.

From—The Secretary of State for India,
To—The Government of India.

The principles which are to guide the expenditure on Productive Public Works in India have formed the subject of frequent correspondence* between my predecessors and the Government of India during the last few years. It is unnecessary that I should dwell on the facts and arguments which have led to the adoption of those principles. It will be sufficient for my present purpose if I indicate my concurrence in the view expressed by the Select Committee of the House of Commons in 1879, to the effect that the expenditure upon railways and irrigation has, "upon the whole, been beneficial to India, and that, although considerable sums have been wasted and certain profitless schemes undertaken, the policy of continuing to borrow for Productive Public Works may, within certain limits and restrictions, be continued." I am of opinion, however, that at the present moment, when some important changes have recently taken place in the composition of your Excellency's Council, it is both desirable and opportune to resume in one despatch the nature of those limits and restrictions, subject to which Productive Public Works expenditure may be continued, and at the same time to give as much precision as the circumstances of the case admit to any instructions which may appear, from a perusal of former correspondence, to be open to doubt.

2. I wish, however, in the first instance, to dwell briefly on the expediency of constructing, through the agency of private enterprise, some of the works which, under the existing system, are undertaken by the State. It may be a question whether, in the case of a canal used wholly for navigation, an attempt should not be made to ensure its construction by private enterprise; but when, as is usually the case, canals are made either wholly for irrigation purposes, or for irrigation and navigation combined, their construction must, as an almost invariable rule, devolve upon the State. In the case of railways, I do not doubt that your Excellency will bear constantly in mind the importance, whenever possible, of ensuring their construction by private capital, either local or European. It is true that up to the present time no companies have been found willing to undertake the construction of railways without a Government guarantee; but I would nevertheless strongly urge upon your Excellency that, when any reasonable prospect of success presents itself, an endeavour should be made to encourage the raising of capital through private agency on the exclusive security of the success of the undertaking. Any step in this direction will meet with my most cordial support and co-operation. In the event of its becoming apparent that the due execution of this policy is impracticable, it may become desirable to consider whether a modified system of guarantee might not advantageously be adopted. By a modified system, I mean one so restricted in respect to time and to the rate of interest guaranteed, as to give the subscribers a real interest in the efficient and economical administration of the railway.

3. Turning to works undertaken by the State, I find that the main principles laid down by my predecessors for the guidance of the Government of India are:—

- (1) That the annual expenditure on Productive Public Works from all sources, that is to say, whether from borrowed money or surplus revenues, should be for the present restricted to the fixed sum of £ 2,500,000.
No. 420 (Financial) of 23rd October 1879, paragraph 5.
See Secretary of State's Despatch No. 444 (Financial) of 13th November 1879, paragraph 10.
- (2) That, for the inclusion of any work in the productive class, it is necessary that there should be a prospect of its repaying, within a reasonable time, the whole of the interest incurred on the money expended in its construction, though it is immaterial whether the interest which accrued during the process of construction be treated as a charge against income of future years, or be added to the capital on which interest is paid.
No. 62 (Financial) of 20th February 1879.

Each of these principles calls for some special remarks.

4. The reasons for fixing the present limit of expenditure were explained by the late Under Secretary of State for India (Mr. Stanhope), in the House of Commons, on 22nd May 1879, to be, that, as it had been decided that money required for public works should be borrowed in India and not in England, the amount should be limited to that which the Government of India could fairly be expected to borrow in ordinary years without undue disturbance of the money market in India. As regards the expenditure of surplus revenue, there appears to be no reason in principle why, in the event of a *bond fide* surplus of receipts over expenditure being realised in any one year, and not otherwise appropriated, any such surplus should not, under certain conditions, to which I will allude presently, be added in the following

year to the amount borrowed for expenditure on Productive Public Works. It will be, in the first instance, for your Excellency to judge whether it will be desirable to devote surplus to this purpose, or whether it will be preferable to undertake the construction of works which, from their unremunerative character, cannot be classed as productive, or to apply the funds at your disposal to the remission or re-adjustment of taxation, or to the reduction of sterling debt, or to the diminution of the amount borrowed in India for Productive Public Works. In deciding on the adoption of one or more of these alternative courses, much will depend on the circumstances of the moment, and I do not wish to lay down any very precise rules as to the proportions in which surplus revenue should be applied to these several objects. I will merely observe that, equally with my predecessors, I attach great importance to the reduction of sterling debt in years of prosperity; but in the event of any appropriation of surplus revenue to Productive Public Works expenditure, I must impress on you a strict adherence to the conditions under which the surplus of any one year may be added to the amount borrowed in the succeeding year for Productive Public Works indicated by the Select Committee of the House of Commons, viz.:—

1stly.—That the general debt on India should be relieved, and the Productive Public Works debt increased, by the amount of the surplus so added.

2ndly.—That care should be taken that the permanent establishments be not increased so as to prove burdensome in years when no surplus of preceding years is available.

5. Unless such care be taken, in years when surplus funds are available, the Government may, in a subsequent year, when no such funds are available, find itself obliged either to borrow more than 2½ millions, or to postpone the completion of works partially constructed, and, therefore, very possibly for the time wholly unproductive. The adoption of the first of these alternatives would infringe the principle laid down by successive Secretaries of State and by the House of Commons Committee; the adoption of the latter would be obviously wasteful and objectionable.

6. One further point in connection with this branch of the subject is to be noted. The limit of 2½ millions, as a limit of expenditure and not of borrowing, applies to average annual expenditure; that is to say, the unspent balance of any one year may be re-allotted and added to the 2½ millions of the succeeding year, if there be good ground for supposing that the whole sum can be profitably spent. On this point I need only direct your attention to the remarks contained in paragraph 7 of my predecessor's Despatch No. 485 (Financial) of 11th December 1879.

7. Turning to the second of the principles enumerated in the third paragraph of this despatch, which prohibits the inclusion of any works in the productive class unless they are likely to prove remunerative within a reasonable time, I think it desirable to define with somewhat greater precision than has as yet been attempted the interpretation which I request may be given to it.

I will deal separately with railways and works of irrigation.

8. As regards railways, I have already alluded to the importance of securing, if possible, their construction through the agency of private enterprise, and I would observe that the refusal of private capitalists to undertake the construction of a railway, though not an absolutely conclusive proof of its unremunerative character, affords *prima facie* grounds for supposing that it will be undesirable for the State to take the matter in hand. The question of the adoption or rejection of a proposal to construct a railway should, in fact, under ordinary circumstances, be treated on commercial principles. If there are fair grounds for supposing that a private individual or company, content with a moderate return for their money, would invest in the undertaking, the scheme may be adopted; if not, it is questionable whether it is desirable for the State to undertake it. It can scarcely be doubted that no private individual or company would deliberately invest in a railway undertaking which was not calculated to give a return of 4 or 5 per cent. on the capital within, at least, two or three years of the opening of the line, with the prospect of a considerably larger return in future years. The case of a Government is, no doubt, somewhat different from that of a company, and still more so from that of an individual capitalist, and therefore in the case of the first a longer interval of time may probably be allowed to elapse between the commencement of an undertaking and the period when it is expected to become remunerative. In considering, therefore, the case of railways, the construction which I request may be given to the expression that they will probably be remunerative "within a reasonable time" is this, that they may fairly be estimated to pay, within a maximum limit of five years from the date of the line being opened for traffic, 4 per cent. on the capital invested, including therein all arrears of simple interest incurred up to that date, and also the capitalised value of the land revenue and of leave allowances and pensions.

9. In the case of irrigation canals greater latitude may be given. The period within which they should be calculated to pay 4 per cent. on the capital invested, including the before mentioned additions to the actual outlay, may be extended to ten years from the date of completion of the work.

10. These, therefore, are the principles to which I request your Excellency will adhere in considering, under ordinary circumstances, the construction of new Productive Public Works. Such works as are already included in the productive class may, within the limit of

expenditure already sanctioned, be concluded, even though the restrictions now imposed would, in some cases, prohibit their construction with borrowed money. I do not wish it to be understood that these principles are immutable. I am aware that, had they been always followed, India would not now possess many of those public works which, in spite of any occasional shortcomings, have conferred immense benefits on the country. If they are adopted now, it is because those public works which were most urgently needed have already been constructed, and because, in the words of my predecessor,* "a rate of expenditure from borrowed money which might have been proper and desirable a few years ago may, from the altered condition of the finances, become impracticable or dangerous." Unquestionably, there still remain many works which, considered wholly on their own merits, it might be desirable to undertake, and the completion of which, by reason of the limits and restrictions now imposed, it will be necessary to postpone. I recognise the justice of the principle laid down by the Select Committee of the House of Commons, that "the amount to be annually expended upon Productive Public Works should mainly depend upon the financial condition of India," and, therefore, that the limit of 2½ millions now fixed is only temporary. I shall be glad if, at some future time, the condition of the finances is such as to justify your Excellency's Government in recommending, and Her Majesty's Government in sanctioning, an extension of that limit. Should your Excellency at any time think it desirable to raise again the question of principle, I shall be prepared to give my consideration to any observations which your Excellency may think fit to make. But I must remark that, so long as the normal military expenditure of the Government of India remains uncertain, pending the final settlement of affairs in Afghanistan,—the question of taxation in India remains in its present unsettled condition, and many other parts of the fiscal system are manifestly in a state of transition,—I am not of opinion that the moment will be opportune for effecting any modifications in the principles enunciated in this despatch. Until they are modified, I request that, in coming to a conclusion on any particular scheme which may be presented to you, your Excellency will consider, not the propriety of these principles themselves, but merely whether, in the application of them, the facts of the particular case justify its inclusion in the class of Productive Public Works.

11. I have so far dealt with the case of productive works constructed in ordinary times, that is to say, not under the pressure of war, famine, or other extraordinary circumstances. The case of what are termed protective works is very simple. These are works which, although not directly remunerative to the extent which would justify their inclusion in the class of productive works, are calculated to guard against a probable future expenditure in relief of the population. In respect to such works I need only re-affirm the principle laid down by my predecessor† that they should, in ordinary times, be constructed from revenue, and not from borrowed money. It appears to me that the appropriation of £ 750,000 out of the £ 1,500,000 of insurance taxation for famine purposes will be sufficient for this purpose.

There remains the case of works undertaken for the relief of actual famine, or such, as in the case of the recently constructed frontier railways, as form part of the increased expenditure consequent on a war. Successive Governments have recognised the paramount necessity of saving life when famine has arisen. The expenditure on a railway undertaken in time of war for strategical purposes has to be in part considered on other than purely financial grounds. It is obvious, therefore, that in such cases the principles above enunciated do not apply. They must be considered independently on their own merits as the occasions arise.

12. There are some further points connected with the general question treated in this despatch to which I wish to direct your Excellency's attention.

13. Experience has proved that estimates of expenditure on public works in India are frequently unreliable, even though no work in ordinary times be commenced until a detailed survey and estimate has been made.

14. From the figures given in the margin, and which are taken from Tables V and VI appended to the Financial Statement of the current year, it appears that, in the case of several works, the limit of sanctioned expenditure has been already exceeded, or will be exceeded by the close of 1880-81, to the amount of £ 1,019,000. I consider that in all cases where the amount already sanctioned has been nearly spent without bringing the works originally contemplated to completion, fresh estimates should be prepared and submitted for sanction, in time to avoid the possible stoppage of the work and the breaking up of the establishments. By the adoption of this system, both your Excellency and Her Majesty's Government will be afforded an opportunity of reconsidering, by the light of past experience, the expediency or otherwise of incurring additional expenditure on the work in question.

Work.	Sanctioned expenditure.	Expenditure to end of 1880-81.
	£	£
IRRIGATION.		
Orissa canals ...	1,981,000	1,953,000
Other projects ...	...	220,000
		(in 1880-81)
RAILWAYS.		
Rajputana ...	3,267,000	3,545,000
Western Rajputana ...	1,604,000	1,649,000
Holkar ...	1,246,000	1,260,000
Rangoon and Irrawaddy Valley ...	1,261,000	1,262,000
Northern Bengal ...	1,945,000	2,139,000
Punjab Northern ...	3,808,000	4,053,000
TOTAL ...	15,062,000	16,081,000

15. In paragraph 9 of my predecessor's Financial despatch No. 105 of 27th March 1879, it was directed that in the autumn of each year a programme should be submitted for his approval, showing the principal productive undertakings in which it was intended to make progress during the next official year, and the expenditure contemplated during the year. It is, no doubt, desirable that public works projects should be submitted to me separately for approval, with a view of their being placed on the list of sanctioned works, from which your Excellency may select those which you desire to include in the programme of the coming year; but, as each has to be considered not solely on its own merits, but with reference to the relative merits of others, the selection can only be conveniently made if all the projects are considered together. The annual programme being fixed, no departure from it should be permitted, save under the pressure of extraordinary circumstances.

16. To recapitulate briefly the contents of this despatch, the principles in respect to Productive Public Works expenditure, to which I request your Excellency will adhere, are as follows:—

- (1) In the absence of private enterprise without subsidy or guarantee under satisfactory conditions, irrigation works will be constructed by the State. Every encouragement should be given to private individuals to undertake the construction of railways, if possible, without such guarantee or subsidy; or, if this be found eventually impossible, by some limited form of such guarantee or subsidy, as explained in the earlier part of this despatch.
- (2) No more than 2½ millions may be borrowed in any one year for Productive Public Works.
- (3) No more than 2½ millions is to be expended on such works in any one year, unless there are surplus funds derived from revenues of the previous year which it is thought desirable to appropriate for this object, or there is an unexpended balance of the money borrowed in preceding years, which may be re-allotted and added to the amount available in the succeeding year.
- (4) A transfer corresponding to the amount of the surplus so expended must be made from the general debt to the Productive Public Works debt.
- (5) The question of constructing new railways is to be considered on commercial principles. No new line is to be undertaken unless there is a good prospect of its proving remunerative; that is to say, unless it can be fairly calculated to pay, within a maximum limit of five years from the date of the line being open for traffic, 4 per cent. on the capital invested, including therein all arrears of simple interest incurred up to that date, and also the capitalised value of the land revenue and of leave allowances and pensions.
- (6) In the case of irrigation works, commercial principles may be so far relaxed as to admit of their being undertaken if they can fairly be estimated to prove remunerative in ten years from the date of their completion, on similar terms.
- (7) Protective works which are unremunerative are to be constructed out of revenue.
- (8) Works constructed under the pressure of war or famine do not come within the scope of the principles enunciated above. They are to be considered on their own merits as the occasions arise.
- (9) Before a project is sent home for my sanction, a survey and detailed estimate is invariably to be submitted and approved by your Government.
- (10) Whenever the amount sanctioned is found to be insufficient to bring the work to completion, fresh estimates are to be promptly prepared and submitted for sanction.
- (11) A programme of Productive Public Works expenditure for the coming year is to be submitted for my approval in the autumn of each year.
- (12) Some of the principles now laid down are avowedly of a temporary character, but, until they are modified, the essential point for your Excellency's Government to consider in connection with any particular scheme which may be submitted for your adoption is whether, in the application of those principles, the facts of the case in question admit of its being included in the class of productive works.

17. I would suggest to your Excellency that it might be advisable to communicate this despatch to the several Local Governments, and to request that they will only submit for your approval such undertakings as present a fair prospect of falling within the category of productive works as now defined.

No. 516, dated Fort William, the 5th February 1881.

Endorsed by the Department of Finance and Commerce.

Copy forwarded to the Public Works Department for information and for communication to the several Local Governments.

No. 60, dated India Office, London, 10th February 1881.

From—Secretary of State for India,
To—The Government of India.

I have considered in Council your Excellency's letter, dated the 2nd of November, No. 361, drawing attention to the fact that in the Finance and Revenue Accounts the whole of the revenue due to Productive Public Works is credited thereto, but that they are debited only with the interest on that portion of their capital cost which has been charged under the head of Productive Public Works Capital Outlay, and not with interest on the outlay previously incurred and charged as annual expenditure. On the other hand, interest is charged on all outlay recorded under the Productive Works grant, even though some of those works may have been eventually excluded from the category of such works. You accordingly propose to charge, in the Productive Public Works portion of the account, interest on the whole capital outlay on such works, whether it has been charged against the heading of Capital Outlay on Productive Works, or not, and to omit interest on the amount expended on works excluded from that category.

2. At the time that your Excellency's letter was received, the question was under consideration, with reference especially to the unduly favorable aspect of the works of irrigation in Madras, which results from bringing to credit the whole of the revenue, while debiting the interest only on the outlay since 1868-69. I approve of your Excellency's proposal in future to charge interest on the whole capital cost of all undertakings which are treated as Productive Works, whether expended from borrowed money or from revenue, and I request that the amount of the difference between that cost and the portion thereof hitherto debited to Productive Public Works may be transferred in your accounts from your general debt to the debt incurred on account of such works, a corresponding sum being credited as an extraordinary receipt of the year, as in the case of the assets of the Civil Service Annuity Funds in the Account for 1874-75.

3. In future, whenever an undertaking is admitted to a Productive Work, an amount equivalent to that portion of the whole capital outlay upon it which may have previously been charged as ordinary expenditure should be transferred to the debt incurred for Productive Public Works, a corresponding sum being credited as revenue, and interest thereon should be thenceforward charged under expenditure on such works in the accounts.

4. With regard to your second proposal, that the account of these works should be relieved of interest on the outlay upon works not eventually admitted to be productive, I consent to your proposal as far as relates to money hitherto expended, the requisite adjustment of the debt account being at the same time effected. With reference, however, to the future, I consider that it would greatly remove the wholesome check now exercised in regard to the entering upon schemes of a doubtful character, if it were felt that the outlay could, in the first place, be debited to Productive Public Works, and afterwards removed to the heading of Ordinary Expenditure. It appears to me necessary that any charge once incurred on Capital Account from the Productive Public Works grant, in accordance with the regulations, shall remain a portion of the permanent debt, the interest on which is debitable as expenditure on Productive Public Works, unless the Provincial Government responsible for the expenditure is called upon to repay from its grant, in one or more years, the outlay thus incurred unproductively, in which case the amount will be brought to account as revenue.

5. With reference to the last clause of your letter, I have not sufficient information to enable me to judge of the propriety of including the salt branches of the Rajputana and Punjab Northern State Railways as Productive Works, but I have no objection to the treatment of these lines as a portion of the main line, the Capital Account being increased accordingly.

6. With regard to your further proposal respecting the Jhelam-Rawalpindi section of the Punjab Northern State Railway, I shall be glad of a fuller explanation of the mode in which the accounts of the line will be framed, with reference to the instructions conveyed to your Government in Lord Cranbrook's despatch of 19th of February 1880, No. 54, and to the further extensions of the railway now in progress.

7. In conclusion, I have to point out that in many cases the actual outlay to the end of 1878-79, shown in the statements which accompanied your letter under reply, does not agree with the outlay on those works mentioned in Accounts 4 and 70 of the Finance and Revenue Accounts for the year 1878-79.

[For Heads of Departments only.]

Circular No. X Public Works.
GOVERNMENT OF INDIA.
PUBLIC WORKS DEPARTMENT.

ACCOUNT.
General.

To

Mr 3821/81

THE GOVERNMENTS OF MADRAS, BOMBAY, BENGAL, THE NORTH-WESTERN PROVINCES AND
ODDH, AND THE PUNJAB, IN THE PUBLIC WORKS DEPARTMENT.
THE CHIEF COMMISSIONERS, CENTRAL PROVINCES, BRITISH BURMA, COORG AND
ASSAM.
THE RESIDENT AT HYDERABAD.
THE RESIDENT AT MYSORE (THROUGH FOREIGN DEPARTMENT).
THE AGENTS TO THE GOVERNOR GENERAL FOR CENTRAL INDIA, RAJPUTANA AND BILU-
CHISTAN.
THE SUPERINTENDENT OF PORT BLAIR, AND CHIEF COMMISSIONER, ANDAMAN AND NICO-
BAR ISLANDS.
THE DIRECTOR GENERAL OF TELEGRAPHS.
THE INSPECTOR GENERAL OF MILITARY WORKS.
THE ACCOUNTANT GENERAL, PUBLIC WORKS DEPARTMENT.
THE DIRECTOR GENERAL OF RAILWAYS.
THE DIRECTOR-IN-CHIEF, INDO-EUROPEAN TELEGRAPH.
THE DIRECTOR, PERSIAN TELEGRAPH.
THE DEPUTY DIRECTOR, PERSIAN GULF TELEGRAPH.
THE CONSULTING ENGINEERS TO THE GOVERNMENT OF INDIA FOR GUARANTEED RAILWAYS,
CALCUTTA, LAHORE AND LUCKNOW.

Simla, June, 14, 1881.

SIR,

I am directed to forward, for information and guidance, copies of the despatch from the Secretary of State No. 1, dated 6th January 1881, and of the despatch No. 60 Financial, dated 10th February 1881, laying down the principles which are to be adhered to in respect to Productive Public Works expenditure.

2. With reference to the restriction of the annual amount of capital expenditure to $2\frac{1}{2}$ crores, I am to observe that this limitation is held to be exclusive of the contributions of Native States in the cases of those works which are carried out either wholly or in a large measure from their contributions.

3. In these cases also the amount of the contributions will not be included in the capital outlay charged under debt and bearing interest in the finance accounts.

4. But in these cases, as well as in all others where a work is sanctioned as a Productive Public Work, the whole of the capital cost, from whatever source supplied, whether State funds or contributions, is to be charged with interest in the calculations of revenue.

5. I am also to invite attention to the ruling of the Secretary of State that the capital cost of Productive Public Works is to include arrears of simple interest and the capitalized value of the land revenue and of leave allowances and pensions.

6. I am to observe that a self-contained work connected with a Productive Public Work need not necessarily be itself treated as a Productive Public Work. Thus a branch or an extension of a Railway, which is a Productive Public Work, may be dealt with as an ordinary work, and so may branches and navigation channels of irrigation canals, and drainage works connected with them.

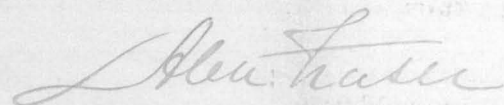
7. The necessity for a vigilant watch over the progressive satisfaction and fulfilment of the financial conditions and obligations of Productive Works has been ceaselessly enjoined, and appears to be now fully understood. But I am to invite attention to the 13th and 14th paragraphs of the despatch of the 6th January, and to the orders of the Government of India which are in force on the subject therein noticed, of the careful preparation and prompt revision, when requisite, of the estimates of these works.

8. The question of the construction of Railways and other Public Works by private enterprise, to which the Secretary of State has alluded, will form the subject of a separate communication.

I have the honor to be,

SIR,

Your most obedient Servant,



Major-Genl. R.E.,

Secretary to the Govt. of India.

To. The Secretary to the Govt. of Madras.
P. Department.

with 60 spare

P.W.C. No 3841

GOVERNMENT OF INDIA.
PUBLIC WORKS DEPARTMENT.

ACCOUNT.
General.

To

Circular No. X Public Works.

Dated Simla, June 14, 1881.

Received

Principles which are to be adhered to in respect
to Productive Public Works expenditure.

B. No 1742 W of 15th July 1881.

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With an O. O. ✓

3. No. 1742 W of 14th July 1881

Communicated to the
Chief Engr. for Irriga-
tion and the Corres-
ponding Engr. for Railways
also to Engr. P. W. Dept.
P. W. Accounts

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7/7/81

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