

Madras Harbour Trust.

SECRETARY'S OFFICE,

6th March 1896.

No. 4705.

FROM

WARE AUSTIN, Esq., I. C. S.,

CHAIRMAN, HARBOUR TRUST BOARD,

MADRAS.

TO

D. C. GORDON, Esq.,

EXAMINER OF PUBLIC WORKS ACCOUNTS,

Madras.

SIR,

I have the honour to acknowledge the receipt of your letters, dated 25th November 1895, No. 4142 B and 23rd January 1896, No. 64 B, reporting upon the audit of the Harbour Construction Accounts, for the years 1893-94 and 1894-95 respectively.

2. The report for 1893-94 was considered by a Committee of the Board, and I hand you herewith for information a printed copy of the Minutes of the Committee's Proceedings held on Wednesday, 15th January, from which you will observe that the Committee approves of the suggestions made by Mr. Ashpitel and yourself, in his Memorandum, dated 29th November 1895, and yours of the 2nd December.

3. The principle involved regarding the allocation of charges between Revenue and Capital appears to have been settled, so far as Railways are concerned, by the despatch of the Right Honorable the Secretary of State for India, No. 17, dated 9th March 1864, and the Board accepts this, as a general guide, in dealing with Harbour Accounts.

4. Referring to para. 12 of your report for 1893-94 you will observe from the proceedings of the Committee that the members considered each of the items referred to by you, and the following resolutions were passed, in which the Board concurs.

(a) *Realignment of Harbour Construction Railway to the south arm, Rs. 14,679.*

Resolved that, in the opinion of this Committee, this amount is debitable to Harbour Construction, the realignment having been rendered necessary by the delay in completing the Harbour, and being absolutely necessary to enable the Board's Engineer to complete the south arm. The line is used solely for construction purposes, and forms no part of the completed project.

I would add to the above that this line of railway was originally laid at the side of the Municipal road, from behind Clive's Battery on the north, to Messrs. Arbuthnot and Co's. Office on the south, and in that position was outside of Harbour limits. It is not required for Harbour Trust purposes after construction is completed, and is used solely for Harbour construction, except that advantage is taken of its existence to

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permit the S. I. Ry. vehicles to pass over it to load bulk oil, from Messrs. Best and Co's. tanks at Royapuram, and M. R. C. vehicles are similarly allowed to pass to the south of the Pier to load heavy weights &c., direct from the Board's cranes instead of conveying them as formerly by road trolley to Salt Cottaur's Station. These concessions are made merely as a convenience to the public, and are not of such a nature as to warrant the charge for realignment being met from Revenue funds. Under the ruling of the Secretary of State, above referred to, the lines which the Board will have to lay down for Traffic purposes, when Harbour Construction is finished, would form a charge against Capital, and will be met from Harbour Improvement loans, obtained either, from Government or by Debentures. It would appear that Harbour Construction benefited in the first instance by the permission granted to lay the line along the road instead of constructing a costly embankment to carry it within the limits of the Harbour premises, and which would have necessitated going either over, or under, the iron screw pile pier. Subsequently Revenue funds paid for raising the level of the ground to the eastward of the Beach road, and the Engineer merely shifted the line necessary to get to the South Pier. It should be remembered that the original line had been down for a great number of years, and was unfit for traffic to continue over it, so that in any case, whether the alignment was altered or not, the material would have had to be renewed, as has been the case, piecemeal, with most, if not all, of the other construction lines.

For these reasons the Board prefers that the charge should remain against Harbour Construction.

(b) *Extension of Municipal outfall drain at the north-east corner of the Fort, Rs. 13,948.*

Resolved that, in the opinion of this Committee, this charge should not have been met from Harbour Trust funds, but that as Government has ruled that it should be paid by the Board, it has been rightly charged to Construction Account, i. e., Capital, and should not be met from Revenue.

The Board is of opinion that this item should not be regarded as one of maintenance; the extension of the Municipal drain near the Fort being an original work connected with the construction of the Harbour, is therefore the Trustees consider rightly charged to the estimate, if to be paid for out of any of the funds administered by the Board. Provision will, hereafter, have to be made for the maintenance of this drain, should Government decide, upon a reference lately made, that the Trust must extend the drain from time to time as necessary, and also maintain it.

(c) *Repairs to revetment, Rs. 10,301.*

Resolved that, in the opinion of this Committee, the Examiner of Public Works Accounts has been misinformed as to the nature of this work. It is to be noted that the protective revetment to the north of the Harbour was not made over to the Trust as a completed work, but must be fed with material, and extended northwards, until it has become so by its attaining a natural permanent slope, and by the cessation of erosion beyond its northern extremity. It is understood that Mr. Parkes, in his original proposals, contemplated the necessity of such expenditure, but the charges, past and future, should not, in the opinion of this Committee, be debited to the Harbour Construction estimate, there being therein no sub-head to which it can properly be charged. As, however, the work in no way comes under the head of repairs or maintenance, but is an original and yet incomplete work, the cost should, it is considered, be charged to Capital, following the ruling of the Right Hon'ble the Secretary of State in his despatch, No. 17, dated 9th March 1864.

I need only remark in reference to the above, that when submitting proposals for extending the protective revetment beyond Cassimode, the Board's Engineer reported that it could not be completed, until the sea had attacked it, and it had slipped down, when more stone would have to be added. No such subsidence has yet taken place, and the revetment, as proposed to be executed, is yet incomplete.

This item should, however, be eliminated from the Harbour Construction estimate, and charged to Capital, under the sub-head provided for protective works, in the form of Budget estimate which Government has approved, and which has been in use since the formation of the Trust, although no provision has ever been separately made for protective works.

In the Budget estimate for the year 1896-97 provision has so been made, separately, for the protective works which the Board is advised are necessary to the south of the Harbour; and when the Harbour Construction Accounts are closed, the expenditure upon protective works to the north can be deducted from the estimate, and be shown under its proper sub-head. This will not alter the total now appearing under the head Capital Account, liabilities outstanding.

(d) *Compensation for land north of the Harbour, Rs. 4,138.*

To the above amount must be added a sum of Rs. 8,857, the estimated value of land which it is necessary to acquire, as it is now threatened with erosion, and to do which steps have already been taken under the Land Acquisition Act.

The Committee is of opinion that such charges should be debited to Capital account, and not directly to the Harbour Construction estimate.

Since the above was written, the amount to be added to the item named by you, has been reported by the Deputy Collector of Madras to be Rs. 12,500, and I have since received another claim for Rs. 10,500. Such large items cannot be met from Revenue, without unduly increasing the burden upon the present trade of the port; it seems only fair that such payments should be distributed over a series of years, and this can only be done by charging these claims to capital account, and adding them to outstanding liabilities, which are liquidated by the annual repayment of one lakh of Rupees provided for in Section 31. The rents collected have been small, from 500 to 600 Rupees yearly, and such a return is not even sufficient to pay interest upon the amounts paid as compensation. For these reasons the Trustees consider that the claims, as they arise, should be charged to Capital, but may be deducted from Harbour Construction expenditure, although so charged from the commencement of the works.

(e) *Insurance, Rs. 1,291.*

The Committee agrees with the Examiner of Public Works Accounts that this charge, for insuring against fire a portion of the Board's Capital stock, should be met from Revenue funds.

Such items as the above will be adjusted between Harbour Construction funds and Revenue account.

(f) *Provident Fund Contributions, Rs. 31,681.*

Exchange Compensation Allowances, Rs. 10,791.

Resolved that, in the opinion of this Committee, these amounts have been rightly charged to Harbour Construction establishment, as they form part of the salaries and allowances paid to employes engaged solely in Harbour Construction, as also should the fee paid to Sir Alexander Rendel, and allowances caused by the necessity of granting leave to the Board's Engineer, the various Foremen and others from time to time.

I would add to the above remarks of the Committee, that in fixing, annually, the charges for the establishment, necessary to carry on the construction of the Harbour, the Board has constantly had in view the possibilities of reducing the expenditure under this head, and it views the allowances granted as part of the salaries paid to individuals, which, in the opinion of the Board, have been fixed at the minimum for which the labour required could be obtained. In Section 21, Act II of 1886, artisans, porters and labourers are excluded from the meaning of Sections 22 and 23, and it is of such persons that the Engineer's staff almost exclusively consists. For this reason, therefore, the allowances in their cases could not be charged to the general (revenue) fund of the Board. Moreover, the Trustees are of opinion that Capital and Revenue Accounts together constitute their general fund, and that the expression, as used in Section 23, does not compel allowances paid for work done for Harbour Construction being charged to Revenue raised under Section 45. With regard to the fee paid to Sir Alexander Rendel, and the leave allowances paid from time to time to the Board's Engineer, and the Harbour Works Foremen, the Board concurs in the opinion of the Committee, that these charges should be debited direct to the Harbour estimate, as they are charges incurred, of necessity, solely for the purpose of Harbour Construction, and form part of the wages paid for the labour employed in the construction of the Harbour, or expenses directly connected therewith.

The Committee would remark that, with reference to the views expressed above, it would appear that Act II of 1886 deals with the Harbour as a completed work, and did not contemplate Harbour Construction charges being brought under any particular sections of that Act. The Committee would deprecate any material departure, just as the work of reconstruction is about to be completed, from the practice which has hitherto prevailed in charging most of the above items to Construction account; and it must be remembered that, whether charged direct to Harbour Construction or to Capital expenditure, the Board is responsible for the repayment of the full amount; but is not in a position to meet, from current Revenue, charges which are rightly debitable to Capital, if not to the sanctioned estimate.

5. In the above remarks of the Committee, which apply to all the foregoing items, the Board fully concurs, and would request that no material departure should be made in the system of accounts which has obtained since the Trust was constituted; more especially that no large debits should be passed against the Revenue account, as the trade of the port is already contributing heavily to Harbour funds, and cannot be expected to meet exceptional items of outlay in connection with construction, and though some items may not be properly chargeable to the Harbour estimate, they should, in the opinion of the Board, be debited to Capital expenditure, for the repayment of which the Board is liable, whether charged specifically to Harbour Construction, or to Capital account.

6. The principles which have guided the Trustees, and which are set forth in the above proceedings of the Finance Committee, apply also to your report for 1894-95, so I need not now enter into details of the items alluded to therein by you.

I would, however, invite your attention to para. 5 of the Committee's report as follows:—

5. The Committee would bring to the notice of the Board the necessity of opening a Capital account distinct from, but including, the Harbour Construction estimate from the commencement of the official year 1896-97. It is observed that, from the year 1886-87 to the close of 1894-95, the following amounts have been paid from Revenue:—

	Rs.
New works	1,47,090
Tools and plant	33,516
Total Rs. ...	1,85,606

These amounts should, in the opinion of the Committee, have been charged to Capital and not against the Revenue receipts of the various years in which the sums were expended.

It is observed that over Rs. 1,18,000, expended upon the renewal of the decking and tie bars of the iron screw pile pier during the abovementioned period, have been rightly charged to Revenue, as also have all charges for every description of ordinary repairs and upkeep, which procedure is in accordance with the principles laid down by the Right Hon'ble the Secretary of State for India in his despatch above quoted.

The total sum, which you consider has been wrongly debited to Harbour Construction, is Rs. 1,48,609, and, on the other hand, the above amount of Rs. 1,85,606 has been wrongly charged to Revenue, instead of Capital. All that is necessary, therefore, in any case, would be to adjust the Revenue and Capital accounts by book entries, and as the Harbour Works Accounts will, as suggested by you, be transferred to the Secretary's Office from 1st April next, this can easily be settled between yourself and the Secretary, in the Accounts Department, subject to the approval of the Trustees.

I have the honor to be,

Sir,

Your obedient servant,

W. AUSTIN,

Chairman,

Harbour Trust Board.

From

D. C. GORDON, Esq.,
Examiner, Public Works Accounts, Madras,

To

THE CHAIRMAN,
Harbour Trust Board, Madras,
No. 230 B dated Madras, 26 March 1896.

SIR,

I have the honour to acknowledge your No. 4705 of 6th instant, replying to my No. 4142 B. of 25th November 1895, and my No. 64 B. of 23rd January 1896, forwarding minutes of proceedings of a Committee of the Board who had considered certain points in my audit reports on the Construction accounts for 1893-94 and 1894-95, and communicating to me the Board's views on the Committee's recommendations.

2. The points taken up were those put forward concerning the allocation of expenditure which, in my opinion, had been erroneously charged to Capital.

The use by me of the ordinary terms "Capital" and "Revenue" was due to the fact that the outlay on the construction estimate was the only "Capital" outlay sanctioned, and therefore that any erroneous charge to Construction must be written back to "Revenue," the only other source from which expenditure was being incurred. Consequently, "Capital" was equivalent to "the Construction estimate" and "Revenue" to any account not belonging to that estimate.

Adjustments now agreed to should be effected in the Construction accounts in 1895-96, and must be written back to Revenue. The adjustment between Revenue and Capital (in the new arrangements for an extended Capital account referred to in your remarks, paragraphs 4 (c) and 6) can be made in the accounts for 1896-97. My reports apply to the accounts to 1895-96; when this mode of adjustment is not practicable.

3. In reference to the individual items under question—

Paragraph 4 (a)—Re-alignment of railway.—I agree that the expenditure is chargeable to the Construction estimate. It appears that the line was laid on municipal property and its removal should have been provided for as a contingency in the estimate, and inasmuch as it was still necessary for construction purposes, the cost of relaying was likewise a charge to the estimate. Apparently Revenue paid a portion (raising ground level); this was correct if the work was for the convenience of Revenue and not required by Construction.

Paragraph 4 (b)—Fort drain.—This is not a charge to the Construction estimate; it is not a work in connection with Construction, but in consequence of it; and inasmuch as it may have to be farther and farther extended, the cost of past extensions should not have been charged against Construction, merely because that estimate happened to be open. The amount should be written back to Revenue, pending provision from an extended Capital account.

Paragraph 4 (c) and (d).—The remarks in the preceding paragraph apply to these.

Paragraph 4 (e) requires no remark.

Paragraph 4 (f).—Charges on account of Provident Fund contributions, exchange compensation allowance, leave and acting allowances, audit fees and other fees, are, the Board considers, legitimate charges, not only to the Construction

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estimate, but equally so to Capital. Funds are not contributed to by Capital, but by Earnings or Revenue — precedents are numerous. To borrow money on which interest is paid in order to contribute to funds and again pay interest on it, has no precedent that I am aware of. It has been ruled that exchange compensation allowance is *not* salary. Furlough allowances are met from General Revenues. Fees of all kinds are part of the general charges of a business written off to profit and loss and are certainly not a legitimate charge to Works.

The Board is no doubt correct in its opinion that the General Fund referred to in section 22 of the Act is composed of the Capital and Revenue funds together, but apparently overlooks the fact that, up to the present time, Capital funds have been granted annually for specific expenditure on Construction, and that no provision has been made for the classes of expenditure now under question, either in the estimate or in the requisitions put forward for advances from Government for the works; that, therefore, Revenue was the only source from which expenditure contemplated by section 22 could have been met, as it alone formed the General Fund.

If the Board considers that expenditure of this character should be met from Capital, the sanction of the Governor in Council must be obtained under the Act. No change has been proposed in my reports in "the system of accounts which has obtained since the Trust was constituted." The practice which has hitherto prevailed in charging most of the above items to Construction account has not, in my opinion, and for the reasons given, been correct, even if only because they have not received the sanction required by the Act. During the past nine years Revenue has been debited with Rs. 1,85,606 which it is now sought to charge to Capital, and various debits made to Construction accounts are now judged by the Board to have been erroneous as having no connection with that estimate. To continue, on the plea of usage and convenience, a practice which has not been good cannot commend itself to the Board.

4. With reference to the concluding remarks in your paragraph 6, I would recommend that the adjustment of the Rs. 1,48,609 less the item of Rs. 14,679 (assuming that to be the correct amount chargeable to Construction), or Rs. 1,33,930, be effected in the accounts for 1895-96 by credit to the Construction estimate and debit to Revenue. The sanction of the Governor in Council will be necessary for the debit of the sum of Rs. 1,85,606 to Capital, and as nothing in that sum can have any connection with Construction, nor can sanction for its transfer from Revenue be obtained in the current financial year, there is no reason for deferring the adjustment affecting the Construction estimate. The sums of Rs. 1,33,930 and Rs. 1,85,606 have nothing in common and cannot be treated as claim and counter-claim in the Construction accounts.

5. To sum up: Taking the items set out in my No. 64 B. of 23rd January 1896, comprising Rs. 1,48,609—

(i) Rs. 14,679 (assuming that to be correct) needs no further action in accounts.

(ii) Items aggregating Rs. 1,33,248 * may, perhaps, be hereafter sanctioned by Government as a charge to Capital, but they are not chargeable to Construction; so should be written back to Revenue.

(iii) Rs. 682 (not Rs. 1,291 as at first stated) should be written back to Revenue.

(iv) Rs. 4,138 for land compensation was omitted in my report for 1894-95 and should be treated for the present in the same manner as the above Rs. 1,33,248.

(v) I do not consider it necessary that the existing sanction for Construction (Rs. 1,27,52,508) should be reduced by that amount, because there will be many adjustments necessary hereafter in respect of the transactions noted in paragraphs 2 to 5 of my memorandum of 2nd December 1895.

Rs.
* 11,419
26,732
34,167
7,866
28,800
13,963
10,301

Total ... 1,33,248

(vi) Sanction of the Governor in Council will be necessary to the charge to Capital of the Rs. 1,85,606 which the Board seeks to transfer from Revenue, statements of course being prepared giving details of works, &c.,—new minor works chargeable to Revenue to such limit as may have been determined by the Board being eliminated, as well as all tools and plant which were not new supplies as distinct from renewals or replacements.

I have the honour to be,

Sir,

Your most obedient servant,

(Signed) D. C. GORDON,
Examiner, P.W. Accounts, Madras.

No. 23/B

Copy forwarded to the Secretary to Government, Public Works Department, with copy of letter No. 4705 of 6th March 1896, from the Chairman, Harbour Trust Board, for information in continuation of undersigned's No. 65 B. of 23rd January 1896, for such action as may be deemed necessary.

26 March 1896.

Examiner, P.W. Accounts.

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No action seems necessary
at present. The Board must
come up separately for sanction
to the proposed changes against
Capital.

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