Scott. II-48—25,005—16-3-14.

Public Works (1897 / ~~191~~) Department.

Railways SERIES.

G.O. No. 359 Ry

DATED 19th May 1897.

[Despatch Abstract.]

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RAILWAY.

Government {1897} of Madras.

PUBLIC WORKS.

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G.O., No. 359 Ry., 19th May 1897.

MAY.

Working of the East Coast Railway by the Madras Railway Company

Forwarding to the Government of India, a note by the Examiner, Guaranteed Railway Accounts, Madras, on the proposed — and expressing the concurrence of His Excellency the Governor in Council with his views therein expressed; and stating that the Company's present offer should be refused.

GOVERNMENT OF MADRAS.

PUBLIC WORKS DEPARTMENT.

Railway.

Read the following papers:—

From—The Joint Secretary to the Govt. of Madras, P.W. Dept., Ry. Branch.
To—The Secretary to the Govt. of India, P.W. Dept.
Dated—19th November 1894, No. 3669-C.

I am directed to forward a copy of a letter from the Agent, Madras Railway, and to say that the offer put forward is, in the opinion of this Government, very premature, and that the concurrence of the Board does not appear to have been obtained officially. I am to remark that the Agent has misunderstood His Excellency the Governor who, in addressing a deputation from Vizagapatam, said that he hoped the Secretary of State would shortly be in a position to sanction the construction of the Bezwada-Madras section of the East Coast Railway.

Enclosure.

From—The Agent and Manager, Madras Railway.
To—The Consulting Engr. for Rys.
Dated—Madras, 5th November 1894, No. 8031/859.

I have the honour to enquire whether a proposal for the Madras Railway to work the East Coast Railway for the State would be entertained by the Government.

2. The proposal has advantages for the State—

(1) Very little extra expense under the heading of management would be incurred by the Madras Railway.

(2) Madras is central between Calcutta and Calicut and, as the East Coast Railway *may* be placed under the direction of the Madras Government, the head-quarters at Madras would be conveniently situated.

(3) Working Madras and other East Coast ports we should be so able to regulate the rates (under Government sanction) that the interests of one East Coast port would not clash with the interests of another.

(4) The Madras Railway has already large locomotive workshops at Perambur, and with comparatively little expense these shops would be enlarged to deal with the East Coast stock and so cancel the necessity for erecting large and expensive workshops at Waltair or elsewhere.

(5) The European supervision at the Perambur works in respect to Foremen would not have to be added to. The Madras Railway would, of course, be prepared, if the Government wished it, to take over the existing district staff of officers, &c., of the East Coast Railway.

3. In a few years the Madras Railway will pass into the hands of Government when a re-arrangement of the management of standard gauge railways in Southern India will doubtless have to be considered; and possibly, if the proposal I now put forward were carried out, the necessity for any re-arrangement in the future would be avoided.

4. I have refrained in the past from putting forward a suggestion of this kind; but, as His Excellency the Governor has recently announced that the construction of the Madras and Bezwada Railway is shortly to be commenced, it seems to me that the time has now arrived when a proposal from the Madras Railway may possibly be favourably considered.

5. My Board would, I am sure, be glad to extend the sphere of its operations, if an arrangement for working the East Coast Railway to the mutual advantage of the State and the Company could be agreed to.

From—The Secretary to the Govt. of India, P.W. Dept.
To—The Joint Secretary to the Govt. of Madras, P.W. Dept., Ry. Branch.
Dated—Calcutta, 20th December 1894, No. 1298 R.C.

I am directed to acknowledge the receipt of your letter, No. 3669 C., dated 19th November 1894, forwarding a copy of a letter from the Agent and Manager, Madras Railway Company, enquiring whether the Government of India would be disposed to entertain a proposal by that Company to work the East Coast Railway for the State.

2. In reply, I am to say that, as some time must elapse before any such proposals can be fully considered, the Government of India prefer to defer expressing any opinion upon them until they are in possession of the views of the Board of the Madras Railway Company and of the Government of Madras on the subject.

Endorsement by Consulting Engr. for Rys., Madras, No. 22, dated 7th January 1895.

Copy forwarded to the Agent and Manager, Madras Railway, with reference to his letter, No. 8031/859, dated 5th November 1894, with a request that the views of his Board may be obtained.

From—The Joint Secretary to the Govt. of Madras, P.W. Dept., Ry. Branch.
To—The Secretary to the Govt. of India, P.W. Dept.
Dated—Madras, 11th February 1895, No. 70 R.

In reply to your letter, No. 1298 R.C., dated 20th December 1894, I am directed to forward a copy of a letter, No. 910, dated 21st December 1894, from the Board of Directors, Madras Railway Company, to their Agent and Manager, on the subject of the East Coast Railway being worked by the agency of that Company on completion of the Madras-Bezwada section.

2. The terms on which the Madras Railway Company are prepared to work the East Coast Railway are not specified, though apparently the Board are prepared to meet Government in a liberal spirit. In the opinion of His Excellency the Governor in Council the working of the East Coast Railway by the Madras Railway Company is most desirable; and the proposal, although premature seeing that the construction is not yet sanctioned, is therefore favourably supported by this Government. As pointed out by the Madras Railway their present superior staff is capable of working a large extension of the system, though from the peculiarities of their line in two separate branches no present reduction thereof is practicable. This would result in lowering the working expenses over the whole system, to which end the cheaper rate of their fuel from the Singareni coal mines would materially help.

3. I am to invite attention to the offer of the Board of Directors to construct the Madras-Bezwada section of the East Coast Railway on a sterling guarantee of 3 per cent. As, however, the apparent intention of the Government of India is to construct the section from Imperial funds, this Government is not prepared to press the matter; but in the event of a departure from the policy of State agency the offer of the Madras Railway Company is strongly supported. I am further to add that, in the opinion of His Excellency the Governor in Council, it is not desirable to incur the liabilities of a sterling guarantee; and that should the Madras Railway Company be permitted to construct the line from Madras to Bezwada the necessary funds should be raised by silver debentures on a guarantee which the Government of India may consider expedient, any profits over the amount of the guarantee being equally divided between Government and the working Company.

Enclosure A.

From—The Agent and Manager, Madras Railway.
To—The Consulting Engr. for Rys.
Dated—Madras, 25th January 1895, No. 6630 S./77.

With reference to your endorsement, No. 22 of the 7th instant, on copy of letter from the Government of India, dated Calcutta, 20th ultimo, I have the honour to forward a copy of a letter from my Board, No. 910 of the 21st December last, containing an expression of their views on the proposal that the Madras Railway should work the East Coast Railway for the State.

2. It will be observed from the letter that my Board are not only prepared to work the East Coast Railway, but that they are also prepared to undertake the construction of the portion from Bezwada to Madras.

3. In their letter, No. 7759 of the 19th March 1894, to the Secretary of State, copies of which were forwarded to me with their letter, No. 897 of the 13th April 1894, they referred to the possibility of providing funds for the extension of the Madras Railway system by the issue of silver debentures in India.

Enclosure B.

From—The Secretary to the Board of Directors, Madras Railway.
To—The Agent and Manager, Madras Railway.
Dated—61, New Broad Street, London, E.C., 21st December 1894, No. 910.

The Board have carefully considered your letter to the Government Consulting Engineer for Railways, dated 5th November last, copy of which was enclosed in your official despatch of the 15th November 1894, No. 2170, and they desire me to say that they approve entirely of the proposal you have made that this Company should work the East Coast Railway on the completion of the section between Madras and Bezwada. The views you have expressed are in accordance with the known wishes of the Board as communicated to you from time to time, and as submitted to the Indian Government on several previous occasions.

2. When the project of the East Coast Railway was first mooted, your predecessor, Mr. Hanna, anticipated the wishes of the Board in approaching the Madras Government on the subject, and in 1890, with their concurrence, he obtained the sanction of that Government to make a survey of the section of the line between Madras and Bezwada, the results of which, with plans and estimates, were submitted to the Government in August 1891.

3. In their letter to the Secretary of State, dated 22nd June 1891, the Board expressed their desire to take over both the construction and working of such sections of the East Coast line, within the limits of the Madras Presidency, as the Government of India were disposed to entrust to them, and in a subsequent letter, dated 18th March 1892, they reiterated their offer, and suggested the mode in which the requisite funds might be raised for the purpose. They are still prepared to carry out as a separate undertaking the construction of the section of the East Coast line from Madras to Bezwada with a guarantee say of 3 per cent., at which rate they could no doubt place Sterling Debentures in this country.

4. The Board have not continued to press this matter upon the Government because they were informed by the Secretary of State that their proposals with regard to the construction of any section of the East Coast Railway could not be entertained; and with respect to the working of any portion of the East Coast Railway, the Madras Government intimated that this Company's offer could not be considered, while the East Coast Railway remained detached from the Madras system.

Letter, dated 26th July 1892.
G.O., No. 2056 R., dated 23rd August 1892.

5. If, however, it should be considered the best arrangement, both in the interests of the Government and of the Company, to retain the East Coast line as a State Railway, and to commit the working to this Company, the Board now desire to confirm the proposal contained in your letter to the Government Consulting Engineer, and are willing to undertake the working of the whole line under such arrangements as may be approved by the Government.

6. The Madras Railway Company, as the Board have frequently urged, have special claims to consideration in this matter, and the clear arguments you have now brought forward in favour of the scheme proposed afford a strong presumption that the line could be worked by this Company to the mutual advantage of the State and the Company.

7. The Board await with interest the reply of the Government to your letter of the 5th November 1894, and hope to learn in due course how the Government of India decide to deal with the proposals it contains.

From—The Secretary to the Govt. of India, P.W. Dept.
To—The Joint Secretary to the Govt. of Madras, P.W. Dept., Ry. Branch.
Dated—Simla, 24th April 1895, No. 473 R.C.

I am directed to acknowledge the receipt of your letter, No. 70 R., dated 11th February 1895, forwarding a copy of a letter from the Board of the Madras Railway Company to their Agent in India, offering to work the East Coast State Railway, and to construct an extension of that line from Bezwada to Madras on a sterling guarantee of 3 per cent.

2. In reply, I am to refer you to Government of India letter, No. 314 R.C., dated 14th March 1895, in which you were informed of the proposals of the Government of India for the construction of the Bezwada-Madras Railway from State funds; and to say that the question of the working of this line, as well as of the East Coast Railway, will be considered in due time.

Endorsement by Consulting Engr. for Rys., Madras, No. 1550 R., dated 14th May 1895.

Copy forwarded to the Agent and Manager, Madras Railway, with reference to his letter, No. 6630S./77, dated 25th January 1895.

From—The Secretary to the Govt. of India, P.W. Dept.
To—The Joint Secretary to the Govt. of Madras, P.W. Dept., Ry. Branch.
Dated—Calcutta, 19th March 1897, No. 486 R.C.

I am directed to acknowledge the receipt of your letter, No. 31 R., dated 16th January 1897, forwarding detailed plans and an abstract estimate amounting to Rupees 4,88,547, of the cost of the proposed junction arrangements at Madras between the Madras Railway and the Bezwada-Madras Railway, and remarking that, in this connection, an early decision is desirable on the general question of entrusting the working of the East Coast State Railway or a portion of it to the Madras Railway Company.

2. In reply, I am to say that unless satisfactory terms are proposed under which the purchase price of the Madras Railway Company will not be unduly enhanced, the working of the new line into Madras will be carried on by the existing administration of the East Coast State Railway, but that the Government of India will be glad to receive and consider any scheme which the Madras Railway Company may propose. In the meantime it would be premature to sanction any arrangements which are dependent upon a decision to entrust the working of the East Coast State Railway or part of it to the Madras Railway Company.

From—The Consulting Engr. for Rys.
To—The Agent and Manager, Madras Railway.
Dated—Madras, 30th March 1897, No. 1174.

With reference to correspondence ending with your letter, No. E. 497/1130, dated 16th December 1896, I have the honour to forward herewith, for information, copy of letter, No. 486 R.C., dated 19th March 1897, from the Government of India, on the subject of the proposed junction arrangements at Madras between the Madras Railway and the Bezwada-Madras Railway.

From—The Agent and Manager, Madras Railway.
To—The Consulting Engr. for Rys.
Dated—Madras, 1st April 1897, No. 318.

I have the honour to inform you that, in compliance with the wish you expressed to me to be allowed to retain the copy of the Board's letter *, No. 8014 of the 12th February 1897, to the Secretary of State, regarding the proposed working of the Madras-Vizianagram section of the East Coast Railway, the copy which I handed to you personally a few days ago may be retained as an official copy. The Board requested that you might be given a copy if you desired to have it.†

Enclosure A.

Memorandum by Mr. F. Dunsterville, Chief Auditor, dated the 17th June 1896.

1. The earnings of the East Coast Railway were estimated by the several engineers in charge of surveys at about Rs. 170 per mile per week and working expenses at about 60 per cent., or say Rs. 100 per mile per week; net earnings were estimated to give a dividend of rather over 3½ per cent. per annum on the capital cost.

2. Actual results, however, during 1894 showed that over the 316 miles then open, gross earnings only realized Rs. 96 per mile per week, while the working expenses were 90 per cent., leaving Rs. 1,51,000 as net earnings, paying a dividend of only ½ per cent. per annum on the capital expended: at the present time (June 1896) when about 500 miles are open, the average

* See page 14.
† The following are the papers referred to above:—
Enclosures A to G.—Opinions of Heads of Departments, Madras Railway.
Enclosure H.—Summary of above opinions by the Agent, Madras Railway, for the information of his Board.
" I.—Letter from the Board of Directors, Madras Railway Co., to the Secretary of State, No. 8014, dated 61, New Broad Street, London, 12th February 1897.

gross earnings per mile are *under Rs.* 80 *per week*, and if the working expenses remain in the same ratio as in 1894, the net earnings will give very little indeed in the way of dividend, if the capital expenditure has continued at the same rate.

3. It is found that the actual working expenses of various Indian Railways were, for the first two years after opening for traffic—S.M., 104 and 84; I.M., 80 and 72; B.N., 80 and 81; E.C., 84 and 90 per cent.

4. The average of all these actuals is 84 per cent. of gross earnings, which clearly shows that it would not be a profitable business for the Madras Railway to undertake the working of the East Coast Railway at its own percentage (say 47½) of working expenses: it does not appear that on the whole "maintenance" was extraordinarily high in these cases, and it is therefore probable that the lack of traffic was the main cause of the unsatisfactory results.

5. The following figures show the probable results for a year were the Madras Railway Company to undertake the working of the East Coast Railway, Madras to Vizianagram, at its own percentage of working expenses, taking earnings at about 25 per cent. higher than at present:—

Estimated gross earnings for 500 miles at Rs. 100 per mile per week for one year	Rs.	26,00,000
Madras Railway share for working expenses at average of 1895, 47½% (Government providing all Rolling-stock) ...	„	12,35,000
Net earnings ...	„	13,65,000

giving as dividend on estimated capital cost (500 miles at Rs. 70,000 per mile = Rs. 3,50,00,000), 3·9 per cent. per annum.

6. Were actual working expenses to be as high as for the other four Railways given above, the annual cost would be Rs. 21,84,000 instead of Rs. 12,35,000, leaving the Madras Railway Company *with a loss of Rs.* 9,49,000 to be met out of its own earnings, reducing its dividends by some ¾ per cent. per annum.

7. The above figures clearly show that under probable present circumstances it would certainly not in any way pay the Madras Railway Company to take over the working of the Madras-Vizianagram line at its own percentage of expenses at any rate until it were certain that traffic was improving to a very great extent, and so far as can be seen the only scheme which would be fair to all concerned would be to work the line on "actuals," *plus* a small percentage for supervision by heads of departments and their deputies.

8. With a new line of 500 miles it would probably be found that all departments would require additional staff in the way of officers, viz., District Engineers and their Assistants, Assistant Locomotive Superintendents, Assistant Traffic Manager, Assistant Telegraph Engineer, Assistant Auditors, &c.: these and all the necessary subordinate staff would be all charged direct to the new line as "actuals," and to this ought to be added a fair proportion of the pay of the various heads of departments and their deputies for supervision: at present these officers cost on the Madras Railway about 1½ per cent. of gross earnings: on the joint lines the percentage would be about 1¼.

9. The working agreement might at first be made for two years certain, after which date it might be subject to revision according to results.

10. This proposal to work for "actuals" is similar to the arrangement under which the Bombay, Baroda and Central India Company work the Rajputana-Malwa State Railway, except that in this latter case one-fifth of the surplus profits of the State line is allotted to the working Company. For the present the Madras Railway Company might be content to defer any such proposals, and the agreement might state that the Company will work for actual cost, &c., as above until the State line is developed, leaving the question of remuneration for services rendered to be settled when the net earnings exceed the interest (say at 3 per cent.) on the capital outlay.

11. There are many other points to be considered if the Madras Railway were to undertake the working of the new line of 500 miles: one thing is the provision for workshops and office accommodation; if these were to be provided from Madras Railway capital, the additional interest will really be a charge on Madras Railway revenue and will thus affect our surplus profits unless a direct charge be made for it upon the revenue of the Madras-Vizianagram line. Terms would also have to be arranged for the repayment of the capital outlay to the Madras Railway in the event of its ceasing to work the State line.

12. Provision of Rolling-stock is another point: should the Madras Railway provide the capital, the interest thereon would have to be met by a charge of 5 per cent. on the gross earning of the new line: if Government provided engines and vehicles, the number should be on a scale proportionate to the length of line as compared with the Madras Railway; it is only under these circumstances that arrangements could be made for a free interchange of stock—an absolute necessity for the economical working of the combined undertakings.

13. The above scheme is what is strongly recommended to our Board of Directors, but at the recent officers' meeting the majority seemed to be of opinion that it might be suggested that if the above scheme were not acceptable to the Secretary of State, then the Madras Railway Company might offer to undertake the working of the new line at the same proportion of expenses as

the total expenditure bears to the gross earnings of the combined railways so far as all departments but the engineers are concerned, charging for the latter "actuals" for maintenance (items 2, 3, 4, 5, 6 and 7 of Abstract A) *plus* a normal proportion of "General Superintendence" for supervision.

14. It may, however, be pointed out that, as shown in paragraph 4 of this memorandum, it does not appear that maintenance charges were extraordinarily high during the first two years after the opening of new railways, but that deficiency of traffic was the principal cause of the high percentage of working expenses, and as the Locomotive and Traffic Departments must be prepared to deal with the largest reasonable amount of probable traffic, a loss upon the working of those departments would inevitably result to the Madras Railway Company if it fell in with this suggestion.

15. It may therefore be desirable to repeat that all Indian Railway statistics show that to undertake the working of a *new* line of 500 miles in length upon any other terms than actual cost must result in a loss to the working Company.

Enclosure B.

Letter from Mr. E. W. Stoney, Acting Chief Engineer, dated the 24th June 1896.

The subject is very clearly set forth in the Chief Auditor's memorandum, dated the 17th instant, and the figures given therein show conclusively that this Company would sustain a considerable loss if it undertook to work the Madras-Bezwada Railway at the same ratio of gross receipts as its own working expenses amount to.

2. I concur with Mr. Dunsterville's views, and think that the only practical way of dealing with the question is that proposed by him, to work the line at actual cost *plus* a percentage for supervision by Heads of Departments; this might be in the proportion of the mileage of the two Railways 500 ÷ 1,450, or, say, one-third of the total cost of Heads of Departments' salaries should be charged to the Madras-Bezwada Railway for superior staff.

3. There should be a clear understanding as to who should provide the capital necessary for houses and offices for District Engineers and their Assistants and for any enlargement of Head-quarter offices required for the additional clerks that would be needed in Madras, and for capital and supervision for extra works, &c., chargeable to capital.

4. It is not apparent where any gain would accrue to this Company if it worked the Madras-Bezwada Railway at any sum less than the actual cost of performing this service; if the Madras-Bezwada line joined the Madras Railway at some central point of its system remote from Madras, it would then gain by the traffic brought on to and over its system.

5. As, however, the Madras-Bezwada Railway is wholly distinct, and ends at the port of Madras, the probability is that almost all traffic would be brought to Madras for shipment, and that a small portion only would find its way on to the Madras Railway.

Enclosure C.

Letter from Mr. C. E. Phipps, Locomotive Superintendent, dated the 29*th June* 1896.

I have read very carefully the memorandum prepared by the Chief Auditor and, from the figures quoted by Mr. Dunsterville, there can, I think, be little doubt, but that the only terms upon which it would pay this Company to work the East Coast Railway would be that the actual cost of working should be paid by the State, such further payment for proportion of supervision and, if necessary, profit being made as might be mutually agreed upon.

2. It is, however, rather difficult to deal very fully with the question in the absence of any information as to what the wishes of the Board and the Government are, respectively, as to the general principles to be kept in view. I understand from conversation that it is the wish of Government that as large a share as possible of the profits of the new undertaking shall go to the State direct, but how far the Board are prepared to acquiesce in this matter I have no knowledge.

3. It is probably superfluous to state that the working of the line must of necessity be less expensive if carried out by an existing administration, such as the Madras Railway, rather than by any new or independent Company or management, and further that it is unquestionably the case that the interest of the Madras Railway and of the population of the country through which the East Coast Railway passes are identical. As a matter of State policy and in general benefit of the country, I would submit these interests should be respected and fostered in the highest degree.

4. This being so, it may be accepted as beyond argument that the working of the line should be placed in the hands of the Madras Railway Company, and that, although the Company cannot be expected to undertake this at a loss, the plain duty lies upon it of working the line even if only at a small nominal profit to itself.

5. I would suggest that the Company offers to work on the terms quoted in the latter part of paragraph 7 of the Chief Auditor's note, and that any working agreement drawn up be limited to a period of, say, two years from date of opening, when the facts and figures obtained will place the Government and the Madras Railway Company in a position to form, if possible, a permanent working agreement which shall be fair to both parties.

ENCLOSURE D.

Letter from Mr. D. Ross-Johnson, Officiating Traffic Manager, dated 30th June 1896.

In forwarding the following remarks upon the Chief Auditor's memorandum on the working of the East Coast Railway, my object is principally to show the advisability of obtaining more reliable and current statistics of the working of the East Coast Railway as now open for traffic and of the future prospects of the line than are now before us before attempting to formulate a scheme for the consideration of the Board.

2. The Chief Auditor's remarks are based to a great extent on the apparent continued falling off in the receipts per mile open. With an average receipt in 1894 of Rs. 96 per mile per week on a mileage of 316 miles, Mr. Dunsterville quotes a receipt in June 1896 of under Rs. 80 per week on an increased open mileage. I find, however, from a recently-published extract from the *Gazette of India* that, for the week ending 30th May 1896, the gross receipts were Rs. 77,100 giving a receipt per week per mile on a mean mileage of 509·22 of Rs. 151·41 against Rs. 89·4 in the corresponding week of 1895, when the mileage open was 417·97. The same return gives the total earnings * for the current official year (1st April to 30th May) at Rs. 10, 63,673 against Rs. 8,93,659 for the corresponding period of 1895. There seems to be something wrong about the former figure, as it is equal to a receipt per mile per week of Rs. 231, but it seems at least to indicate the necessity of a closer examination of the actual condition of the new line than the information now in our possession enables us to make. The important point is the effect of these increased receipts upon the percentage of working expenses. The Chief Auditor's figures are based on those for 1894, but the Administration Report should shortly put us in possession of the actuals for last year.

3. In the absence of any other details as to the country served by the line, the annexed abstract of the population and revenue of the districts served by the Madras Railway and by the East Coast Railway, respectively, show that the prospects of the new line should be at least as good as those of the Madras Railway. This is also borne out by the statement of commodities carried in 1894, as compared with the previous year, the increased traffic being principally in cotton, dyes and tans, grain, oilseeds, sugar and tobacco, all staples promising a permanent and growing traffic. Agreeing with the view of the Chief Auditor that a light traffic has been the principal cause of the high percentage of working expenses in the past, it does not appear improbable that this percentage will be much reduced as the traffic improves. In its favour are, I believe, easy gradients and cheap coal.

4. Looking at the details of the working expenses by sub-heads (figures for 1894), it will be seen that, excluding maintenance, the cost per train mile of the other departments is only slightly in excess of that of the Madras Railway, and this excess will. of course, be reduced as the traffic increases and the separate supervision charges are eliminated. Again, the figures given by the Chief Auditor in his paragraph 3, it should be remembered, refer to lines just opened for traffic, whereas in the case of the East Coast Railway if taken over by the Madras Railway, about half the mileage will have been opened for several years.

The Chief Auditor's memorandum refers to two alternatives, viz.—(*a*) To work the new line on actuals; (*b*) To work it on the percentage of expenses of the joint undertaking for all heads except maintenance, each line bearing its own maintenance charges.

5. The Chief Auditor favours the first scheme apparently principally because he has not much faith in the revenue of the line for some time to come. If, however, the view is accepted that the revenue prospects are more favourable (and I would ask for a more careful examination of reliable figures before adopting such a conclusion), there appear to be several advantages in favour of the second proposal. The cost of the administrative offices and departmental supervision would be more equitably distributed, the division of the lines into districts (at least so far as the Traffic department is concerned) could probably be more economically arranged and the free interchange of staff and stock would be conducive to economy. It would, of course, be necessary in either case to make due provision for a fair equipment of rolling-stock and for an equitable provision of the cost of additions to terminal workshops and buildings either by a *pro-rata* contribution of capital or by treating such expenditure on joint station principles. An important difference between the present case and that of the B.B. and C.I. working the Rajputana-Malwa is that, in the latter, the lines are on different gauges, and the same close interchange therefore is not possible.

6. There is, however, another side to the question. We have so far considered the necessity of safe-guarding the Madras Railway. The Board's letter, No. 937 of 8th ultimo, imposes on us the duty of securing the interests of the State as owners of the East Coast Railway. Assuming that if we work the line on either of the above terms, the State will at least be secure of as low a percentage of working expenses as they could obtain by their own agency, they will still look for the most favourable possible return upon their capital expenditure, and if the results

* *Note.*—The weekly figures quoted here are correct; but the figures for April and May 1896, according to the Government of India Gazette, are Rs. 4,66,000 against Rs. 3,76,038 for the corresponding period of 1895. The paper from which the Officiating Traffic Manager copied the extract gave these figures incorrectly.

of working the line should fail to yield a dividend of, say, 3 per cent., the Madras Railway might offer (on the principles recently laid down by the Government of India in its proposals for the construction of feeder lines) a rebate upon the traffic interchanged between the two lines limited on the one side to such a figure as would raise the State Railway return to, say, 3 per cent. on its capital and on the other to such a figure as would not reduce the Madras Railway receipt below the statistical cost of lifting the traffic.

7. The Board ask for a draft agreement. Before this can be obtained, it will be necessary for the Company's officers to agree as to the principles on which it is to be based, and before discussing this, it would seem very necessary to obtain accurate up-to-date figures, and also, if possible, a knowledge of the local conditions of the line.

Comparison of Statistics of districts served by Madras and East Coast Railways.

Districts served by Madras Railway.	Population.	Population per sq. mile.	Square miles.	Gross revenue per sq. mile.
				Rs.
Madras	452,000	15,604·07	29	1,70,109·79
Chingleput	1,202,000	388·91	3,092	824·27
North Arcot	2,114,000	287·12	7,366	582·98
Salem	1,962,000	260·59	7,529	495·15
Coimbatore	2,004,000	254·96	7,860	530·28
Nilgiri	99,000	103·45	957	537·09
Malabar	2,652,000	474·76	5,586	634·44
Cuddapah	1,272,000	145·70	8,730	331·96
Anantapur	708,000	134·22	5,275	298·39
Bellary	900,000	152·36	5,907	423·90
	13,365,000	255·39	52,331	586·75

Districts served by East Coast Railway.	Population.	Population per sq. mile.	Square miles.	Gross revenue per sq. mile.
				Rs.
Madras	452,000	15,604·07	29	1,70,109·79
Vizagapatam	2,802,000	162·51	17,242	142·85
Gódávari	2,078,000	264·48	7,857	1,004·58
Kistna	1,855,000	220·91	8,397	850·54
Nellore	1,463,000	166·91	8,765	351·39
	8,650,000	204·54	42,290	603·24

ENCLOSURE E.

Letter from Mr. F. Dunsterville, Chief Auditor, dated the 9th July 1896.

After a careful perusal of the opinions expressed by the Acting Chief Engineer, Locomotive Superintendent, and Officiating Traffic Manager, I see no reason to modify any of the statements contained in my memorandum of the 17th ultimo.

2. The Acting Chief Engineer and the Locomotive Superintendent practically agree with the conclusions drawn from the figures at our disposal—the only difference of opinion being as to mode of calculating the division of supervision charges, my idea being in proportion to gross earnings and the Acting Chief Engineer's proposal being in proportion to mileage open; the latter would probably be to our advantage.

3. I am at a loss to understand the Officiating Traffic Manager's method of argument—he first assumes that my estimates of traffic are incorrect, basing his assumption on certain figures extracted from the "Gazette of India," but he then proceeds to state that there appears to be something wrong about his own figures upon whose authority he disputes the correctness of my figures.

4. I can only say that all the weekly Traffic returns of the East Coast Railway that I could find published up to the date of writing my memorandum gave the return as *under Rs. 80 per mile per week*, and in the "Madras Mail" of the 7th July 1896, I find the last return for the week ending 20th June 1896 to be Rs. 67·51 per mile as against Rs. 76·95 in 1895.

5. You will observe that in paragraph 5 of my memorandum I assume the earnings to average Rs. 100 per mile per week, or at a rate about 30 per cent. above the latest actual earnings which to me seems a liberal allowance.

6. As to the necessity for obtaining reliable estimates of the probable traffic, you will remember that at my request you asked the Officiating Traffic Manager to furnish you with such figures, but that officer replied that he was unable to do so.

7. The Administration Report for 1895 may not be published for some months, and it was for this reason I took the latest figures available which were those for 1894. I have, however, the half-yearly Revenue statistics to the 31st December 1895, and I find the average Traffic receipts for that period were just under Rs. 80 per mile per week.

8. The Officiating Traffic Manager's statement in paragraph 3, as to the prospects of the East Coast Railway being at least as good as those of our own line, may possibly come true when the line has been opened for some considerable number of years as the Madras Railway has been, but he produces no facts to support his inference, and it would be suicidal for us to accept such conclusions without some tangible proofs.

9. There is no real result to be arrived at in comparing working expenses "per train mile" of the two railways, but the Officiating Traffic Manager in doing so states that "excluding maintenance the cost * * * * of the other departments is only slightly in excess of that of the Madras Railway, &c., &c.": upon this (in paragraph 5) he concludes that there are several advantages in favour of a proposal to work the Madras-Vizianagram line on the same percentage of working expenses (excluding maintenance) as on our own line. The following figures show such a comparison between the two lines for the two halves of 1894:—

Percentage of Working Expenses on Gross Earnings.

Heads of Account.	Half-year to 30th June 1894.		Half-year to 31st December 1894.	
	East Coast Railway.	Madras Railway.	East Coast Railway.	Madras Railway.
Abstract A—Maintenance	34·78	11·21	14·38	11·45
Do. B—Locomotives	30·87	18·26	33·08	18·81
Do. C—Carriage and wagon	2·87	7·17	4·73	6·63
Do. D—Traffic	15·20	8·63	16·69	8·22
Do. E—General	8·49	5·53	9·54	5·43
Do. G—Special and miscellaneous	1·75	1·03	2·28	1·75
Total ..	93·96	51·83	80·70	52·29

10. These actuals show that instead of being only "slightly in excess," the expenses of the East Coast Railway (excluding maintenance) exceed those on the Madras Railway by 18·56 and 25·48 per cent., respectively, for the two halves of 1894; these excesses would entail a very serious loss upon our railway, if this proposal was accepted—*vide* paragraphs 6, 14 and 15 of my memorandum.

11. Referring to paragraph 6 of the Officiating Traffic Manager's letter, I would remark that my proposal (approved of by the Acting Chief Engineer and the Locomotive Superintendent and, I believe, by yourself) carefully guards the interests of both the Madras Railway and the Government—if we work for actuals and a proportion of supervision, the Madras Railway can only lose a part of the services of the principal officers whose whole time is now devoted to their service, while the Government will pay no more than is actually expended on their own line and in return gain at a very small cost the services of the principal Madras Railway officials whose experience extends over many years.

12 I cannot agree with the Officiating Traffic Manager's proposal that the Madras Railway should consent to allow the East Coast Railway such rebates as would raise the State Railway return to 3 per cent. on its capital: the percentages of net earnings of the East Coast Railway upon capital outlay have been as follows:—

30th June 1894	Rs. 0·09 per cent.
31st December 1894	„ 0·37 „
31st „ 1895 *	„ 0·19 „

* The figures for half-year to 30th June 1895 are not available.

13. The capital outlay up to 31st December 1895 was Rs. 1,03,785 per mile (for 500 miles, say, Rs. 5,18,92,500): to raise the State Railway return to 3 per cent. per annum on this capital would require a grant from our revenue of some Rs. 6,75,000 per half-year on the figures to the end of 1895.

14. With reference to the final paragraph of the Officiating Traffic Manager's letter, I would point out that the Heads of Departments (with the exception of the Traffic Department) have already agreed as to the principles upon which the working agreement should be based, but before proceeding to draw up the form, it will be necessary for us to know whether the Board and the Secretary of State agree to our proposals: if you will kindly ascertain and advise me upon the points raised in my memorandum, there will be no difficulty in drawing up a form of agreement for submission to the Board.

Enclosure F.

Letter from Mr. F. W. Read, Traffic Manager, No. C. 866-A. and M./27601, dated the 17th July 1896.

I was not present at the meeting alluded to in paragraph 13 of the Chief Auditor's memorandum, dated 17th June.

2. The Chief Auditor, from his letter of 9th July, seems to me to misinterpret the Officiating Traffic Manager's letter of 30th June, the first four paragraphs of which are practically an enquiry for further information which, it was thought, you might obtain direct from the Manager, East Coast Railway, as certain published figures seemed to indicate that the latest results would be much more favourable than the figures then at the disposal of the Chief Auditor. Those published figures, however, have proved to be incorrect.

3. Paragraph 9 of the Chief Auditor's letter quoting figures of percentage on gross receipts does not appear to disprove the Officiating Traffic Manager's view that, after excluding maintenance, the cost of working per train mile of the other departments of the East Coast Railway is only slightly in excess of that of the Madras Railway. They appear to work out as follows:—

		East Coast.	Madras.
Maintenance	Rs.	0·69	0·46
Locomotive	„	0·91	0·75
Carriage and wagon	„	0·11	0·28
Traffic	„	0·45	0·35
General	„	0·26	0·22
Steam boat	„	0·07	...
Special and miscellaneons	„	0·05	0·06
Total ...	„	2·54	2·13
Deduct maintenance and steam boat	„	0·76	0·46
Cost for heads B, C, D, E and G	„	1·78	1·67

4. This cost would also be reduced by the cost of only one set of administrative officers, and with cheap coal and easy gradients the working expenses excluding maintenance should not be heavy. Maintenance is likely to be a very serious item on the East Coast if a dozen miles or so of the railway are liable to be literally wiped out of the map occasionally by floods, as was the case recently.

5. The question, however, as the Chief Auditor says, evidently at present turns upon receipts, and the figures quoted in that officer's memorandum show that, if worked upon the percentage system, a heavy loss would be likely to fall upon the working agency until the line had been open for some time and the people had learned to appreciate the advantages of a railway. I have not particulars of the receipts of the Southern Mahratta, Indian Midland and Bengal-Nagpur Railways on which their high percentage of working expenses occurred during their first two years' working, but no doubt the Chief Auditor can give them and probably the result in each case turned upon small receipts.

6. It would have been interesting if the Chief Auditor could have given us the result of our working of the Ennur Railway up to the end of June, as this ought to be of assistance in arriving at an agreement.

7. In paragraph 12 of the Chief Auditor's letter he writes:—"I cannot agree with the Officiating Traffic Manager's proposal that the Madras Railway should consent to allow the East Coast Railway *such rebates as would raise the State Railway return to 3 per cent. on its capital*"; but I cannot find that such a proposal has been made. The suggestion was that this Railway *might* offer "a rebate upon the *traffic interchanged between the two lines* limited on the one side to such a figure as would raise the State Railway return to, say, 3 per cent. on its capital and on the other to such a figure as would not reduce the Madras Railway receipts below the statistical cost of lifting the traffic." This is, of course, altogether a different proposal, and I would apply it conditionally in the agreement (as explained later) for the reasons intimated in the Board's letter, No. 937, paragraph 2.

8. Paragraphs 11 and 12 of the Chief Auditor's letter I agree with.

9. From the Board's letter it appears that there is no prospect whatever of the working of the East Coast Railway being given to this Railway unless the possibility of the Madras Railway shares being enhanced in value is absolutely precluded. I am therefore of opinion that the Chief Auditor's proposals in their present form would not be entertained by the Secretary of State. The Board's instructions, as I read them, are that at any rate the initial agreement must prevent the Madras Railway from making any profit whatever.

10. I would therefore propose—

(1) That the agreement be framed to work the line on actuals *plus* 1¼ per cent. on the gross earnings for the supervision of Heads of Departments and Deputies as proposed by the Chief Auditor.

(2) That, if the working of the East Coast Railway has during the term of the agreement increased, the dividend earned by the Madras Railway by creating new traffic from which the Madras Railway has derived new receipts without displacing traffic from other districts on which similar receipts were previously earned by the Madras Railway, or in any other way, the Madras Railway shall pay to the East Coast Railway a rebate upon the traffic interchanged between the two lines, limited on the one side to such a figure as would raise the State Railway return to 3 per cent. on its capital and on the other to such a figure as would not reduce the Madras Railway receipts from such traffic below the statistical cost of working it. The question as to the application or non-application of this clause to rest between the Board and the Government Director, the B.B. and C. I Directors to be requested to decide finally in case of any difference of opinion—the position of the Madras Railway Provident Institution as to surplus profits not to be prejudiced by this arrangement.

11. The rebate clause may look a too liberal offer even conditionally, but when it is worked out, it will not be found to ruin the Madras Railway, and if the Secretary of State likes it, so much the better.

12. In the event of the Secretary of State deciding not to accept the most favourable terms which it is possible for the Board to offer without injury to the proprietors of the Madras Railway, I would suggest that the Company then decline to bear any portion of the cost of the Basin Road Junction or to abolish the Ráyapuram Branch. It is, I presume, scarcely possible that Government would prefer to incur a large additional expenditure both in construction and cost of working to giving the Madras Railway the working of the southern portion of the line, but should this be the case, it would be much cheaper for the Madras Railway to double the Ráyapuram Branch and retain it instead of constructing the new piece, letting the East Coast go under or above it, the Madras Railway declining to incur any expenditure caused by the advent of the East Coast Railway. I would further suggest that definite terms be obtained before any such expenditure be incurred on behalf of the East Coast Railway. The Basin Road works alone are expected to cost approximately 2¾ lakhs, but this, I presume, is a small sum compared to tunnelling under, or bridging over, the Ráyapuram Branch and building a new East Coast station in Madras with the additional line.

13. With regard to paragraph 2 of your letter, I am not aware of any proposal to include maintenance in our agreement with the East Coast Railway.

ENCLOSURE G.

Further Memorandum by Mr. F. Dunsterville, Chief Auditor, dated the 21st July 1896.

The only point in the Traffic Manager's letter, No. C. 866 A. & M./27601 of the 17th instant, upon which I would wish to remark, is that concerning the comparison between the working of the East Coast Railway and ourselves "per train mile."

2. I have in paragraph 9 of my letter of the 9th instant, No. A./744, already explained that this mode of comparison is not only misleading for the purpose quoted, but has no reference whatever to the manner in which the division of Working Expenses would actually be made, were the Madras Railway to undertake the management of the East Coast Railway at the same ratio of expenses as our own, viz., *percentage of Gross Earnings.*

3. The Traffic Manager shows that there is very little difference between the East Coast Railway and ourselves "per train mile," but this is probably caused by this train mileage being in excess of traffic requirements *so far as financial results are concerned* :—

	East Coast.	Madras.
Gross earnings per train mile 1st half of 1894	Rs. 2·83	4·03
" " 2nd "	" 2·76	4·17
Net earnings per train mile 1st half of 1894	" 0·12	1·94
" " 2nd "	" 0·51	1·99

4. The following figures show the comparison of working expenses between the East Coast Railway and ourselves, firstly, "per train mile," and secondly, as "percentage of gross earnings":—

	East Coast.	Madras.
Working expenses per train mile, 1st half of 1894 ...	Rs. 2·70	2·09
" " 2nd " ...	" 2·25	2·18
Percentage of expenses to earnings 1st half of 1894 ...	" 95·59	51·83
" " 2nd " ...	" 81·75	52·29

These figures show that while the East Coast Railway is only about 16 per cent. in excess of us per train mile, they are some 70 per cent. in excess on gross earnings.

5. I would wish to state very distinctly that in making these comparisons, I have not the slightest intention of reflecting in any way upon the management of the East Coast Railway.

6. I note that the rebate is only proposed upon interchanged traffic up to a point which covers our working expenses, and I quite agree with the Traffic Manager that if this concession be granted by the Board, the interests of our Provident Institution should be carefully guarded, as the rebate might otherwise take away the opportunity of earning surplus profits, which alone gives us a chance of obtaining additional contributions beyond the ordinary 50 per cent.

7. I have to-day obtained from the Examiner of Accounts, East Coast Railway, the audited traffic figures for the first 20 weeks of the current year; they show some improvement as will be seen from the following figures :—

First 8 weeks.	Miles open, No. 447·47	Earnings, Rs. 4,01,955	Per mile per week, Rs. 112·28
Next 12 "	" " 509·22	" " 6,48,601	" " " 106·14

8. These are the results after some considerable portion of the line has been opened for three or four years, and, although they show a fair improvement over previous years, the figures shown in my original memorandum are what we must look for on the opening of the new line to Bezwada.

ENCLOSURE H.

Summary of the above seven letters and memoranda of his Heads of Departments, by the Agent, Madras Railway, dated 24th July 1896.

I. The foregoing papers relate to certain proposed terms which it is suggested might be reasonably offered by the Board, and yet be acceptable to the Secretary of State, in the event of the working of the Madras-Vizianagram section (500 miles) of the East Coast State Railway being entrusted to the Madras Railway Company. These terms are based on the understanding that the results of such working shall not unduly enhance the value of the stock of the Madras Railway, which the State has the power to acquire by purchase in the year 1907.

II. Of this length of 500 miles, the Bezwada-Vizianagram section (E.C.Ry. 235 miles) was opened in 1893, and the Madras-Ennur section (B.M.Ry. 8 miles) early in 1896. so when the remaining Ennur-Bezwada portion (B.M.Ry. 257 miles) is completed—as it is expected to be two years hence—the first-named section, or nearly half of the whole length of 500 miles, will have been opened for about five years.

III. In the "Administration Report on Railways" for 1895–96 (just issued), the amount of gross earnings per mean mile per week in 1895 of the East Coast State Railway is quoted as Rs. 90 (for the first 20 weeks of 1896, the audited returns give Rs. 109) and the percentage of working expenses 78·65; the corresponding figures for the Madras Railway for the same year are Rs. 257 and 47·64, respectively. These figures, although subject to a slight variation, may be accepted as representing the relative financial position of the two lines at the present time. The comparison between the working expenses of the two Railways on the basis of "per train mile" and "as percentage of gross earnings" is fully explained in the Chief Auditor's memorandum of 21st July 1896, and attention is invited to these figures.

IV. In his original memorandum of 17th June 1896, the Chief Auditor shows that, owing to abnormal maintenance, and, probably, very limited traffic during the first two years of opening, the average actual working expenses of four important railways in India was 84 per cent.; and were the Madras Railway to undertake the working of the Madras-Vizianagram section at its own percentage, viz., 47½ of working expenses, the Company would be subject to very serious loss, as the deficiency would have to be met out of its own earnings, and this would reduce the Company's dividend by about ¾ per cent. This proposal, therefore, it is concluded, would not receive the consent of the Directors and Shareholders.

V. The Chief Auditor's memorandum of 17th June 1896 has been approved by the Acting Chief Engineer and Locomotive Superintendent, and in the light of the additional suggestions made by the Traffic Manager, the several proposals on which it is recommended that a working agreement should be based may be summarised as follows :—

(1) That the Madras Railway should work the East Coast State Railway (500 miles, or more) on "actuals," *plus* 1¼ per cent., on the gross earnings for the supervision to be secured from the heads of departments and their deputies.

(2) That the working agreement be made for two years after which it might be subject to revision.

(3) The incidence of cost of the necessary additional locomotive workshops and office accommodation at Madras should be decided. If the Madras Railway provided the capital, the interest would form a charge against its revenue and affect its surplus profits; the alternative would be to charge the interest on its cost to the revenue of the East Coast State Railway as explained in paragraph 11 of the Chief Auditor's memorandum.

(4) The provision also of rolling-stock should be settled. If provided out of Madras Railway capital, 5 per cent. interest would have to be charged to the gross earnings; if the State furnished the stock, the quantity would have to be proportionate to the length of line, or, preferably, to the traffic—a free interchange of rolling-stock being essential for economical working—*vide* paragraph 12 of the Chief Auditor's memorandum.

(5) It is recommended that the rebate clause, as explained in paragraph 10 of the Traffic Manager's letter of 17th July 1896, should be entered in the agreement. This stipulates that the Madras Railway shall pay to the East Coast State Railway a rebate on the interchanged traffic limited on the one side to such a figure as would raise the returns of the State line to 3 per cent. on its capital, and on the other to such a figure as would not reduce the Madras Railway receipts from such traffic below the statistical cost of working it. The adoption or rejection of this clause might rest between the Board and the Government Director, its main object being not so much to safeguard the State line against loss, as to prevent the Madras Railway from benefiting by any profit.

(6) In any circumstances it is urged that the Madras Railway Provident Institution should not be prejudicially affected by the above concession, inasmuch as such a rebate might deprive the Madras Railway of the opportunity of earning surplus profits which alone afford the prospect of the institution securing any additional contribution beyond the ordinary 50 per cent., and special attention is invited to this important point.

VI. The above form the general terms which, after careful consideration, are unanimously recommended by the Acting Agent and Manager and the heads of departments, and if the Board will be so good as to communicate their views on these recommendations, a draft working agreement can be prepared and submitted for their approval.

ENCLOSURE I.

From—The Secretary to the Board of Directors, Madras Railway.
To—The Under Secretary of State for India.
Dated—61, New Broad Street, London, E.C., 12th February 1897, No. 8014.

The question of the terms upon which the working of the section of the East Coast Railway from Vizianagram to Madras could be undertaken by the Madras Railway Company has occupied the attention of the Board for some time past, and they desire me to bring the subject again to the notice of the Secretary of State, with a view to the early consideration by the Government of India of the terms which are now proposed.

2. The matter has been under consideration since 1891. In their letter of 22nd June of that year, the Board offered both to construct and work the Bezwada-Madras section of the State Railway on terms to be settled with the approval of the Government of India. This offer was submitted to that authority with the recommendation of the Government of Madras in its favour. The Board understood, however, from the reply of the Under Secretary of State to their letter No. 7535 of 22nd June 1891, that their proposal for the *construction* of the line could not be entertained.

3. In the month of June last the Board addressed their Agent and Manager in Madras, desiring him, with the help of the experienced heads of departments, to draft an agreement for working the section of railway referred to, the terms of which should be such as to guard the interests both of the State and of the Company, and to avoid as far as possible the contingency of profits accruing to this Company on the working, and any consequent enhancement of the price of the Madras Railway on purchase by the State in 1907.

4. The Board have been placed in possession of the views of their Agent and Manager and other officers of experience, and after consideration and discussion of the various arrangements adopted elsewhere, they have arrived at the conclusion that the conditions to be met, in order to safeguard the interests of both the Madras Railway Company and the State, can be fulfilled only by the Madras Railway undertaking to work the abovementioned section of the East Coast Railway at actual cost. The greater part of that cost is absolutely actual, and for that part which must be arrived at by an apportionment of the expenses common to the two lines, the Board think that there should be no serious difficulty in settling the charges which will be fair to both parties to the agreement.

5. It must, the Board desire me to say, be understood that the following arrangements are based upon the presumption that the working of the East Coast Railway would be entrusted to the Madras Railway until 1907, or so long as the present contract continues.

6. The working charges of an Indian Railway are shown in a series of abstracts, which have been designed by the Accounts Department of the Government of India to give all details deemed necessary. These are—

A.—Maintenance of way, works and stations.	D.—Traffic expenses.
B.—Locomotive expenses.	E.—General charges.
C.—Carriage and wagon expenses.	G.—Special and miscellaneous expenditure.

In each of these abstracts, except the last, are included charges for general management, or for departmental management by the head of the department concerned; together with the Deputies', Assistants' and office establishments required to conduct such general or departmental control.

No transfer of charge on these accounts will be made from the Madras to the East Coast Railway, so that the cost of the general and departmental management to the Madras Railway will remain unaffected, and will be the same as it would be were the working of the East Coast Railway not to be undertaken and managed by the officers of the Madras Railway.

To give, however, these officers a direct and substantial interest in the success of the working of the East Coast Railway it is necessary, and intended, to grant them additional remuneration out of a sum to be set apart from the gross revenue of the East Coast Railway, such remuneration being proportioned to the length of line open for traffic and to the success attending the working.

From the same sum will be provided any additional assistance that may be needed in the offices of the Secretary, the Agent and Manager, and the heads of departments, to dispose of the additional work resulting from the management of the East Coast Railway.

Every grant of extra remuneration to officials of the Madras Railway, and every sanction given for the entertainment of additional hands in their offices, will be made definitely against the sum provided for this purpose annually. Any part of such sum not required for and appropriated to the purposes indicated would revert to the gross revenue assets of the East Coast Railway.

7. It will be seen that what may be called the general management fund will be applicable to two distinct purposes—the one to the extra remuneration of officials already in the service of the Madras Railway Company, the other to the strengthening of their office establishments. The latter can be dealt with in the ordinary way, but with regard to the former, the Board deem it necessary that it should be understood that, in fixing the extra remuneration of their officers, they must be allowed to exercise their discretion. If they are satisfied, and if the revenue returns show that the development of traffic is satisfactory, and the working expenses moderate, they consider that the remuneration granted should be liberal, because the conditions under which their officers will be working will be exceptional, and it is, in their opinion, good policy to afford all reasonable encouragement to these officers, on whom success will so greatly depend, to do their best and, if they do so with satisfactory results, their total remuneration should be materially higher than it would be necessary to make it were the 500 miles of the East Coast Railway amalgamated with the Madras Railway, and were these officers working for the benefit of their own Company.

The Board have not the data necessary to enable them to make out a scale of extra remuneration, based upon the gross earnings which should reasonably be expected from the East Coast Railway in successive years, and which should therefore be taken to indicate satisfactory development of traffic, and it would therefore be useless to attempt to draw up such a scale; but they may say that, to begin with, they would limit the extra remuneration to one-eighth, or 12½ per cent. of the salaries drawn from the Madras Railway Company by these officers, and that the ultimate grant to them would not exceed 40 per cent. of those salaries, while it seems improbable, looking to the short time that these working arrangements will remain in force, that the development of traffic will be such as to justify a grant in excess of 30 per cent. of those salaries.

8. From the appendix to this letter, it appears that the cost of general and departmental management, exclusive of office establishments, has in recent years averaged in round numbers Rs. 1,80,000, and the Madras Railway being 840 miles in length, and the section of the East Coast Railway under consideration about 500 miles, the proportion according to mileage for the latter would be Rs. 1,07,143 for this charge. The Board propose that the general management fund, inclusive of additional office establishment, should be fixed at rupees one lakh per annum, as this would seem to be ample for the purpose, seeing that the extra remuneration to officials in the service of the Company will not probably exceed at any time Rs. 72,000 (40 per cent. of Rupees 1,80,000) and is not likely to exceed Rs. 60,000, or 30 per cent. on rupees two lakhs, to which amount the salaries payable by the Madras Railway to the officers concerned may in course of time amount.

The Board, however, must stipulate that savings from this one lakh fund in one or some years are to be considered available to meet excess in other years, otherwise it might happen that the Madras Railway would have to pay charges legitimately appertaining to the East Coast Railway.

9. Turning now to the abstracts mentioned in paragraph 6 above—

A.—*Maintenance of Way, Works and Stations.*—All the expenditure shown in this abstract, apart from that chargeable to the general management fund, will be that actually incurred on and for the East Coast Railway.

B.—*Locomotive Expenses.*—The expenses which will be actual are "Subordinate Superintendents" employed on the East Coast line, such as Locomotive Foreman, "Running Expenses" of engines at work on the line, "Fuel," "Water," "Oil, Tallow and other Stores," "Maintenance and Renewals of Machinery, Tools and Plant" in use on the line. The charges common to

both railways requiring to be apportioned would be those under the sub-heads "Maintenance and Renewal of Locomotive Engines," when the expenses are incurred at the Perambur Works or in England, and (apparently) "Unclassified expenditure."

As regards locomotive engines, it may be remarked that as new engines will be obtained, no renewals will be needed apart from accidents. It is proposed, therefore, that the total expenditure under this sub-head, less renewals, shall be divided between the two lines in proportion to the engine mileage respectively.

If, as is possible, the cost of renewals has not been hitherto distinctly recorded in the accounts, it will be necessary to define what are to be deemed renewals, as distinguished from maintenance, and to keep an account of expenditure on renewals accordingly.

With regard to "Unclassified expenditure," the items under which are loss by exchange, and carriage of revenue stores, it seems probable that an apportionment may properly be based on engine mileage, but the Board cannot definitely say how this matter should be arranged, and it would seem best to refer it for settlement to representatives of Government and of the Company on the spot.

C.—*Carriage and Wagon Expenses.*—The procedure applicable to abstract B will be applicable to this abstract also, but the basis of apportionment of charges common to the two railways will be vehicle mileage.

Only by allotting to and keeping on the East Coast Railway, at any rate for considerable periods, certain engines and coaching and goods vehicles, can the necessity of apportioning charges under abstracts B and C be avoided, and the waste of power involved in so doing would be so material as, in the Board's opinion, to render any such arrangement inadmissible.

D.—*Traffic Expenses.*—The greater part of the expenses under this abstract will be actuals. Indeed the only items needing apportionment would be those connected with the carriages and wagons under "fuel, lighting, water and general stores," *e.g.*, wagon covers and ropes, which would go with the wagons from one line to the other as occasion required, and could be apportioned on the basis of vehicle mileage: probably something under "Miscellaneous expenses," which are of very small account, and lastly under "Unclassified expenditure," which would need to be settled on the spot as in the case of abstracts B and C.

E.—*General Charges*—(1) *Home Expenditure.*—Whatever expenses may be incurred under this sub-head will be chargeable against the general management fund (paragraphs 7 and 8 above).

(2) *Salaries of Indian Management, including officers.*—The above remark applies to the first five items under this sub-head. Charges on account of the rest of the items, except perhaps furniture, will be actuals, charges on account of furniture can probably be most conveniently adjusted in connection with buildings which will be noticed subsequently.

(3) *Police, Advertising and Electric Telegraph* will be actuals, so far as any expenses under these sub-heads may be incurred. There may possibly be expenditure under "unclassified expenditure" to be apportioned, and, if so, the details will need to be settled locally.

G.—*Special and Miscellaneous Expenditure.*—The amount of this abstract is small. Several of the items will be actuals. Some of the items will apparently not occur in connection with the East Coast line. Some may require apportionment, and, if so, will be dealt with in the same way as the similar descriptions of charge under other abstracts, and, if no such guide be available, by agreement between representatives of the Government and the Company.

10. *Engines and Rolling-stock generally.*—These may be provided either by the Company or by the State. If by the Company, the charge to the East Coast Railway will be made up as follows:—(1) The percentage on the capital outlay at which that capital may be provided; (2) A percentage on the capital outlay for deterioration, which percentage may vary for engines, coaches and wagons respectively, or may be an average percentage for the whole of the stock. This percentage for deterioration will be necessary if it be arranged that the rolling-stock will be taken over at the full value at which it stands in the books, or in other words, irrespective of deterioration. The Board are not prepared at the present moment to say what this percentage (2) should be, but they apprehend no difficulty in ascertaining what percentage will approximate closely to that necessary to prevent loss. This may be decided by those best acquainted with railway finance.

11. *Stores, Locomotive and General.*—These will be provided by the Company to such extent as may be required, and will be issued to the East Coast Railway and charged for in the same manner and on the same terms as issues to the Madras Railway. No interest will be charged to the East Coast Railway on the increased value of the stock of stores which may have to be maintained. It will be the duty of the Agent and Manager of the Company to take care that the stock is not excessive, and compensation for the interest, on such increase of value as may be unavoidable, chargeable to the company on the capital sunk, may be found in the reduction of contingent charges. Similarly, no interest will be charged on the capital expended in providing *additional machinery* for the locomotive workshops of the Madras Railway on account of the increase of work caused by the East Coast Railway. Compensation here may be provided, to some extent, by the diminution of the cost of subordinate fixed establishment.

12. *Buildings and Office Accommodation.*—Such new, or enlargement of existing buildings, as may be required, will be provided by the Company, and the charge to the East Coast Railway will be made up of—(1) The interest on the capital invested; (2) A percentage on the capital outlay for maintenance, this to be settled locally by representatives of the Government and the Company.

13. *Joint Stations and the use by the East Coast Railway of parts of the Madras Railway*:—The terms on which the Central Station of the Madras Railway, and other stations (if any), as also parts of the Madras Railway line, will be made available for the use of the East Coast Railway, if these proposals are generally agreed to, can be settled in accordance with the Government of India Circulars on the subject.

Rates and fares.—The subject of passenger fares and goods rates on the East Coast Railway is one of much importance. It is necessary that the Madras Railway should have the control of these fares and rates, subject to a schedule of rates, because, if this were not the case, traffic from north of Bezwada, bound for stations south or south-west of Madras, may pass off the East Coast Railway at Bezwada, and be diverted by the Nizam's Railway, or, *viâ* Guntakal, to the Southern Mahratta and South Indian Railways, instead of travelling through to Madras by the East Coast Railway.

APPENDIX.

Total Salaries for three years, 1st July 1893 to 30th June 1896.

Home office	Rs.	36,981
Agent and Manager's office	"	99,000
Chief Engineer's office	"	88,378
Locomotive Superintendent's office	"	95,826
Traffic Manager's office	"	93,844
Chief Auditor's office	"	1,07,750
Storekeeper	"	15,825
	3)	5,37,604
Average	Rs.	1,79,201

Note by—The Examiner of Railway Accounts.
Dated—Madras, 4th April 1897.

The Board's proposals for working the Madras-Vizianagram section practically are—

To charge the section Rs. 1,00,000 per annum for general and departmental management, and in respect to other expenses to work the section at actual cost except in a few instances in which total expenditure is to be divided between the two lines in some special proportions.

As regards the charge of Rs. 1,00,000 for general management, provided this covers the full cost to the Madras-Vizianagram section of general and departmental management including office expenses and contingencies as enumerated in the Board's letter, I do not consider that the amount is excessive or more than the share of expenditure which the section would probably have to bear if these items and sub-heads of expenditure were divided between the two lines on a gross earnings basis.

The great objection to the proposal is, however, that the whole of the savings which would naturally be expected to arise from distributing more or less fixed administrative and general charges over an extra 500 miles of open line, are entirely absorbed in granting extra remuneration to the Company's staff on what appears to be an altogether unnecessary scale.

There are certain other objections to the proposed method of working what the Board call "The General Management Fund," but in view of the main objection on account of its extravagance which is almost certain to lead to the rejection of the proposals, these need not be dealt with in detail at present.

As regards the other part of the proposal—to work the section at actual cost—I have already stated in noting on this and other similar cases that the principal objection to this system is that it entirely removes every motive for the economical working of a branch by the main line administration, besides being apt to lead to innumerable doubts, difficulties and disputes about the separation and apportionment of what will be claimed to be actual charges against one line or the other, although the cost of establishments (exclusive of the head-quarters and departmental establishments provided for under the charge for general management) could be fairly divided according to actuals as the situation of employment would in each case be known, yet there would be a mass of charges connected with the issues of stores and more especially with work done in the shops over which no really effective scrutiny could be exercised on behalf of Government to see that they were actually incurred for the line to which charged, and that they had not been unduly increased or diminished with a view to benefiting one line or the other.

Among the exceptional items which it is proposed should be divided on a proportionate basis instead of on actuals, I notice that the most important is the maintenance and repairs of locomotive and carriage and wagon stock. This is a class of expenditure which, if it were apportioned, according to actuals, would fall much more lightly on the section than on the Madras Railway

itself, because the stock of the section being new would not require much in the way of repairs for many years. The Company, however, in this case propose to combine the heavy repairs to the old stock of the Madras line with the light repairs to the new stock of the section, and to divide the whole on engine and vehicle mileages—the basis which would further give the most unfavourable results to the section. This, however, is a point which it is unnecessary to deal with further, until it is seen whether the Government of India is at all likely to accept the main part of the proposal for working on a basis of actuals.

I do not think that these proposals of the Company for working the Madras-Vizianagram section should be supported or recommended for the two principal reasons:—

First, that the proposals in regard to the General Management Fund do away with the whole saving which ought to result from adding 500 miles to the Madras Railway system; and

Secondly, that the proposals, to work on the basis of actual cost in other cases, remove all incentive to economy on the part of the Main Line Company, and are certain to lead to the costly and extravagant working of the section.

Failing to obtain from the Company complete "Branch line terms" as laid down in Circular No. 514 R.C., dated 17th April 1896, I think division of expenses throughout on a gross earnings basis with a 5 per cent. charge for use of rolling-stock is the minimum which Government could with any advantage accept, and rather than accept such terms as those now proposed by the Company, it would be far more profitable to Government to work the line with its own staff as a State Railway.

Order—No. $\frac{358}{A}$ Ry., dated 19th May 1897.

"The Government of India will be addressed."

From—The Joint Secretary to the Govt. of Madras, P.W.Dept., Ry. Branch.
To—The Secretary to the Govt. of India, P.W. Dept.
Dated—Ootacamund, 19th May 1897, No. 359 Ry.

In your letter, No. 486 R.C., dated the 19th March 1897, this Government was informed that the Government of India would be glad to receive and consider any scheme for the working of the East Coast Railway which the Madras Railway Company might propose. The chief subject of your letter was the estimate for the junction arrangements of the Madras and East Coast Railways near the Salt Cotaurs and the Central Station of the Guaranteed line. This estimate you expressed the Government of India's inability to sanction until terms should have been agreed upon for the working of the State line by the Guaranteed line.

2. The Consulting Engineer, Madras, has now received a copy of the Madras Railway Board's letter to the Secretary of State, No. 8014, dated 12th February 1897, in which definite proposals for the working of the East Coast Railway are made. No spare copy of these proposals is available, but you will doubtless by now have received them from the India Office.

3. I am desired to enclose a copy of a note on the proposals by the Examiner, Guaranteed Railway Accounts, Madras, and to express the concurrence of His Excellency the Governor of Madras in Council with the views therein expressed. The terms proposed by the Madras Railway Company's Board are not only unsuitable, for the reasons expressed by Major Waller, but they are calculated to have the effect, if agreed to, of hereafter unduly enhancing the price to be paid for the Madras Railway.

4. This Government is advised that it will be difficult or impossible to arrange terms unlikely to unduly enhance the price to be paid hereafter for the Company's property; and moreover that terms like those now under consideration, based not upon an agreed percentage of working expenses to gross earnings, but upon so-called "actuals," take away much of the motive for economical working and management, and are therefore objectionable in principle.

5. His Excellency the Governor in Council is of opinion that the Company's present offer should be refused, and that failing more satisfactory proposals it will be best, during the remaining period of the currency of the Madras Railway contract, that the East Coast Railway from Madras northwards up to the point of contact with the Bengal-Nagpur Railway Company should continue as at present to be worked by State Agency. The question of the terminal arrangements of the East Coast Railway at Madras will form the subject of a separate communication.

(A. & M. I.)

No 8031

859

MADRAS RAILWAY.

AGENT AND MANAGER'S OFFICE,

Madras, 5th November 1894

SERIAL No. 2

From

The Agent and Manager.
M. R. C.

To

The Consulting Engineer for Railways.
Madras.

Sir,

I have the honour to enquire whether a proposal for the Madras Railway to work the East Coast Railway for the state would be entertained by the Government.

2. The proposal has advantages for the State -

(1) Very little extra expense under the heading of Management would be incurred by the Madras Railway.

(2) Madras is central between Calcutta and Calicut and as the East Coast Railway may be placed under the direction of the Madras Government, the Head Quarters at Madras would be conveniently situated.

(3) Working Madras and other East Coast Ports we should be so able to regulate the rates

(under

(under Government sanction) that the interests of one East Coast Port would not clash with the interests of another.

(4) The Madras Railway has already large Loco: Workshops at Peramбur and with comparatively little expense these shops could be enlarged to deal with the East Coast stock and so cancel the necessity for erecting large and expensive workshops at Waltair or elsewhere.

(5) The European supervision at the Peramбur Works in respect to Foremen would not have to be added to. The Madras Railway would of course be prepared, if the Government wished it, to take over the existing District staff of Officers, &c of the East Coast Railway.

3. In a few years the Madras Railway will pass into the hands of Government when a rearrangement of the management of Standard gauge Railways in Southern India will doubtless have to be considered and possibly if the proposal I now put forward were carried out, the necessity for any rearrangement in the future would be avoided.

4 I have refrained in the past from putting forward a suggestion of this kind, but

as

MADRAS RAILWAY.

From
The Agent and Manager.

To
The Consulting Engineer
for Railways.

No.
Dated.
Recd.

The question put forward
... quite

4 S-P

as His Excellency the Governor has recently announced that the construction of the Madras Bezwada Railway is shortly to be commenced, it seems to me that the time has now arrived when a proposal from the Madras Railway may possibly be favourably considered.

5. My Board would I am sure, be glad to extend the sphere of its operations if an arrangement for working the East Coast Railway to the mutual advantage of the State and the Company could be agreed to.

I have the honour to be,
Sir,
Your most obedient Servant,

[signature]

Agent & Manager.

REGISTER
No. 5679
FILE
No.

MADRAS RAILWAY.

From
The Agent and Manager.

To
The Consulting Engineer
for Railways.

Dated

Recd.

No.

---

x Their proposal to construct the Madras Bezwada portion was refused - tho' we supported it

This is certainly very premature. But the letter shd. go on. Mr. Moss has misunderstood my remarks. I did not say that the construction of the Madras Bezwada Railway was to be commenced shortly - but that I hoped the S. of S. would sanction its immediate construction.

W
10 Nov

The question put forward by Mr. Moss is really quite premature - It would be more to the point if the Board of Directors x proposed to raise money to complete the whole of the East Coast or even the Madras Bezwada portion - This letter should go on to India for any action they may consider necessary.

F. Rupcott

His Excellency the Governor.

W
14/11/84

1037-38 R

No. 3669C d/ 19th November 1894

Wales Ridid

SERIAL
No. 3

I am directed to forward a copy of a letter from the Agent Madras Railway and to say that the offer put forward is in the opinion of this Govt very premature and that the commence of the Road does not appear to have been obtained officially — I am to remark that the Agent has misunderstood His Excellency the Governor who in addressing the a deputation from Vizagapatam said that he hoped the Sect. of State would shortly be in a position to sanction the construction of the Bezwada Madras section of the East Coast Railway —

Pinned 1 P

JG 15/11

(Init.)
12/11/94

Hon. W. Bliss
Hon. W. Rose

DESPATCHED
19 NOV. 94

DESPATCHED
19 NOV. 94

Proposal by Madras Railway to work East Coast Railway

No. 3669 C. dated 19th November 1894

No. 1298 R. C.

GOVERNMENT OF INDIA.

PUBLIC WORKS DEPARTMENT.

RAILWAY Construction.

SERIAL No. 4

All communications should be addressed to the Secretary.

To

The Joint Secretary to the Government of Madras,

(Railway Branch), Public Works Department.

Calcutta, the 20th December 1894.

Sir,

I am directed to acknowledge the receipt of your letter No.3669 C., dated 19th November 1894, forwarding a copy of a letter from the Agent and Manager, Madras Railway Company, enquiring whether the Government of India would be disposed to entertain a proposal by that Company to work the East Coast Railway for the State.

2. In reply I am to say that as some time must elapse before any such proposals can be fully considered the Government of India prefer to defer expressing any opinion upon them until they are in possession of the views of the Board of the Madras Railway Company and of the Government of Madras on the subject.

I have the honour to be,

Sir,

Your most obedient servant,

F. A. Hubbard

Under Secretary.

Documents accompanying:-

Nil.

B.C.

P. W. CURRENT No. 9945

Recd: 26.12.94

P. W. Current No. 9945

Letter from the Govt: of India No. 1298 R.C. dated 20th Decr: 1894..

SERIAL No. 5

No. 22. dated 7th Jany 95

Copy forwarded to the Agent and Manager Madras Railway with reference to his letter No: 8031/859 dated 5th November 1894 – with request that the views of the Board may be obtained

W/8 Jan

FMcC 7/1 95 ER

W.P. 10/1/95

JG 11/1

Print

H.E. the Governor
Hon: Mr. Bliss
Hon: Mr. Carse.

Indian reply to proposal by Madras Railway to work Coast Conn. Ry.

12 S.P

SERIAL No. 6 3

No. 7759.

MADRAS RAILWAY COMPANY,

61, NEW BROAD STREET,

LONDON, E.C., *19th March, 1894.*

SIR,

Proposals for the extension of the Madras Railway System by this Company having been declined or put aside by the Indian Government, the Board of the Madras Railway Company are prepared to afford assistance and encouragement to other Agencies for Railway extensions in Southern India; and Mr. Gale, a professional gentleman of high character, formerly connected with the Madras Railway, and well informed in such matters, has, as the Secretary of State is aware, submitted proposals to the Government of India for the construction of certain standard gauge lines in close connection with the Madras Railway, and is engaged in forming Syndicates and endeavouring to raise money for the purpose.

2. It is premature to judge of the probable success of the endeavours to float Railway projects in India by private agency under the more liberal terms recently offered by the Government of India; but, having regard to the continued stringency of the money market, and the reluctance of the public to risk the investment of money in foreign undertakings of any sort, the difficulties of promoters are no doubt very serious and their operations must necessarily be slow.

3. The Board believe that for many obvious reasons the simple extension of an existing trunk line is better left in the hands of the original Company than committed for construction to a new and separate agency. One, at least, of the Railways proposed by Mr. Gale could certainly, they think, be more economically undertaken by this Company than by any other agency, and be constructed and worked as part of the Madras Railway system in the best interests of the State.

4. This is the proposed extension along the Western Coast from Calicut to Tellicherry and Cannanore, a distance of between 50 and 60 miles. It is understood that a reconnaisance of this line is already in progress, and that a survey will probably follow under the sanction of the Madras Government. When the results of this survey are known the Board will be able to speak more confidently of the cost of the undertaking, and as to the prospects of the traffic both in passengers and goods.

5. The character of the country and the Engineering requirements are, it is believed, very similar to those affecting the recent extension of this Company's system of 9 miles, from Beypur to Calicut, on the same coast, which was completed in 1888.

To the Under Secretary of State for India,
India Office, S.W.

6. The results of the working of that extension, notwithstanding its heavy cost (Rs. 20 lakhs), afford grounds for the belief that the proposed undertaking would be a financial success. The volume of trade between Calicut and Tellicherry is described by all who are acquainted with the locality—both Government Officers and others—as being something extraordinary, and it is believed by the Officers of this Company that the traffic of the line will exceed that of the Calicut extension.

7. In regard to the provision of funds for the new undertaking, the Board apprehend that the Secretary of State will be averse, in the present state of the finances, to sanction the issue of sterling debentures in this country to any considerable amount, though the Board would probably find no difficulty in placing whatever amount will be required at, say, 3½ per cent. They have ascertained, however, from their legal advisers, that there is nothing in the Deed of Settlement or in the Acts of Parliament of the Madras Railway Company which prevents them from raising a loan with the sanction of the Secretary of State, either in rupees in India or in sterling in England, or partly the one and partly the other, provided the amount, together with any loans now outstanding, does not exceed the proportion prescribed by the Act of the subscribed capital of the Company.

8. The Board are not yet in a position to state whether or not the placing of silver debentures in India is practicable to any great extent, but they are hopeful that it will be found possible to effect the issue of a moderate amount of these debentures at, say, 4 per cent., the principal and interest being guaranteed by the Indian Government.

9. The most economical arrangement would probably be—as avoiding all questions of exchange—to obtain the amount which is required for the provision of Permanent Way, rolling stock, and other necessary materials to be supplied from England, by the issue of sterling debentures in this country, and to provide for the payment of salaries, wages, labour, local materials and other matters by the money obtained by silver debentures in India.

10. The Board submit these proposals for the consideration of the Secretary of State in Council, who, after communication with the Government of India, will be in a position to decide as to the feasibility of adopting the alternative methods they venture to suggest for raising the capital which will be required for the construction of the project proposed.

I have the honor to be,

Sir,

Your most obedient Servant,

(Sd.) Julian Byrne

Secretary.

13 S.P.

Extracts from the Boards letter to the Agent, Madras Railway, No: 897 dated 13th April 1894.

SERIAL No: 6/2

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Silver Debentures or Sterling Bonds for Railway extensions.

(16) I am directed to forward for your information copy of a letter addressed by the Board to the Secretary of State for India in Council submitting, for his consideration, proposals with reference to the issue of Silver Debentures in India, or of Sterling Bonds in this country, to provide funds for the extension of the Madras Railway system, and referring specially to the proposed extension from Calicut to Tellicherry and Cannanore, which the Board think could be constructed and worked by this Company more economically than by any other agency, and which extension would, in their opinion, prove a financial success.

* * * *

SERIAL
No. 6
1

No. 910.

MADRAS RAILWAY COMPANY,
61 NEW BROAD STREET,
LONDON, E.C., 21*st December* 1894.

SIR,

Proposal to work East Coast Railway.

The Board have carefully considered your letter to the Government Consulting Engineer for Railways, dated 5th November last, copy of which was enclosed in your official despatch of the 15th November, 1894, No. 2,170, and they desire me to say that they approve entirely of the proposal you have made that this Company should work the East Coast Railway on the completion of the section between Madras and Bezwada. The views you have expressed are in accordance with the known wishes of the Board as communicated to you from time to time, and as submitted to the Indian Government on several previous occasions.

2. When the project of the East Coast Railway was first mooted, your predecessor, Mr. Hanna, anticipated the wishes of the Board in approaching the Madras Government on the subject, and in 1890, with their concurrence, he obtained the sanction of that Government to make a survey of the section of the line between Madras and Bezwada, the results of which, with plans and estimates, were submitted to the Government in August 1891.

3. In their letter to the Secretary of State, dated 22nd June 1891, the Board expressed their desire to take over both the construction and working of such sections of the East Coast line, within the limits of the Madras Presidency, as the Government of India were disposed to entrust to them, and in a subsequent letter, dated 18th March 1892, they reiterated their offer, and suggested the mode in which the requisite funds might be raised for the purpose. They are still prepared to carry out as a separate undertaking the construction of the section of the East Coast line from Madras to Bezwada with a guarantee say of 3 per cent., at which rate they could no doubt place Sterling Debentures in this country.

Letter dated 26th July 1892.

G.O. No. 2,056 R., dated 23rd August 1892.

4. The Board have not continued to press this matter upon the Government because they were informed by the Secretary of State that their proposals with regard to the construction of any section of the East Coast Railway could not be entertained; and with respect to the working of any portion of the East Coast Railway, the Madras Government intimated that this Company's offer could not be considered while the East Coast Railway remained detached from the Madras system.

5. If, however, it should be considered the best arrangement, both in the interests of the Government and of the Company, to retain the East Coast line as a State Railway, and to commit the working to this Company, the Board now desire to confirm the proposal contained in your letter to the Government Consulting Engineer, and are willing to undertake the working of the whole line under such arrangements as may be approved by the Government.

6. The Madras Railway Company, as the Board have frequently urged, have special claims to consideration in this matter, and the clear arguments you have now brought forward in favor of the scheme proposed afford a strong presump-

To THE AGENT AND MANAGER,
Madras Railway,
Madras.

tion that the line could be worked by this Company to the mutual advantage of the State and the Company.

7. The Board await with interest the reply of the Government to your letter of the 5th November 1894, and hope to learn in due course how the Government of India decide to deal with the proposals it contains.

I am, Sir,

Your obedient Servant,

(sd.) Julian Byrne

Secretary.

ENDO. NO. 1 D. E. R's. C. No. 410 of 1895.
LETTER NO. 77 D. 25/1/95
FROM AM

(1 Enclo:)

(No. I.)
No. 6630/S

77

MADRAS RAILWAY.

AGENT AND MANAGER'S OFFICE,

Madras, 25th January 1895

SERIAL No. 6

From

G.S.P

The Agent and Manager.
M. R. C

To

The Consulting Engineer for Railways.
Madras

SIR,

With reference to your endorsement No 22 of the 7th instant on copy of letter from the Government of India dated Calcutta 20th ultimo, I have the honour to forward a copy of a letter from my Board No 910 of the 21st December last containing an expression of their views on the proposal that the Madras Railway should work the East Coast Railway for the State.

2. It will be observed from the letter that my Board are not only prepared to work the East Coast Railway but that they are also prepared to undertake the construction of the portion from Bezwada to Madras.

3. In their letter No 7759 of the 19th March 1894 to the Secretary of State, copies of which were

9 S P

forwarded to me with their letter № 897 of the 13th April 1894, they referred to the possibility of providing funds for the extension of the Madras Railway system by the issue of Silver Debentures in India.

I have the honour to be,
Sir,
Your most obedient servant.

Innis. S M V S.

Agent & Manager.

REGISTER
No. 410
FILE
No.

MADRAS RAILWAY.

From The Agent and Manager.

To The Consulting Engineer for Railways.

Dated 188

Recd. No.

Not to print

His Excellency the Governor
Hon. M. Alis
Hon. M. Pove.

SERIAL
No. 7

3½% Govt. paper being at about 103 I wd. not recommend a 3¼% guarantee, seeing that under it the capital wd. have to be raised at a discount — It is a much more profitable operation to ~~raise~~ pay a little more int. & to raise capital at a premium, because then you can look forward to the possibility in a few years of such a conversion as the G. of I. has just made. I would give a guarantee of 3½%.

[initials]
2/2/95

The views of the Madras Ry Co asked for in No 1298 of 20 Dec. herein are set forth and the views of this Govt. are also called for.

The reply of the Madras Board of Directors goes beyond the proposal to work the Madras Bezwada line and they reiterate their former proposal to construct it with a guarantee of 3% in Sterling — as well as work it when completed —

They have in hand now 2 surveys Calicut to Cannanore & Shoranur to Cochin about 52 & 61 = 113 miles

Their borrowing powers are now about £2,500,000 to construct additional branch lines —

The Madras Bezwada line is 265 miles and is estimated to cost 80,000/- per mile or a total of 2[illegible] lacs

The West Coast branches will work out to about the same or a total of 90 lacs

This represents @ 20/- = £1 £1,500,000 so that they are within their borrowing powers to raise capital to construct and it is submitted that their proposal be sent on to the Govt. of

this Govt. advise that
India but that, the Capital
should be raised for the
issue of Silver Debentures
in India — if this is con-
ceded, the rate of Interest
remains to be settled — which
will have to be guaranteed
by Govt. or otherwise, the in-
vestment of trust funds
will not be allowed, and
at the present rate of Gov-
ernment Rupee paper £55 per
1000 the 3½% gives a return
of rather over 3% —

Perhaps this is a question
that this Govt. might leave
untouched but I suggest a
Govt. guarantee of 3¼%
would enable money to be
raised in this country.

The proposals of the Ma-
dras Board may therefore be
submitted to the Govt. of
India with the favourable
support of this Govt. and a
suggestion that the Capital
should be raised by Sterling
Debentures @ a rate which
the Govt. is disposed to
guarantee & half profits
over the guarantee should
be divisible in equal shares

also that, as their
staff is capable of working
an extension of their
system without much
increase of establishment
the probable result of per-
mitting the present agency
to work the branches would
result in lowering the
working expenses on the
whole system — to which
the cheapening of their fuel
from Singareni will be
an important aid —

Free 31/1/95

WS
2/2/95

JG
2/2

I approve of the suggestions in the note — but I would say that as the State is apparently going to construct the Madras – Bezwada line, this Govt. does not therefore press for this. It would however do so strongly, in the event of the Govt. departing from the policy wh. they have announced.

I certainly think the Madras Ry. Shd. construct & work the other two lines as part of their system.

W
2 Feb

This will be dealt with in sending up the estimates of the 2 branch lines. Free 4/2/95

R. No. 13—200—11-94.

~~No.~~ No. 70. R

SERIAL No. 8

Government of Madras.

PUBLIC WORKS DEPARTMENT,

RAILWAY BRANCH.

6 P

To

THE SECRETARY TO THE GOVERNMENT OF INDIA,

PUBLIC WORKS DEPARTMENT,

CALCUTTA,

Madras, 11th February 1895.

SIR,

In reply to your letter No. 1258 R.C., dated 20th December 1894, I am directed to forward a copy of letter, No. 810 dated 21st December 1894 from the Board of Directors Madras Railway Company to their Agent and Manager on the subject of the East Coast Railway being worked by the agency of that Company on completion of the Madras-Bezvada Section.

2. The terms on which the Madras Railway Company are prepared to work the East Coast Railway are not specified though apparently the Board are prepared to meet Government in a liberal spirit. In the opinion of His Excellency The Governor in Council the working of the East Coast Railway by the Madras Railway Company is most desirable and the proposal although premature seeing that the construction is not yet sanctioned, is therefore favorably supported by this Government. As pointed out by the Madras Railway their present Superior Staff is capable of working a

large

large extension of the system though from the peculiarities of their line in 2 separate branches no present reduction thereof is practicable. This would result in lowering the working expenses over the whole system to which end the cheaper rate of their fuel from the Singareni Coal mines would materially help.

3. I am to invite attention to the offer of the Board of Directors to construct the Madras-Bezvada section of the East Coast Railway on a sterling guarantee of 3 per cent. As however the apparent intention of the Government of India is to construct the section from imperial funds, this Government -- is not prepared to press the matter, but in the event of a -- departure from the policy of State Agency the offer of the - Madras Railway Company is strongly supported. I am further to add that in the opinion of His Excellency The Governor in Council it is not desirable to [illegible] sterling guarantee and that should the Madras Railway Company be permitted to construct the line from Madras to Bezvada the necessary funds should be raised by silver debentures on a guarantee which the Government of India may consider expedient any profits over the amount of the guarantee being equally -- divided between Government and the working Company.

I have the honor to be,

Sir,

Your Most Obedient Servt:

Cipd.

Joint Secretary to Government,

P. W. D. Railway Branch.

No. 70.R

11.2.95

DESPATCHED

11 FEB 95

Documents accompanying:-

Copy of letter from the Secy: Madras Railway Board, No. 910 -- dated 21st December 1894.

His Excellency the Governor
Hon'ble Mr Bliss CIE
Hon'ble Mr Grose.

Proposal of the Madras Railway Company to work the East Coast Ry on completion of the Madras Bezvada section

No 70. R dated 11.2.95

No. 70. R dated 11.2.95

148

SERIAL
No. 9

No. 473 R.C.

GOVERNMENT OF INDIA.

All communications should be addressed to the Secretary.

PUBLIC WORKS DEPARTMENT.

Railway Construction.

Communicate to A.M. F&T 9/5

To

The Joint Secretary to the Government of Madras,

Public Works Department, (Railway Branch).

Simla, the 24th April 1895.

Sir,

I am directed to acknowledge the receipt of your letter No.70 R., dated 11th February 1895, forwarding a copy of a letter from the Board of the Madras Railway Company to their Agent in India, offering to work the East Coast State railway, and to construct an extension of that line from Bezvada to Madras on a sterling guarantee of 3 per cent.

2. In reply I am to refer you to Government of India letter No.314 R.C., dated 14th March 1895, in which you were informed of the proposals of the Government of India for the construction of the Bezvada-Madras railway from State funds; and to say that the question of the working of this line, as well as of the East Coast railway, will be considered in due time.

I have the honour to be,

Sir,

Your most obedient servant,

F. A. Robertson

Under Secretary.

Documents accompanying :-

Nil.

A.L.D. S.C.B.

P. W. CURRENT No. 3344

Recd: 1. 5. 95

P. W. Current No. 3344

No 1550
14.5.95

India's letter No: 473 R.C. dated 24th April 1895.-

SERIAL No. 10

15 P

Copy forwarded to the Agent & Manager Madras Railway with reference to his letter No. $\frac{6630\ S}{77}$ of 25 January 1895.-

9/5

Public Works (1897) Department.

CURRENT No. 3132

SERIAL No. 18

Order

From The Govt of India

No. 486 R.C.

Dated 19.3.97

Received 26.3.97

Enclosures

Spare copies

SUBJECT.

Junction arrangements at Madras between the M. Ry & the B.M. Ry

---

Replying to reference reg — & in regard to Entrustm the working of the E.C.Ry.

P. W. 29.
2,000—16-11-96.

BACK PAPERS.

No.	Date.

FURTHER PAPERS.

No	Date.

All communications should be addressed to the Secretary.

No. 486 R.C.

GOVERNMENT OF INDIA.

PUBLIC WORKS DEPARTMENT.

Railway Construction.

GENERAL No. 18

To

The Joint Secretary to the Government of Madras,

Public Works Department, Railway Branch.

Calcutta, the 19th March 1897.

Sir,

I am directed to acknowledge the receipt of your letter No.31 R., dated 16th January 1897 forwarding detailed plans and an abstract estimate amounting to Rs.4,88,547, of the cost of the proposed junction arrangements at Madras between the Madras railway and the Bezwada Madras railway, and remarking that, in this connection, an early decision is desirable on the general question of entrusting the working of the East Coast State railway or a portion of it to the Madras Railway Company.

2. In reply, I am to say that unless satisfactory terms are proposed under which the purchase price of the Madras Railway Company will not be unduly enhanced the working of the new line into Madras will be carried on by the existing administration of the East Coast State railway, but that the Government of India will be glad to receive and consider any scheme which the Madras Railway Company may propose. In the meantime it would be premature to sanction any arrangements which are dependent upon a

decision

decision to entrust the working of the East Coast State railway or part of it to the Madras Railway Company.

I have the honour to be,

Sir,

Your most obedient servant,

C. A. Bruce

Under Secretary.

Documents accompanying:-

Nil.

Form No. 4.

OFFICE OF THE CONSULTING ENGINEER FOR RAILWAYS,

Madras, 30th March 1897.

JOURNAL
No. 21

To

AGENT AND MANAGER, M. R.

No. 1174 Reply No. E497/313, dated 31.3.97

668

SIR,

With reference to correspondence ending with your letter No: E497/1130 of 16 Dec: 1896. I have the honour to forward herewith for information copy of letter No: 486 R.C. of 15 March 1897, from the Government of India on the subject of the proposed junction arrangements at Nandoor between the Madras Railway & the Bezwada Nandoor Ry.

30/3/97 F/S 30/3

Reminders.

Despatched on 30-3-97.

Subject.

383 30/3/97

SERIAL
No. 23

Proposals for Working the

MADRAS-VIZIANAGRAM SECTION

OF THE

EAST COAST RAILWAY.

PRINTED AT THE LAWRENCE ASYLUM PRESS, BY H. PLUMBE, MOUNT ROAD, MADRAS.—1896.

69 S.P

PROPOSALS FOR WORKING THE MADRAS-VIZIANAGRAM SECTION OF THE EAST COAST RAILWAY.

Memorandum by Mr. F. Dunsterville, Chief Auditor, dated the 17th June 1896.

1. The earnings of the East Coast Railway were estimated by the several Engineers in charge of surveys at about Rs. 170 per mile per week and working expenses at about 60 per cent., or say Rs. 100 per mile per week; net earnings were estimated to give a dividend of rather over 3½ per cent. per annum on the capital cost.

2. Actual results, however, during 1894 showed that over the 316 miles then open, gross earnings only realized Rs. 96 per mile per week, while the working expenses were 90 per cent., leaving Rs. 1,51,000 as net earnings, paying a dividend of only ½ per cent. per annum on the capital expended: at the present time (June 1896) when about 500 miles are open, the average gross earnings per mile are *under Rs. 80 per week*, and if the working expenses remain in the same ratio as in 1894, the net earnings will give very little indeed in the way of dividend, if the capital expenditure has continued at the same rate.

3. It is found that the actual working expenses of various Indian Railways were for the first two years after opening for traffic:—

Southern Mahratta.	Indian Midland.	Bengal-Nagpur.	East Coast.
104 per cent.	80 per cent.	80 per cent.	84 per cent.
84 „	72 „	81 „	90 „

4. The average of all these actuals is 84 per cent. of gross earnings, which clearly shows that it would not be a profitable business for the Madras Railway to undertake the working of the East Coast Railway at its own percentage (say 47½) of working expenses: it does not appear that on the whole "Maintenance" was extraordinarily high in these cases, and it is therefore probable that the lack of traffic was the main cause of the unsatisfactory results.

5. The following figures show the probable results for a year were the Madras Railway Company to undertake the working of the East Coast Railway, Madras to Vizianagram, at its own percentage of working expenses, taking earnings at about 25 per cent. higher than at present:—

Estimated gross earnings for 500 miles at Rs. 100 per mile per week for one year	Rs. 26,00,000
Madras Railway share for working expenses at average of 1895, 47½% (Government providing all Rolling Stock)	„ 12,35,000
Net Earnings, Rs.	13,65,000

giving as dividend on estimated capital cost (500 miles at Rs. 70,000 per mile = Rs. 3,50,00,000), 3·9 per cent. per annum.

6. Were actual working expenses to be as high as for the other four Railways given above, the annual cost would be Rs. 21,84,000 instead of Rs. 12,35,000, leaving the Madras Railway Company *with a loss of Rs. 9,49,000* to be met out of its own earnings, reducing its dividends by some ¾ per cent. per annum.

7. The above figures clearly show that under probable present circumstances it would certainly not in any way pay the Madras Railway Company to take over the working of the

Madras-Vizianagram line at its own percentage of expenses, at any rate until it were certain that traffic was improving to a very great extent, and so far as can be seen the only scheme which would be fair to all concerned would be to work the line on "actuals," *plus* a small percentage for supervision by heads of departments and their deputies.

8. With a new line of 500 miles it would probably be found that all departments would require additional staff in the way of officers, viz., District Engineers and their Assistants, Assistant Locomotive Superintendents, Assistant Traffic Manager, Assistant Telegraph Engineer, Assistant Auditors, &c.: these and all the necessary subordinate staff would be all charged direct to the new line as "actuals," and to this ought to be added a fair proportion of the pay of the various heads of departments and their deputies for supervision: at present these officers cost on the Madras Railway about 1¼ per cent. of gross earnings: on the joint lines the percentage would be about 1¼.

9. The working agreement might at first be made for two years certain, after which date it might be subject to revision according to results.

10. This proposal to work for "actuals" is similar to the arrangement under which the Bombay, Baroda and Central India Company work the Rajputana-Malwa State Railway, except that in this latter case one-fifth of the surplus profits of the State line is allotted to the working Company. For the present the Madras Railway Company might be content to defer any such proposals, and the agreement might state that the Company will work for actual cost, &c., as above until the State line is developed, leaving the question of remuneration for services rendered to be settled when the net earnings exceed the interest (say at 3 per cent.) on the capital outlay.

11. There are many other points to be considered if the Madras Railway were to undertake the working of the new line of 500 miles: one thing is the provision for workshops and office accommodation; if these were to be provided from Madras Railway capital, the additional interest will really be a charge on Madras Railway revenue and will thus affect our surplus profits unless a direct charge be made for it upon the revenue of the Madras-Vizianagram line. Terms would also have to be arranged for the repayment of the capital outlay to the Madras Railway in the event of its ceasing to work the State line.

12. Provision of Rolling Stock is another point: should the Madras Railway provide the capital, the interest thereon would have to be met by a charge of 5 per cent. on the gross earning of the new line: if Government provided engines and vehicles, the number should be on a scale proportionate to the length of line as compared with the Madras Railway; it is only under these circumstances that arrangements could be made for a free interchange of stock—an absolute necessity for the economical working of the combined undertakings.

13. The above scheme is what is strongly recommended to our Board of Directors, but at the recent Officers' meeting the majority seemed to be of opinion that it might be suggested that if the above scheme were not acceptable to the Secretary of State, then the Madras Railway Company might offer to undertake the working of the new line at the same proportion of expenses as the total expenditure bears to the gross earnings of the combined railways so far as all departments but the Engineers are concerned, charging for the latter "actuals" for maintenance (Items 2, 3, 4, 5, 6 and 7 of Abstract A) *plus* a normal proportion of "General Superintendence" for supervision.

14. It may, however, be pointed out that, as shown in para. 4 of this memorandum, it does not appear that maintenance charges were extraordinarily high during the first two years after the opening of new railways, but that deficiency of traffic was the principal cause of the high percentage of working expenses, and as the Locomotive and Traffic Departments must be prepared to deal with the largest reasonable amount of probable traffic, a loss upon the working of those departments would inevitably result to the Madras Railway Company if it fell in with this suggestion.

15. It may therefore be desirable to repeat that all Indian Railway statistics show that to undertake the working of a *new* line of 500 miles in length upon any other terms than actual cost must result in a loss to the working Company.

Letter from Mr. E. W. Stoney, Acting Chief Engineer, dated the 24th June 1896.

The subject is very clearly set forth in the Chief Auditor's memorandum, dated the 17th instant, and the figures given therein show conclusively that this Company would sustain a considerable loss if it undertook to work the Madras-Bezwada Railway at the same ratio of gross receipts as its own working expenses amount to.

2. I concur with Mr. Dunsterville's views, and think that the only practical way of dealing with the question is that proposed by him, to work the line at actual cost *plus* a percentage for supervision by Heads of Departments; this might be in the proportion of the mileage of the two Railways $\frac{500}{1,450}$, or say, $\frac{1}{3}$ of the total cost of Heads of Departments' salaries should be charged to the Madras-Bezwada Railway for superior staff.

3. There should be a clear understanding as to who should provide the Capital necessary for houses and offices for District Engineers and their Assistants and for any enlargement of Head-quarter offices required for the additional Clerks that would be needed in Madras, and for Capital and Supervision for extra works, &c., chargeable to Capital.

4. It is not apparent where any gain would accrue to this Company if it worked the Madras-Bezwada Railway at any sum less than the actual cost of performing this service; if the Madras-Bezwada line joined the Madras Railway at some central point of its system remote from Madras, it would then gain by the traffic brought on to and over its system.

5. As, however, the Madras-Bezwada Railway is wholly distinct, and ends at the port of Madras, the probability is that almost all traffic would be brought to Madras for shipment, and that a small portion only would find its way on to the Madras Railway.

Letter from Mr. C. E. Phipps, Locomotive Superintendent, dated the 29th June 1896.

I have read very carefully the memorandum prepared by the Chief Auditor and, from the figures quoted by Mr. Dunsterville, there can, I think, be little doubt but that the only terms upon which it would pay this Company to work the East Coast Railway would be that the actual cost of working should be paid by the State, such further payment for proportion of supervision and, if necessary, profit being made as might be mutually agreed upon.

2. It is, however, rather difficult to deal very fully with the question in the absence of any information as to what the wishes of the Board and the Government, are, respectively, as to the general principles to be kept in view. I understand from conversation that it is the wish of Government that as large a share as possible of the profits of the new undertaking shall go to the State direct, but how far the Board are prepared to acquiesce in this matter I have no knowledge.

3. It is probably superfluous to state that the working of the line must of necessity be less expensive if carried out by an existing administration, such as the Madras Railway, rather than by any new or independent Company or management, and further that it is unquestionably the case that the interest of the Madras Railway and of the population of the country through which the East Coast Railway passes are identical. As a matter of State policy and in general benefit of the country, I would submit these interests should be respected and fostered in the highest degree.

4. This being so, it may be accepted as beyond argument that the working of the line should be placed in the hands of the Madras Railway Company, and that, although the Company cannot be expected to undertake this at a loss, the plain duty lies upon it of working the line even if only at a small nominal profit to itself.

5. I would suggest that the Company offers to work on the terms quoted in the latter part of para. 7 of the Chief Auditor's note, and that any working agreement drawn up be limited to a period of, say, two years from date of opening, when the facts and figures obtained will place the Government and the Madras Railway Company in a position to form, if possible, a permanent working agreement which shall be fair to both parties.

Letter from Mr. D. Ross-Johnson, Officiating Traffic Manager, dated 30th June 1896.

In forwarding the following remarks upon the Chief Auditor's memorandum on the working of the East Coast Railway, my object is principally to show the advisability of obtaining more reliable and current statistics of the working of the East Coast Railway as now open for traffic and of the future prospects of the line than are now before us before attempting to formulate a scheme for the consideration of the Board.

2. The Chief Auditor's remarks are based to a great extent on the apparent continued falling off in the receipts per mile open. With an average receipt in 1894 of Rs. 96 per mile per week on a mileage of 316 miles, Mr. Dunsterville quotes a receipt in June 1896, of under Rs. 80 per week on an increased open mileage. I find, however, from a recently-published extract from the Gazette of India that, for the week ending 30th May 1896, the gross receipts were Rs. 77,100 giving a receipt per week per mile on a mean mileage of 509·22 of Rs. 151·41 against Rs. 89·4 in the corresponding week of 1895, when the mileage open was 417·97. The same return gives the total earnings * for the current official year (1st April to 30th May) at Rs. 10,63,673 against Rs. 8,93,659 for the corresponding period of 1895. There seems to be something wrong about the former figure, as it is equal to a receipt per mile per week of Rs. 231, but it seems at least to indicate the necessity of a closer examination of the actual condition of the new line than the information now in our possession enables us to make. The important point is the effect of these increased receipts upon the percentage of working expenses. The Chief Auditor's figures are based on those for 1894, but the Administration Report should shortly put us in possession of the actuals for last year.

3. In the absence of any other details as to the country served by the line, the annexed abstract of the population and revenue of the districts served by the Madras Railway and by the East Coast Railway, respectively, show that the prospects of the new line should be at least as good as those of the Madras Railway. This is also borne out by the statement of commodities carried in 1894, as compared with the previous year, the increased traffic being principally in cotton, dyes and tans, grain, oilseeds, sugar and tobacco, all staples promising a permanent and growing traffic. Agreeing with the view of the Chief Auditor that a light traffic has been the principal cause of the high percentage of working expenses in the past, it does not appear improbable that this percentage will be much reduced as the traffic improves. In its favour are, I believe, easy gradients and cheap coal.

4. Looking at the details of the working expenses by sub-heads (figures for 1894), it will be seen that, excluding maintenance, the cost per train mile of the other departments is only slightly in excess of that of the Madras Railway, and this exceses will, of course, be reduced as the traffic increases and the separate supervision charges are eliminated. Again, the figures given by the Chief Auditor in his para. 3, it should be remembered, refer to lines just opened for traffic, whereas in the case of the East Coast Railway if taken over by the Madras Railway, about half the mileage will have been opened for several years.

The Chief Auditor's memorandum refers to two alternatives, viz. :—

(*a*) To work the new line on actuals.

(*b*) To work it on the percentage of expenses of the joint undertaking for all heads except maintenance, each line bearing its own maintenance charges.

* *Note.*—The weekly figures quoted here are correct; but the figures for April and May 1896, according to the Government of India Gazette, are 4,66,000 against Rs. 3,76,038, for the corresponding period of 1895. The paper from which the Officiating Traffic Manager copied the extract gave these figures incorrectly.

5. The Chief Auditor favours the first scheme apparently principally because he has not much faith in the revenue of the line for some time to come. If, however, the view is accepted that the revenue prospects are more favourable (and I would ask for a more careful examination of reliable figures before adopting such a conclusion), there appear to be several advantages in favour of the second proposal. The cost of the administrative offices and departmental supervision would be more equitably distributed, the division of the lines into districts (at least so far as the Traffic Department is concerned) could probably be more economically arranged and the free interchange of staff and stock would be conducive to economy. It would, of course, be necessary in either case to make due provision for a fair equipment of rolling stock and for an equitable provision of the cost of additions to terminal workshops and buildings either by a *pro rata* contribution of capital or by treating such expenditure on joint station principles. An important difference between the present case and that of the B. B. and C. I. working the Rajputana-Malwa is that, in the latter, the lines are on different gauges, and the same close interchange therefore is not possible.

6. There is, however, another side to the question. We have so far considered the necessity of safe guarding the Madras Railway. The Board's letter, No. 937, of 8th ultimo, imposes on us the duty of securing the interests of the State as owners of the East Coast Railway. Assuming that if we work the line on either of the above terms, the State will at least be secure of as low a percentage of working expenses as they could obtain by their own agency, they will still look for the most favourable possible return upon their capital expenditure, and if the results of working the line should fail to yield a dividend of, say, three per cent., the Madras Railway might offer (on the principles recently laid down by the Government of India in its proposals for the construction of feeder lines) a rebate upon the traffic interchanged between the two lines limited on the one side to such a figure as would raise the State Railway return to, say, three per cent. on its Capital and on the other to such a figure as would not reduce the Madras Railway receipt below the statistical cost of lifting the traffic.

7. The Board ask for a draft agreement. Before this can be obtained, it will be necessary for the Company's officers to agree as to the principles on which it is to be based, and before discussing this, it would seem very necessary to obtain accurate up-to-date figures, and also, if possible, a knowledge of the local conditions of the line.

Comparison of Statistics of Districts served by Madras and East Coast Railways.

Madras Railway Districts.

Districts.	Population.	Population per Square Mile.	Square Miles.	Gross Revenue per Square Mile.
Madras	452,000	15,604·07	29	170,109·79
Chingleput	1,202,000	388·91	3,092	824·27
North Arcot	2,114,000	287·12	7,366	582·98
Salem	1,962,000	260·59	7,529	495·15
Coimbatore	2,004,000	254·96	7,860	530·28
Nilgiri	99,000	103·45	957	537·09
Malabar	2,652,000	474·76	5,586	634·44
Cuddapah	1,272,000	145·70	8,730	331·96
Anantapur	708,000	134·22	5,275	298·32
Bellary	900,000	152·36	5,907	423·90
	13,365,000	255·39 per square mile.	52,331	Rs. 586·75

East Coast Railway Districts.

Districts.	Population.	Population per Square Mile.	Square Miles.	Gross Revenue per Square Mile.
Madras	452,000	15,604·07	29	170,109·79
Vizagapatam	2,802,000	162·51	17,242	142·85
Godavari	2,078,000	264·48	7,857	1,004·58
Kristna	1,855,000	220·91	8,397	850·54
Nellore	1,463,000	166·91	8,765	351·39
	8,650,000	204·54 per square mile.	42,290	Rs. 603·24

Letter from Mr. F. Dunsterville, Chief Auditor, Madras Railway, dated the 9th July 1896.

After a careful perusal of the opinions expressed by the Acting Chief Engineer, Locomotive Superintendent, and Officiating Traffic Manager, I see no reason to modify any of the statements contained in my memorandum of the 17th ultimo.

2. The Acting Chief Engineer and the Locomotive Superintendent practically agree with the conclusions drawn from the figures at our disposal—the only difference of opinion being as to mode of calculating the division of supervision charges, my idea being in proportion to gross earnings and the Acting Chief Engineer's proposal being in proportion to mileage open; the latter would probably be to our advantage.

3. I am at a loss to understand the Officiating Traffic Manager's method of argument—he first assumes that my estimates of traffic are incorrect, basing his assumption on certain figures extracted from the "Gazette of India," but he then proceeds to state that there appears to be something wrong about his own figures upon whose authority he disputes the correctness of my figures.

4. I can only say that all the weekly Traffic Returns of the East Coast Railway that I could find published up to the date of writing my memorandum gave the return as *under Rs.* 80 *per mile per week*, and in the "Madras Mail" of the 7th July 1896, I find the last Return for the week ending 20th June 1896 to be *Rs.* 67·51 per mile as against Rs. 76·95 in 1895.

5. You will observe that in para. 5 of my memorandum I assume the earnings to average *Rs.* 100 per mile per week, or at a rate about 30 per cent. above the latest actual earnings which to me seems a liberal allowance.

6. As to the necessity for obtaining reliable estimates of the probable traffic, you will remember that at my request you asked the Officiating Traffic Manager to furnish you with such figures, but that Officer replied that he was unable to do so.

7. The Administration Report for 1895 may not be published for some months, and it was for this reason I took the latest figures available which were those for 1894. I have, however, the half-yearly Revenue Statistics to the 31st December 1895, and I find the average Traffic Receipts for that period were just under *Rs.* 80 per mile per week.

8. The Officiating Traffic Manager's statement in para. 3, as to the prospects of the East Coast Railway being at least as good as those of our own line, may possibly come true when the line has been opened for some considerable number of years as the Madras Railway has been, but he produces no facts to support his inference, and it would be suicidal for us to accept such conclusions without some tangible proofs.

9. There is no real result to be arrived at in comparing working expenses "per train mile" of the two Railways, but the Officiating Traffic Manager in doing so states that "excluding maintenance the cost * * * * of the other departments is only slightly in excess of that of the Madras Railway, &c., &c.": upon this (in para. 5) he concludes that there are several advantages in favour of a proposal to work the Madras-Vizianagram line on the same percentage of working expenses (excluding maintenance) as on our own line. The following figures show such a comparison between the two lines for the two halves of 1894:—

Percentage of Working Expenses on Gross Earnings.

	Half-year to 30th June 1894.		Half-year to 31st December 1894.	
	East Coast Railway.	Madras Railway.	East Coast Railway.	Madras Railway.
Abstract A	34·78	11·21	14·38	11·45
Do. B	30·87	18·26	33·08	18·81
Do. C	2·87	7·17	4·73	6·63
Do. D	15·20	8·63	16·69	8·22
Do. E	8·49	5·53	9·54	5·43
Do. G	1·75	1·03	2·28	1·75
Total Percentages ...	93·96	51·83	80·70	52·29

10. These actuals show that instead of being only "slightly in excess," the expenses of the East Coast Railway (excluding maintenance) exceed those on the Madras Railway by 18·56 and 25·48 per cent., respectively, for the two halves of 1894; these excesses would entail a very serious loss upon our Railway, if this proposal was accepted—*vide* paras. 6, 14 and 15 of my memorandum.

11. Referring to para. 6 of the Officiating Traffic Manager's letter, I would remark that my proposal (approved of by the Acting Chief Engineer and the Locomotive Superintendent and, I believe, by yourself) carefully guards the interests of both the Madras Railway and the Government—if we work for actuals and a proportion of supervision, the Madras Railway can only lose a part of the services of the principal Officers whose whole time is now devoted to their service, while the Government will pay no more than is actually expended on their own line and in return gain at a very small cost the services of the principal Madras Railway Officials whose experience extends over many years.

12. I cannot agree with the Officiating Traffic Manager's proposal that the Madras Railway should consent to allow the East Coast Railway such rebates as would raise the State Railway return to 3 per cent. on its Capital: the percentages of net earnings of the East Coast Railway upon Capital outlay have been as follows:—

30th June 1894 ... 0·09 per cent.
31st Dec. ,, ... 0·37 ,,
*31st Dec. 1895 ... 0·19 ,,

13. The Capital outlay up to 31st December 1895 was Rs. 1,03,785 per mile (for 500 miles, say, *Rs.* 518,92,500): to raise the State Railway return to 3 per cent. per annum on this Capital would require a grant from our Revenue of some *Rs.* 6,75,000 per half-year on the figures to the end of 1895.

14. With reference to the final para. of the Officiating Traffic Manager's letter, I would point out that the Heads of Departments (with the exception of the Traffic Department) have already agreed as to the principles upon which the working agreement should be based, but before proceeding to draw up the form, it will be necessary for us to know whether the Board and the Secretary of State agree to our proposals: if you will kindly ascertain and advise me upon the points raised in my memorandum, there will be no difficulty in drawing up a form of Agreement for submission to the Board.

* The figures for half-year to 30th June 1895 are not available.

Letter from Mr. F. W. Read, Traffic Manager, No. C. 866 A. & M./27601, dated the 17th July 1896.

I was not present at the meeting alluded to in para. 13 of the Chief Auditor's memorandum, dated 17th June.

2. The Chief Auditor, from his letter of 9th July, seems to me to misinterpret the Officiating Traffic Manager's letter of 30th June, the first four paragraphs of which are practically an enquiry for further information which, it was thought, you might obtain direct from the Manager, East Coast Railway, as certain published figures seemed to indicate that the latest results would be much more favourable than the figures then at the disposal of the Chief Auditor. Those published figures, however, have proved to be incorrect.

3. Para. 9 of the Chief Auditor's letter quoting figures of percentage on gross receipts does not appear to disprove the Officiating Traffic Manager's view that after excluding maintenance the cost of working per train mile of the other Departments of the East Coast Railway is only slightly in excess of that of the Madras Railway. They appear to work out as follows:—

	East Coast Railway.	Madras Railway.
	RS.	RS.
Maintenance	0·69	0·46
Locomotive	0·91	0·76
Carriage and Wagon	0·11	0·28
Traffic	0·45	0·35
General	0·26	0·22
Steam Boat	0·07	...
Special and Miscellaneous ...	0·05	0·06
Total ...	2·54	2·13
Deduct Maintenance and Steam Boat ...	0·76	0·46
	1·78	1·67

4. This cost would also be reduced by the cost of only one set of administrative officers, and with cheap coal and easy gradients the working expenses excluding maintenance should not be heavy. Maintenance is likely to be a very serious item on the east coast if a dozen miles or so of the Railway are liable to be literally wiped out of the map occasionally by floods, as was the case recently.

5. The question, however, as the Chief Auditor says, evidently at present turns upon receipts, and the figures quoted in that Officer's memorandum show that if worked upon the percentage system a heavy loss would be likely to fall upon the working agency until the line had been open for some time and the people had learned to appreciate the advantages of a railway. I have not particulars of the receipts of the Southern Mahratta, Indian Midland and Bengal-Nagpur Railways on which their high percentage of working expenses occurred during their first two years' working, but no doubt the Chief Auditor can give them and probably the result in each case turned upon small receipts.

6. It would have been interesting if the Chief Auditor could have given us the result of our working of the Ennur Railway up to the end of June, as this ought to be of assistance in arriving at an agreement.

7. In para. 12 of the Chief Auditor's letter he writes:—"I cannot agree with the Officiating Traffic Manager's proposal that the Madras Railway should consent to allow the

East Coast Railway *such rebates as would raise the State Railway return to three per cent. on its capital;*" but I cannot find that such a proposal has been made. The suggestion was that this Railway *might* offer "a rebate upon the *traffic interchanged between the two lines* limited on the one side to such a figure as would raise the State Railway return to, say, 3 per cent. on its capital and on the other to such a figure as would not reduce the Madras Railway receipts below the statistical cost of lifting the traffic." This is, of course, altogether a different proposal, and I would apply it conditionally in the agreement (as explained later) for the reasons intimated in the Board's letter, No. 937, para. 2.

8. Paras. 11 and 12 of the Chief Auditor's letter I agree with.

9. From the Board's letter it appears that there is no prospect whatever of the working of the East Coast Railway being given to this Railway unless the possibility of the Madras Railway shares being enhanced in value is absolutely precluded. I am therefore of opinion that the Chief Auditor's proposals in their present form would not be entertained by the Secretary of State. The Board's instructions, as I read them, are, that at any rate the initial agreement must prevent the Madras Railway from making any profit whatever.

10. I would therefore propose—

(1) That the agreement be framed to work the line on actuals *plus* 1¼ per cent. on the gross earnings for the supervision of Heads of Departments and Deputies as proposed by the Chief Auditor.

(2) That, if the working of the East Coast Railway has during the term of the agreement increased the dividend earned by the Madras Railway by creating new traffic from which the Madras Railway has derived new receipts without displacing traffic from other districts on which similar receipts were previously earned by the Madras Railway, or in any other way, the Madras Railway shall pay to the East Coast Railway a rebate upon the traffic interchanged between the two lines, limited on the one side to such a figure as would raise the State Railway return to 3 per cent. on its capital and on the other to such a figure as would not reduce the Madras Railway receipts from such traffic below the statistical cost of working it. The question as to the application or non-application of this clause to rest between the Board and the Government Director, the B. B. and C. I. Directors to be requested to decide finally in case of any difference of opinion—the position of the Madras Railway Provident Institution as to surplus profits not to be prejudiced by this arrangement.

11. The rebate clause may look a too liberal offer even conditionally, but when it is worked out, it will not be found to ruin the Madras Railway, and if the Secretary of State likes it, so much the better.

12. In the event of the Secretary of State deciding not to accept the most favourable terms which it is possible for the Board to offer without injury to the proprietors of the Madras Railway, I would suggest that the Company then decline to bear any portion of the cost of the Basin Road Junction or to abolish the Rayapuram Branch. It is, I presume, scarcely possible that Government would prefer to incur a large additional expenditure both in construction and cost of working to giving the Madras Railway the working of the southern portion of the line, but should this be the case, it would be much cheaper for the Madras Railway to double the Rayapuram Branch and retain it instead of constructing the new piece, letting the East Coast go under or above it, the Madras Railway declining to incur any expenditure caused by the advent of the East Coast Railway. I would further suggest that definite terms be obtained before any such expenditure be incurred on behalf of the East Coast Railway. The Basin Road works alone are expected to cost approximately 2¾ lakhs, but this, I presume, is a small sum compared to tunnelling under, or bridging over, the Rayapuram Branch and building a new East Coast Station in Madras with the additional line.

13. With regard to para. 2 of your letter, I am not aware of any proposal to include maintenance in our agreement with the East Coast Railway.

Further Memorandum by Mr. F. Dunsterville, Chief Auditor, dated the 21st July 1896.

The only point in the Traffic Manager's letter, No. C. 866 A. & M./27601 of the 17th instant, upon which I would wish to remark, is that concerning the comparison between the working of the East Coast Railway and ourselves "per train mile."

2. I have in paragraph 9 of my letter of the 9th instant, No. A./744, already explained that this mode of comparison is not only misleading for the purpose quoted, but has no reference whatever to the manner in which the division of Working Expenses would actually be made, were the Madras Railway to undertake the management of the East Coast Railway at the same ratio of expenses as our own, viz., *percentage of Gross Earnings.*

3. The Traffic Manager shows that there is very little difference between the East Coast Railway and ourselves "per train mile," but this is probably caused by the train mileage being in excess of traffic requirements *so far as financial results are concerned* :—

—		East Coast Railway.	Madras Railway.
		Rs.	Rs.
Gross Earnings per train mile...	1st half of 189[illegible] ...	2·83	4·03
	2nd " 189[illegible] ...	2·76	4·17
Net Earnings per train mile ...	1st half of 189[illegible] ...	0·12	1·94
	2nd " 1894	0·51	1·99

4. The following figures show the comparison of Working Expenses between the East Coast Railway and ourselves, firstly, "per train mile," and secondly, as "percentage of Gross Earnings" :—

—		East Coast Railway.	Madras Railway.
		Rs.	Rs.
Working Expenses per train mile.	1st half of 1894	2·70	2·09
	2nd " 1894	2·25	2·18
Percentage of Working Expenses on Gross Earnings.	1st half of 1894	95·59 per cent.	51·83 per cent.
	2nd " 1894	81·75 "	52·29 "

These figures show that while the East Coast Railway is only about 16 per cent. in excess of us per train mile, they are some 70 per cent. in excess on Gross Earnings.

5. I would wish to state very distinctly that in making these comparisons, I have not the slightest intention of reflecting in any way upon the management of the East Coast Railway.

6. I note that the rebate is only proposed upon interchanged traffic up to a point which covers our Working Expenses, and I quite agree with the Traffic Manager that if this concession be granted by the Board, the interests of our Provident Institution should be carefully guarded, as the rebate might otherwise take away the opportunity of earning surplus profits, which alone gives us a chance of obtaining additional contributions beyond the ordinary 50 per cent.

7. I have to-day obtained from the Examiner of Accounts, East Coast Railway, the audited traffic figures for the first 20 weeks of the current year; they show some improvement as will be seen from the following figures :—

First 8 weeks.	Miles open, No. 447·47	Earnings, Rs. 4,01,955	Per mile per week, Rs. 112·28
Next 12 "	" No. 509·22	Do. Rs. 6,48,601	Do. Rs. 106·14

8. These are the results after some considerable portion of the line has been opened for three or four years, and, although they show a fair improvement over previous years, the figures shown in my original memorandum are what we must look for on the opening of the new line to Bezwada.

SUMMARY.

I. The foregoing papers relate to certain proposed terms which it is suggested might be reasonably offered by the Board, and yet be acceptable to the Secretary of State, in the event of the working of the Madras-Vizianagram section (500 miles) of the East Coast State Railway being entrusted to the Madras Railway Company. These terms are based on the understanding that the results of such working shall not unduly enhance the value of the stock of the Madras Railway, which the State has the power to acquire by purchase in the year 1907.

II. Of this length of 500 miles, the Bezwada-Vizianagram section (E.C.Ry. 235 miles) was opened in 1893, and the Madras-Ennur section (B.M.Ry. 8 miles) early in 1896, so when the remaining Ennur-Bezwada portion (B.M.Ry. 257 miles) is completed—as it is expected to be two years hence—the first-named section, or nearly half of the whole length of 500 miles, will have been opened for about five years.

III. In the "Administration Report on Railways" for 1895-96 (just issued), the amount of gross earnings per mean mile per week in 1895 of the East Coast State Railway is quoted as Rs. 90 (for the first 20 weeks of 1896 the audited returns give Rs. 109) and the percentage of working expenses 78·65; the corresponding figures for the Madras Railway for the same year are Rs. 257 and 47·64 respectively. These figures, although subject to slight variation, may be accepted as representing the relative financial position of the two lines at the present time. The comparison between the working expenses of the two Railways on the basis of "per train mile" and "as percentage of gross earnings" is fully explained in the Chief Auditor's memorandum of 21st July 1896, and attention is invited to these figures.

IV. In his original memorandum of 17th June 1896, the Chief Auditor shows that, owing to abnormal maintenance, and, probably, very limited traffic during the first two years of opening, the average actual working expenses of four important Railways in India was 84 per cent.; and were the Madras Railway to undertake the working of the Madras-Vizianagram Section at its own percentage, viz., 47½ of working expenses, the Company would be subject to very serious loss, as the deficiency would have to be met out of its own earnings, and this would reduce the Company's dividend by about ¾ per cent. This proposal, therefore, it is concluded, would not receive the consent of the Directors and Shareholders.

V. The Chief Auditor's memorandum of 17th June 1896 has been approved by the Acting Chief Engineer and Locomotive Superintendent, and in the light of the additional suggestions made by the Traffic Manager, the several proposals, on which it is recommended that a working agreement should be based, may be summarised as follows :—

(1) That the Madras Railway should work the East Coast State Railway (500 miles, or more) on "actuals," *plus* 1¼ per cent. on the gross earnings for the supervision to be secured from the Heads of Departments and their Deputies.

(2) That the working agreement be made for two years, after which it might be subject to revision.

(3) The incidence of cost of the necessary additional Locomotive Workshops and Office accommodation at Madras should be decided. If the Madras Railway provided the capital, the interest would form a charge against its revenue and affect its surplus profits; the alternative would be to charge the interest on its cost to the revenue of the East Coast State Railway as explained in para. 11 of the Chief Auditor's memorandum.

(4) The provision also of rolling-stock should be settled. If provided out of Madras Railway capital, 5 per cent. interest would have to be charged to the gross earnings; if the State furnished the stock, the quantity would have to be proportionate to the length of line, or preferably, to the traffic—a free interchange of rolling-stock being essential for economical working. *Vide* para. 12 of the Chief Auditor's memorandum.

(5) It is recommended that the rebate clause, as explained in para. 10 of the Traffic Manager's letter of 17th July 1896, should be entered in the agreement. This stipulates that the Madras Railway shall pay to the East Coast State Railway a rebate on the interchanged traffic limited on the one side to such a figure as would raise the returns of the State line to 3 per cent. on its Capital, and on the other to such a figure as would not reduce the Madras Railway receipts from such traffic below the statistical cost of working it. The adoption or rejection of this clause might rest between the Board and the Government Director, its main object being not so much to safe-guard the State line against loss, as to prevent the Madras Railway from benefiting by any profit.

(6) In any circumstances it is urged that the Madras Railway Provident Institution should not be prejudicially affected by the above concession, inasmuch as such a rebate might deprive the Madras Railway of the opportunity of earning surplus profits which alone afford the prospect of the institution securing any additional contribution beyond the ordinary 50 per cent., and special attention is invited to this important point.

VI. The above form the general terms which, after careful consideration, are unanimously recommended by the Acting Agent and Manager and the Heads of Departments, and if the Board will be so good as to communicate their views on these recommendations, a draft working agreement can be prepared and submitted for their approval.

RAYAPURAM,
Madras, 24th July 1896.

Acting Agent and Manager.

75-S-P

SERIAL
No. 24

No. 8,014.

MADRAS RAILWAY COMPANY,
61 NEW BROAD STREET,
LONDON, E.C., *12th February*, 1897.

SIR,

The question of the terms upon which the working of the section of the East Coast Railway from Vizianagram to Madras could be undertaken by the Madras Railway Company has occupied the attention of the Board for some time past, and they desire me to bring the subject again to the notice of the Secretary of State, with a view to the early consideration by the Government of India of the terms which are now proposed.

2. The matter has been under consideration since 1891. In their letter of 22nd June of that year, the Board offered both to construct and work the Bezwada-Madras Section of the State Railway on terms to be settled with the approval of the Government of India. This offer was submitted to that authority with the recommendation of the Government of Madras in its favour. The Board understood, however, from the reply of the Under-Secretary of State to their letter No. 7,535 of 22nd June, 1891, that their proposal for the *construction* of the line could not be entertained.

3. In the month of June last the Board addressed their Agent and Manager in Madras, desiring him, with the help of the experienced Heads of Departments, to draft an agreement for working the section of Railway referred to, the terms of which should be such as to guard the interests both of the State and of the Company, and to avoid as far as possible the contingency of profits accruing to this Company on the working, and any consequent enhancement of the price of the Madras Railway on purchase by the State in 1907.

4. The Board have been placed in possession of the views of their Agent and Manager, and other officers of experience, and after consideration and discussion of the various arrangements adopted elsewhere, they have arrived at the conclusion that the conditions to be met, in order to safeguard the interests of both the Madras Railway Company and the State, can be fulfilled only by the Madras Railway undertaking to work the above-mentioned section of the East Coast Railway at actual cost. The greater part of that cost is absolutely actual, and for that part which must be arrived at by an apportionment of the expenses common to the two Lines, the Board think that there should be no serious difficulty in settling the charges which will be fair to both parties to the agreement.

5. It must, the Board desire me to say, be understood that the following arrangements are based upon the presumption that the working of the East Coast Railway would be entrusted to the Madras Railway until 1907, or so long as the present contract continues.

6. The working charges of an Indian Railway are shown in a series of Abstracts, which have been designed by the Accounts Department of the Government of India to give all details deemed necessary. These are:—

A.—Maintenance of Way, Works and Stations.
B.—Locomotive Expenses.
C.—Carriage and Wagon Expenses.
D.—Traffic Expenses.
E.—General Charges.
G.—Special and Miscellaneous Expenditure.

To the UNDER-SECRETARY OF STATE FOR INDIA,
India Office, S.W.

In each of these Abstracts, except the last, are included charges for General Management, or for Departmental Management by the Head of the Department concerned; together with the Deputies', Assistants' and Office Establishments required to conduct such General or Departmental control.

No transfer of charge on these accounts will be made from the Madras to the East Coast Railway, so that the cost of the General and Departmental Management to the Madras Railway will remain unaffected, and will be the same as it would be were the working of the East Coast Railway not to be undertaken and managed by the officers of the Madras Railway.

To give, however, these officers a direct and substantial interest in the success of the working of the East Coast Railway it is necessary, and intended, to grant them additional remuneration out of a sum to be set apart from the gross revenue of the East Coast Railway, such remuneration being proportioned to the length of line open for traffic, and to the success attending the working.

From the same sum will be provided any additional assistance that may be needed in the offices of the Secretary, the Agent and Manager, and the Heads of Departments, to dispose of the additional work resulting from the management of the East Coast Railway.

Every grant of extra remuneration to officials of the Madras Railway, and every sanction given for the entertainment of additional hands in their offices will be made definitely against the sum provided for this purpose annually. Any part of such sum not required for and appropriated to the purposes indicated would revert to the gross revenue assets of the East Coast Railway.

7. It will be seen that what may be called the General Management Fund will be applicable to two distinct purposes, the one to the extra remuneration of officials already in the service of the Madras Railway Company, the other to the strengthening of their office establishments. The latter can be dealt with in the ordinary way, but with regard to the former, the Board deem it necessary that it should be understood that, in fixing the extra remuneration of their officers, they must be allowed to exercise their discretion. If they are satisfied, and if the Revenue returns show that the development of traffic is satisfactory, and the working expenses moderate, they consider that the remuneration granted should be liberal, because the conditions under which their officers will be working will be exceptional, and it is, in their opinion, good policy to afford all reasonable encouragement to these officers, on whom success will so greatly depend, to do their best and, if they do so with satisfactory results, their total remuneration should be materially higher than it would be necessary to make it were the 500 miles of the East Coast Railway amalgamated with the Madras Railway, and were these officers working for the benefit of their own Company.

The Board have not the data necessary to enable them to make out a scale of extra remuneration, based upon the gross earnings which should reasonably be expected from the East Coast Railway in successive years, and which should therefore be taken to indicate satisfactory development of traffic, and it would therefore be useless to attempt to draw up such a scale; but they may say that, to begin with, they would limit the extra remuneration to one-eighth, or 12½ per cent. of the salaries drawn from the Madras Railway Company by these officers, and that the ultimate grant to them would not exceed 40 per cent. of those salaries, while it seems improbable, looking to the short time that these

This percentage for deterioration will be necessary if it be arranged that the Rolling-stock will be taken over at the full value at which it stands in the books, or in other words, irrespective of deterioration. The Board are not prepared at the present moment to say what this percentage (2) should be, but they apprehend no difficulty in ascertaining what percentage will approximate closely to that necessary to prevent loss. This may be decided by those best acquainted with Railway Finance.

11. Stores, Locomotive and General.—These will be provided by the Company to such extent as may be required, and will be issued to the East Coast Railway and charged for in the same manner and on the same terms as issues to the Madras Railway. No interest will be charged to the East Coast Railway on the increased value of the stock of Stores which may have to be maintained. It will be the duty of the Agent and Manager of the Company to take care that the stock is not excessive, and compensation for the interest, on such increase of value as may be unavoidable, chargeable to the Company on the Capital sunk, may be found in the reduction of contingent charges. Similarly, no interest will be charged on the Capital expended in providing *additional machinery* for the Locomotive workshops of the Madras Railway, on account of the increase of work caused by the East Coast Railway. Compensation here may be provided, to some extent, by the diminution of the cost of subordinate fixed establishment.

12. Buildings and Office Accommodation.—Such new, or enlargement of existing buildings, as may be required, will be provided by the Company, and the charge to the East Coast Railway will be made up of:—

(1) The interest on the capital invested.

(2) A percentage on the capital outlay for maintenance, this to be settled locally by representatives of the Government and the Company.

13. Joint Stations and the use by the East Coast Railway of any parts of the Madras Railway Line.—The terms, on which the Central Station of the Madras Railway, and other stations (if any), as also parts of the Madras Railway Line, will be made available for the use of the East Coast Railway, if these proposals are generally agreed to, can be settled in accordance with the Government of India Circulars on the subject.

The subject of Passenger Fares and Goods Rates on the East Coast Railway is one of much importance.

It is necessary that the Madras Railway should have the control of these fares and rates, subject to a schedule of rates, because, if this were not the case, traffic from north of Bezwada, b[illegible]d for stations south or south-west of Madras, may pass off the East Coast R[illegible]way at Bezwada, and be diverted by the Nizam's Railway, or *viâ* Gemt[illegible]kal, to the Southern Mahratta and South Indian Railways, instead of travelling through to Madras by the East Coast Railway.

I have the honour to be, Sir,

Your most obedient servant,

(Sd.) Julian Byrne

Secretary.

APPENDIX.

TOTAL SALARIES FOR THREE YEARS.

1st July, 1893, to 30th June, 1896.

	Rs.
Home Office	36,981
Agent and Manager's Office	99,000
Chief Engineer's Office	88,378
Locomotive Superintendent's Office	95,826
Traffic Manager's Office	93,844
Chief Auditor's Office	1,07,750
Storekeeper	15,825
	5,37,604
Average	3/ Rs. 1,79,201

(No. II.)

No. 318

MADRAS RAILWAY.

5,000—11-11-85.

No. 25

AGENT AND MANAGER'S OFFICE,

MADRAS, 1st April 1897.

From

78 S.P

The Ag. *Agent and Manager,*

M.R.Coy.,

To

The *Consulting Engineer for Railways,*

Madras.

SIR,

I have the honour to inform you that in compliance with the wish you expressed to me, to be allowed to retain the copy of the Board's letter No. 80114 of the 12th February 1897 to the Secretary of State regarding the proposed working of the Madras Vizianagram Section of the East Coast Railway, the copy which I handed to you personally a few days ago may be retained as an official copy. The Board requested that you might be given a copy if you desired to have it.

I have the honour to be,
Sir,
Your most obed.t Servant,

H. Levy Lewis

Ag. Agent & Manager.

Enclosure.

1482
2/4/97

MADRAS RAILWAY.

From The Agent and Manager.

To

The Consulting Engineer
for Railways.

Dated

Recd. 188

No.

SERIAL
No. 26

798.P

The Boards proposals for working the Madras Unmanagable Section practically are:-

To charge the Section Rs 100,000 per annum for general & Departmental management, and in respect to other expenses to work the Section at actual cost except in a few instances in which total expenditure is to be divided between the two Lines in some special proportions.

As regards the charge of Rs 100000 for general management; provided this covers the full cost to the M.V. Section of general & Departmental management including Office expenses & contingencies as enumerated in the Boards letter, I do not consider that the amount is excessive, or more than the share of expenditure which the Section would probably have to bear of these items a subdivision of expenditure was divided between the two lines on a gross earnings basis

The great objection to the proposal is however that the whole of the savings, which would naturally be expected to accrue from distributing more or less gross Administrative and general charges over an extra 500 miles of open line, are entirely absorbed in granting extra remuneration to the C.E. Staff on what appears to be an altogether unnecessary scale.

There are certain other objections to the proposed method of working what the Board call "the General Management Funds" but in view of the main objection on account of its extravagance which is almost certain to lead to the rejection of the proposals, these need not be dealt with in

detail at present.

As regards the other part of the proposal - to work the Section at actual cost - I have already stated in noting on this & other similar cases, that the principal objection to this system is that it entirely removes every motive for the economical working of a Branch by the Main Line Administration, besides being apt to lead to innumerable doubts, difficulties & disputes about the separation & apportionment of what will be claimed to be actual charges against one Line or the other. Although the cost of establishments (exclusive of the Head Qrs & Departmental Establishments provided for under the charge for General Management) could be fairly divided according to actuals as the situation of employment would in each case be known, yet there would be a mass of charges connected with the issues of Stores and more especially with work done in the Shops over which no really effective scrutiny could be exercised on behalf of Govt. to see that they were actually incurred for the Line to which charged, and that they had not been unduly increased or diminished with a view to benefitting one Line or the other.

Among the exceptional items which it is proposed should be divided on a proportionate basis instead of on actuals, I notice that the most important is the Maintenance and Repairs of Locomotive & Carriage & Wagon Stock. This is a class of expenditure which, if it were apportioned according to actuals, would fall much more lightly on the Section than on the Madras Ry itself, because the stock of the Section being new would not require much in the way of repairs for many years. The Company however in this case propose to combine the heavy repairs to the old stock of the Madras Line with the light repairs to the new stock of the Section, and to divide the whole on engine & vehicle mileages - the basis which would further give the most unfavourable results to the Section. This however is a point which it is unnecessary to deal with further, until it is seen whether the Govt of India is at all likely to accept the main part of the proposal for working on a basis of actuals

Go. S.P.

I do not think that these proposals of the Company for working the M.V. Section should be supported or recommended for the two principal reasons:-

First that the proposals in regard to the General Management would do away with the whole saving which ought to result from adding 500 miles to the Madras Ry System, and.

Secondly that the proposals to work on the basis of actual cost in other cases, removes all incentive to economy on the part of the Main Line Co., and are certain to lead to the costly & extravagant working of the Section.

Failing to obtain from the Co. complete "Branch Line Terms" as laid down in Circular No. 5-14 RC of 17th April 1896

I think division of expenses throughout on a gross earnings basis with a 5% charge for use of Rolling Stock is the minimum which Govt could with any advantage accept, and rather than accept such terms as those now proposed by the Co. it would be far more profitable to Govt. to work the Line with its own Staff as a State Railway.

H W Allen

C.R. 4/4/97

P.W. Current No. 3132

SERIAL No. 27

H.E. the Governor

The Hon. Mr. Bhir C.I.S.

The Hon. Mr. Ross P.I.S.

Working of East Coast Ry
Madras Railway

The Madras R. Board's Proposals.

Just below will be found the printed proposals of the Madras R. Co's Board for working the S.C.R.. Major Wilkinson acts as the subject hereto appended, is very clear, so I need not try to elucidate it.

I have just asked that I might otherwise embody in the usual form of Not. with the stage of a draft letter to the Govt. of India for H.E.'s and Hon. Members' approval.

I can foresee endless disputes and difficulties in dealing with the M.R.C. about the working of the State line. They will be certain, and we shall great be unable to prevent them, to fall on to the State line all sorts of charges that can fairly debitable to their own. No system can be a fair one, or can supply the

359 R

Please see my remarks on the draft letter

A.S.H.
27.4.97

With reference to H.E.'s note at A, I think that the draft will do as modified by the Secretary in his note of 28/4/97 - I quite agree that the M.R. Co's proposals are preposterous as they stand, but I think that they should not be rejected at once in so summary a manner as that as a step to further negotiations, for it seems to me most desirable, in the interests of this Govt, that this Govt. should have that general control over the working of the E.C.R. which will follow from its admission to the M.R. - If this cannot be arranged for, we should, I consider, do best to have the control of the State Railway transferred from the S.I.R. to this Govt. I am not in favour of this arrangement, however, to such an extent that, in order to secure it, I would shut the door against further overtures by the M.R., for I think it on the whole more likely to lead to good results that the administration of Railways should be in the hands of companies than in the hands of Govt officials, especially when the officers of the particular company are already well acquainted with the [redacted] of the lines served, and the Govt has no [redacted] direct experience of Railway working.

Under the circumstances mentioned in the M.R.'s letter it is of course desirable that the arrangement to be made should enhance the value of the Company's shares as little as possible. But it is worth consideration whether an arrangement which does not enhance the value of the Company's shares at all, that is, which does not give the M.R. any profit at all, will be worth having. I should say not, for in that case there would be no motive for the M.R. to work the E.C.R. to the best advantage, it must have the chance of some profit, however small.

The eagerness of the M.R. to

necessary inducement for economy, unless it is a system based upon a percentage of working expenses to gross earnings.

Owing to their sterling guarantee and to the very pleasant prospect for so many years of paying their shareholders anything in the shape of surplus profit, the Madras Ry. Co. are I think unlikely to study detailed economy with the care that is essential in the case of a State line. They are now working their own line very economically, but that is largely due to their very big traffic.

As soon as their term of agreement is out, it will be perfectly possible and very desirable, to enter into terms with the new working Company, who will arise out of their ashes, for the working of the whole of the Standard gauge lines converging on Madras.

Meanwhile I think we ought to strongly support the Govt. of India's very evident desire that the E.C.R. should continue to be worked for the present as a State line. J.W.S.

Work the E.C.R. is easily understood & is obvious. I Consider that we should take advantage of it to insist on reasonable terms with respect to Police arrangements on their own line, with regard to which, as H.E. knows, they have been showing themselves decidedly obstructive & objectionable – The Secty Ry Branch should see the papers about this, if he has not done so. It is a matter which should be carefully borne in mind at this juncture –

It would facilitate a settlement of all these matters to discuss them in Council, I think.

A.S.
30/4/97

The draft slightly altered as has been suggested may go

J.G.
2/5/97

1/M. A.H.H. 9.5.97

J.G.
A.S.H.

H.E. The Governor
The Hon. Mr. Bliss C.I.E.
The Hon. Mr. Gross C.I.E.

Yes — The amended draft will do as it commits us to nothing & leaves us freeing for further offers from the M.R. Co

GS 6/5/97

JS 7/5/97

A.R.

Issue draft as now settled. Also fair type copy the draft for the file.

FJS 10/5/97

Madras By. Co's proposal for working the S.C.By.

SERIAL No. 28

A perusal of His Excellency's remarks on my draft, and of Hon. Member's Note, induces me to think that it will be best if my draft is modified as marked in pencil. That is I propose to extend our Jan 6 97. leaving the question of access to Madras for the S.C.By. to be separately dealt with.

2. — I may explain, for the Hon Mr Bliss' information, that I have never contemplated the Beach station being the main terminus of the S.C.By, all that I contemplate is that the line for access to the beach, and the terminal station at that place, at the proposed new boat basin opposite the Post-Telegraph Office should belong to the State line and not to the Guaranteed line.

3.— To interpose between the E.C.R. and the Port a short length of line belonging to the Guaranteed Company would, I can foresee, give rise to endless complications and trouble, because our control over the old Guaranteed Companies is not of so complete a nature as would enable us to prevent their giving trouble.

4.— With the short port line the property of the State Railway, we could give the Guaranteed Company running powers over it and everything would work satisfactorily for all concerned.

5.— The E.C.R. must, I take it, have sufficient accommodation ~~[illegible]~~, both for goods and for passengers close to the Central Station of the M.R.C. and at the Salt Cotaurs goods station. The question has not come before me in detail. But it seems to me to be quite possible to secure ~~[illegible]~~ the necessary accommodation for passengers by a comparatively cheap widening, on the east side for passengers, of the

All this is, I understand, being worked out by the Engineer in charge of the Madras Bezwada Ry. under the instructions of the Director General of Railways, that is practically of Mr. Upcott who is familiar with all the conditions.

6.— But the E.C.R. must, I argue, have free access to the port, without the intervention of the foreign line, and this can be got by taking a branch off from the Ennore line, eastwards and southwards, from the next or second next station north of Washermanpetta; and leading it through the least dense part of the suburbs possible, and between Royapuram station and the sea, and in front of the Clive battery and so to the proposed beach station.

7.— The Madras Ry would get on to this branch line by a curve out of Royapuram and would have all the advantages of access to the port without putting the State line to the disadvantages following the intervention between it and the port of a short section of a line over which the State control is not very complete

8 – If H. E. and Hon Members approve of the draft as now modified in pencil, it may go forward.

[illegible]
4/5/97

[illegible]
4/5/97

R. Form No. 12.

No. 359.R

Government of Madras.

PUBLIC WORKS DEPARTMENT,

RAILWAY BRANCH.

To

The Secy. to the Govt. of India,

P. W. Department.

Simla.

~~Ootacamund, the 19th May~~ 1897.

Sir,

In your letter No. 486 R.C. dated the 19th March 97, this Govt. was informed that the Govt. of India would be glad to receive and consider any scheme for the working of the East Coast Ry. which the Madras Ry. Co. might propose. The chief subject of your letter was the estimate for the junction arrangements of the Madras and East Coast Railways, near the Salt Cotaurs and the Central Station of the guaranteed line. This estimate you expressed the Govt of India's inability to sanction until terms should have been agreed upon for the working of the State line by the guaranteed line.

Flag A.

2.– The Consulting Engineer Madras has now received a copy of the Madras Ry. Board's letter to the Secretary of State No. 8.01

dated 12th Feb. 97. in which definite proposals for the working of the E.C.Ry. are made. No spare copy of these proposals is available but you will doubtless by now have received them from the India Office.

3.— I am desired to enclose a copy of a Note on the proposals by the Examiner Guaranteed Ry. Accounts Madras, and to express the concurrence of H.E. the Governor of Madras in Council with the views therein expressed. The terms proposed by the Madras Ry. Co's Board are not only unsuitable, for the reasons expressed by Major Walker, but they are calculated to have the effect, if agreed to, of hereafter unduly enhancing the price to be paid for the Madras Railway.

~~inasmuch as that price, which is dependent on the market price of the shares [illegible] would undoubtedly be unduly raised by the resultant profit accruing to the shareholders from the proposed terms for working the E.C.Ry.~~

— This Government is advised that it will be difficult or impossible to arrange terms unlikely to unduly enhance the price to be paid hereafter for Company's property: and moreover that terms [illegible] those now under consideration based [illegible]

This may go out I think
F.J.S. 4/5/97

[illegible] E.C.R. [illegible]

I would omit 'definitely' * [initials]

I am not sure about this. I should like to see the opinions of Hon. Members.
J.S.H.
27.4.97

I think the part of the para. which [illegible] and that [illegible] may be omitted *
Yes. and I would propose to insert at + the words ", failing more satisfactory proposals,"
F.J.S. 28/4/97

This wd. meet the case I think [initials]

I cannot follow para 6. Have no idea what the Sec. is driving at. [initials]

F.J.S. 4/5/97

agreed percentage of working expenses to gross earnings, but expenses so called 'actuals', take away much of the motive for economical working and management, and are therefore objectionable in principle.

5.— H.E. the Governor in Council is of opinion that the Company's present offer should be ~~[illegible]~~ refused, and that + failing more satisfactory proposals it will be best, during the remaining period of the currency of the Madras Ry. Contract, that the East Coast Ry. from Madras northwards up to the point of contact with the Bengal Nagpur Ry. Co. ~~[illegible]~~ should continue as at present to be worked by State agency. The question of the terminal arrangement of the E.C.Ry. at Madras will form the subject of a separate communication.

~~6.— As soon as a decision has been come to as to whether the working of the E.C.Ry. shall or shall not be handed over to the Madras Ry. Co. [illegible] the question of the best route for access to Madras for the former can be dealt with. Meanwhile the Engr. in Chief of the Harbour Madras has been asked whether he cannot arrange to make enquiries as to the possibility of entering Madras harbour [illegible] between the Royapuram station and the sea, by making a detour through comparatively cheap districts from some point a few miles out towards Ennore from the Salt Cottaurs~~

~~If all negotiations with the Madras Ry. Co. should fail, it may perhaps be possible, and desirable that the joint broad and metre gauge station whose construction on the Beach, close to the Harbour is now in contemplation, should be the property of the E. C. Ry., with access for the S. I. Ry. and the M. Ry. under an agreement with the State line. In such a case the whole problem would need new and careful consideration. It will be very much simpler of solution as soon as a decision has been arrived at as to whether the terms proposed by the Madras Ry. Co., or any modification of them, can be accepted. As has been stated above this Government are ~~strongly~~ of opinion that the proposals in their present form should be ~~[illegible]~~ rejected~~

This wd. be to make the Beach the main terminal station of the E.C. I don't think this would do for reasons, viz., the want of space and the remoteness of the beach from many of the most important centres of population. I don't like the idea at all. HS

FWS

I would omit "strongly" FWS

A.S.H.

Yes, and say, instead of "proposals", "the present proposals" or "the proposals in their present form" HS

I have &c.

F.W.S.

21/4/97

Document ... Note by CE
Referred to

Despatched on 19.5.97

R. Form No. 12.

No. 339 R.

SERIAL No. 29

679

Government of Madras.

PUBLIC WORKS DEPARTMENT,
RAILWAY BRANCH.

To

The Secy. to the Govt. of India,
P. W. Department.
Simla.

Ooty, the 19th May 1897.

Sir,

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has now received a copy of the Madras Railway Board's letter to the Secretary of State. No.8014 dated 12th February 1897, in which definite proposals for the working of the East Coast Railway are made. No spare copy of these proposals is available but you will doubtless by now have received them from the India Office.

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4. This Government is advised that it will be difficult or impossible to arrange terms unlikely to unduly enhance the price to be paid hereafter for the Company's property; and moreover that terms like those now under consideration, based not upon an agreed percentage of working expenses to gross earnings, but upon so called 'actuals' take away much of the motive for economical working and management, and are therefore objectionable in principle.

5. His Excellency the Governor in Council

58 P

Council is of opinion that the Company's present offer should be refused, and that failing more satisfactory proposals it will be best during the remaining period of the currency of the Madras Railway Contract that the East Coast Railway from Madras northwards up to the point of contact with the BengalNagpur Railway Company should continue as at present to be worked by State agency. The question of the terminal arrangements of the East Coast Railway at Madras will form the subject of a separate communication.

(Initialled) F.J.E.S.,

Offg. R.

*When given for copying*____
*When copied*____
*When examined*____
*When signed*____
} 191 .

READ AGAIN G.O. No. , DATED 191 .

CURRENT No.

ENCLOSURES TO C. No.

ORDER OF GOVERNMENT	A	A	A	A	A	A	A
LETTER OF GOVERNMENT							
STATEMENT WITH DITTO.							
PAPERS NOT FILED UP, BEING MEANT FOR DESPATCH IN ORIGINAL.							

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