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OPENING OF THE LEGISLATIVE COUNCIL.

FINANCIAL MESSAGE FROM THE LIEUTENANT-GOVERNOR.

HONOURABLE GENTLEMEN OF THE LEGISLATIVE COUNCIL,

THE circumstances under which you have been called together are in some respects unusual. In the absence of His Excellency the Governor, the occasion is without its ordinary importance, as the Council is for the moment without the advantage of hearing from the Governor himself the usual review of past administration and statement as to the intentions and policy of the Government. In bidding farewell, however, to the Council on the occasion of the closing of the last Session, Sir Henry Blake promised that he would on his return make good this omission, and the Council will not long be deprived of its customary privilege.

I shall confine myself to-day to laying before you the Estimates of Revenue and Expenditure for the year 1906, and after explanation shall invite you to consider them and to make the necessary appropriation for the future.

FINANCIAL POSITION OF COLONY.

In order to enable me to make the financial position of the Colony exactly clear to you, it will be necessary to go back some short time to the close of the brilliant administration of the late Governor, Sir West Ridgeway. At that time, it was found that the business of the Colony had outgrown the system of accounting and financial management which had served it since very early times, and that it was necessary to make important changes in that Department of the Public Service. It was found that a large part of the accounts of the Colony had remained without final settlement for a long time, and it was difficult, if not impossible, to say where precisely in respect of its financial condition the Colony stood. It became necessary for the Government therefore to stay its hand in respect of expenditure: to devote its energies rather to the completion of enterprises already entered upon than to initiate new schemes: and in a certain limited sense to wind up its affairs. This process was, as you are aware, completed before the close of the last Session, and its operation covered by the sanction of Ordinance No. 1 of 1905. I will endeavour to make the result clear to you. I propose in doing so to use round figures throughout; the exact figures you will find in a separate Note on the table of the Council.

On the 31st December, 1903—that is a date immediately after His Excellency Sir Henry Blake assumed the reins of Government—the accounts of the Colony showed a surplus in the Colonial Treasury of, in round figures, Rs. 4,500,000. These figures were however incorrect, the real balance being as was known much less, because the apparent balance was inflated by the prevailing practice of treating large sums in the Colonial accounts as recoverable advances, when in fact they were not recoverable but had been spent though not yet accounted for. The Colonial Government

was therefore compelled to act as if this fund had no real existence, and its confidence in its position and in that of the Colony was naturally somewhat shaken. The latter part of the year 1904 and beginning of 1905 were spent in ascertaining the true position : great sums which had appeared in the books as recoverable advances were brought to account as expenditure : outstanding balances of old loans and sums held in deposit and unnecessarily ear-marked for specific purposes were brought to account : and as the upshot of these operations, the Colony was left on the 31st December, 1904, with a true excess of assets over liabilities of a trifle more than Rs. 1,000,000. When I remind you that the Revenue of 1904, above 30½ millions, exceeded the Estimate by Rs. 1,500,000, and that the Estimated Revenue of that year was not fully appropriated by the Legislative Council, it will be apparent how different the true position was from that which had been anticipated.

The position however was not actually so bad as the accounts disclosed, because some portion of the expenditure which was taken into account in striking the balance was expenditure of which the General Revenue was entitled, under the Secretary of State's authority, to be relieved, and the charge, some 2½ millions, carried to Loan, and when this operation had been effected the nett surplus on the 31st December, 1904, was, in round figures, 3¼ millions of rupees. Only a small part of this 3¼ millions was however available for appropriation. A part of the Colony's balances, invested in Rupee paper, had depreciated by about Rs. 500,000, and a sum of Rs. 1,600,000 is more or less permanently locked up in advances to public bodies and in the shape of stores. Something less than Rs. 1,200,000 was the free balance at the Colony's disposal on the 31st December, 1904.

FORECAST FOR END OF 1905.

What then is likely to be the position of the Colony on the 31st December, 1905, the date with which, in connexion with the Estimates of Revenue and Expenditure now on the table before you, we are most nearly concerned ? The balance available for appropriation on 31st December, 1904, has been shown to be Rs. 1,200,000 ; the revised Estimate of Revenue for the current year is almost exactly Rs. 33,300,000 ; the probable expenditure of the current year, should the Council vote all the supplementary expenditure which it will be asked to vote, may be put at Rs. 31,800,000 ; the savings on all votes may be estimated at about Rs. 1,000,000 ; and the balance available for appropriation and carried forward to 1906 is likely to be, in round figures, Rs. 3,700,000.

This is a nest-egg on which the Colony may be congratulated, but it should not be forgotten that it represents little more than the aggregate nett proceeds of the exceptional Pearl Fisheries of 1904 and 1905, and not the ordinary savings of annual Revenue over annual Expenditure. You will remember that the Council has already recognized this fact, and has by resolution expressed its determination to devote a large part—Rs. 1,500,000—to an exceptional service : the Negombo Railway. You will be asked in the Estimates proposed to you to devote a part of the remainder to exceptional Railway Services.

The Revenue of the year 1906 has been estimated at Rs. 31,059,300, and the ordinary Expenditure, including the cost of annually recurrent works, but exclusive of all extraordinary expenditure, at Rs. 28,739,000, or, taking into account the savings generally made on the year's votes, Rs. 1,000,000 less, Rs. 27,739,000.

There remains available for Extraordinary Public Works Rs. 3,320,000, excess of ordinary Revenue over ordinary Expenditure, together with the balance brought forward, the nature of which I have explained above, of Rs. 3,700,000, or in all a sum in round figures of Rs. 7,000,000.

Of this amount it is proposed in the Estimates before you to appropriate for Extraordinary Public Works and Irrigation Works the sum of Rs. 2,500,000, and for special Railway Services Rs. 1,478,000 ; leaving a balance to be carried forward of slightly more than Rs. 3,000,000. Of this, Rs. 1,500,000 is reserved for the Negombo Railway. It will be convenient to leave the remainder unappropriated, with an eye to other schemes in contemplation.

REVENUE FOR YEAR.

In estimating the probable Revenue of the year 1906 the Government has, it will be observed, acted with its usual prudence, and it may reasonably be expected that the Estimate of Rs. 31,059,300 will be exceeded. The Government has, however, on this occasion taken the novel course of accepting credit in its Estimate for the probable savings. On the voted Expenditure experience has shown that an automatic saving of 3 per cent. at least may be counted upon, and it is proper that in framing the Estimates this should be taken into account.

Some slight re-arrangement has been made in the marshalling of the items of Revenue. The whole of the receipts of the Port of Colombo have been brought together, instead of being left scattered under several heads of account. A new head of Land Revenue, which includes the receipts of the Forest Department, has been introduced, and the heads, Rents of Government Property and Sale of Government Property have disappeared.

The receipts of the Pearl Fishery, which used to appear under the singular appellation of Sale of Government Property, will be accounted for as part of the Colony's Miscellaneous Revenue.

The changes have the effect of increasing some, and diminishing other Heads of Revenue, and entail some inconvenience in comparing the present with the past. But the inconvenience will pass with the current year, and the advantage of the more suitable grouping will remain.

EXPENDITURE.

It has not during the current year been found necessary to raise any portion of the Loan of £1,000,000, for which the Legislative Council made provision by Ordinance No. 1 of 1905. For this good fortune the Colony is indebted to the unexpected success of the late Pearl Fishery, and to the general increase of the Colonial Revenue in nearly all its branches.

The provision for the service of the Public Debt will not therefore require to be increased.

But under certain important Heads of the Colony's Expenditure there is a material increase. There is increased expenditure under the Land Settlement Department, providing for more rapid completion of this important and lucrative work. The cost of Plague prevention is correctly brought upon the Estimates. There is a large increase under Post Office and Telegraphs: partly on account of the Telephones, but also in part on account of Telegraph Extension and of increased Postal facilities. The Forests cost more, but this extra expenditure will be more than balanced by increased profit which will accrue from the decision of Government that sleepers for the Railway shall be cut from the Colony's hard woods now proved on the Matale Line to be well suited for the purpose.

The extension of the Railway has necessarily increased the cost of its working. There is a large increase on the reorganization of the Police Force. The increases in the Medical Service and in Education are not unusually great, and the separate votes under Science and Agriculture for the several Departments which used to be provided under the head Miscellaneous do not add to the total charges.

The apparent increase in the Public Works Department and the reduction in the Irrigation Department are due to a re-arrangement of the votes. The reasons for the increase in Public Works Recurrent are mainly the extra charges for improved maintenance of roads, and the maintenance of extended roads and more buildings. The most notable increase under Road Maintenance will be found in the North-Western Province. The increase under the head of Irrigation Recurrent simply arises from the provision in the Annual Estimates of funds which used to be left to be provided in Supplementary Supply, or from Loan.

Under the head of Public Works Extraordinary a large part of the expenditure is devoted to the necessary continuance and completion of works already begun. Of this class of work, the Supreme Court is the most important. Among new buildings, the commencement of a new office for the Departments of Public Works and Irrigation and the construction of a Fort Telephone Exchange are both important and urgent. Numerous smaller buildings are to be begun, continued, or improved in the Provinces, and on the whole the total sum spent on buildings will be large. It is unquestionably the case that in respect of office accommodation, in consequence of the great increase in public business and the number of officers and clerks employed in its transaction, much remains to be done.

Under New Roads a large sum of money is to be spent on improving the approaches to the Railway in the Northern and North-Western Provinces. The Brookside-High Forest road will be completed; a new road with a new bridge across the Mahaweli-ganga will improve the access to Kandy from the Dumbara Valley and the Planting Districts beyond; and there are other works not here particularly mentioned. A very large sum is proposed to be voted for additions and improvements to roads mainly in the Eastern, North-Western, and North-Central Provinces, and a number of new bridges will be continued or completed.

No new irrigation work is proposed, but the policy of completing and developing works already begun will be actively pursued, the total sum proposed to be spent on new construction being upwards of Rs. 500,000.

But the most important source of expenditure from the balance brought forward is the Railway. For this service you are asked to vote by way of extraordinary expenditure nearly Rs. 1,500,000, and it is proper that the fullest explanation should be furnished you of the necessity for the appropriation of this large sum. Some three to four hundred thousand of it represents additional works of ordinary character—the small improvements that on every progressive line are annually necessary—but a sum of Rs. 1,075,000 is asked for on account of special services and is recommended to you for approval.

Rs. 75,000, the first item, is to complete the tunnels on the Kadugannawa incline, and calls for no remark. Rs. 100,000 is asked for on account of the complete reconstruction and reorganization of the railway station at Polgahawela, the total estimated expenditure, to be spread over two years, coming to Rs. 160,000.

Polgahawela has now become the point of junction of two lines of Railway, of which one is 200 and the other 115 miles in length, and it is idle to suppose that the accommodation originally devised for some 70 miles of lines, and afterwards only slightly extended, can meet the requirements of the case. The station must be completely reconstructed, refitted, and extended, and the money provided for the purpose.

Next, Rs. 300,000 (Rs. 150,000 in the present and Rs. 150,000 next year) are asked for for six new engines to replace six obsolete engines destined to the scrap heap. The engines to be discarded are reported to be obsolete and to spend most of their time in retirement, and it will be made clear to you by the General Manager of the Railway and the head of his Locomotive Department that it is uneconomical, even if it were possible, to work the heavy trains which increased traffic renders it necessary to run with engines designed to meet other circumstances and smaller demands.

Rs. 400,000 are asked for, for new trucks and rolling stock, to carry the increased and daily increasing goods and passenger traffic.

Finally, Rs. 350,000 are asked for Stations Extension in Colombo. There has happened in Colombo much what has occurred in Polgahawela; it has been found impossible to put a quart of liquid into a pint pot. The premises occupied by the Railway at Maradana Junction, at the Main station and elsewhere, are too small for the business that has to be carried on within them. The bottle-neck between Maradana Junction and the Main Station is a nearly insuperable obstacle to the proper working of the goods traffic, and the business of the Railway and the convenience of the public are hampered and impeded.

Besides this, it is nearly impossible to run the Main Line traffic and the suburban traffic between Maradana Junction and the seaside over a single line, and its doubling between Maradana Junction and Slave Island must be faced at once, with a prospect of continuance between Ragama on one side and Mount Lavinia on the other.

A report of a Commission which sat to consider the condition of station accommodation in Colombo has been laid before you, and it is on the basis of the report of that body that it is proposed to work.

The general effect of the decision arrived at by His Excellency Sir Henry Blake is as follows :—

That it is necessary at once to purchase a large area of land near Maradana Junction and to add it to the station yard there to provide accommodation sidings for passenger rolling stock.

That the road bridge at Maradana Junction must be so widened as to allow of four broad-gauge lines to pass through, with a single additional narrow-gauge line to carry the Kelani Valley Line to the Harbour side.

That when that is done the line should be widened from Maradana Junction at least as far as Slave Island, and the Slave Island station be moderately enlarged so that the fast passenger trains may start from that station. Bridge crossings over the line, both at the Fort and at Slave Island, will be required, and it is hoped that the Municipal Council will contribute to both of them.

And that, finally, the present Main Station be wholly surrendered to goods traffic, and be enlarged by the addition to its area of the branch, to be reclaimed, of the lake lying between it and Captain's Garden.

It will be observed that this programme slightly enlarges the recommendations of the Committee, but it is believed that the Council will feel that it is useless providing a smaller scheme to meet the requirements of the occasion. The peculiar character of the town of Colombo, its great length, its division into sections by the peculiar configuration of the lake, and the situation in its centre of the Galle Face, make it impossible that a single great passenger station should conveniently serve its requirements, and render it necessary to provide separately for the Fort and Slave Island traffic, while the great body of native passengers will no doubt always seek Maradana Junction.

Further than this, the necessity for enlarging the space for the working of the goods traffic and for the administrative purposes of the Railway will be admitted by everybody, as will also the uselessness and inconvenience of the present Main Line station.

The total cost of the changes proposed is not likely to be less than Rs. 2,000,000, and the sum asked for is merely the first instalment. The work is not likely to be completed for some years, but it is proper that the Council should realize that the adoption of the scheme will call for a large annual vote on the Estimates.

SALARIES OF THE PUBLIC SERVICE.

You are aware, Gentlemen, that the question of revising the salaries of certain classes of the Public Service has been under consideration for some time, and when the Estimates of the Colony for the year 1905 were laid before you it was proposed in December last year to vote a lump sum of Rs. 400,000 for the purpose. This proposal was not approved, but the Council left unappropriated, to meet the charge should it arise, the sum specified.

The insufficiency of the salaries paid to the Public Service has formed the subject of a long correspondence between the Secretary of State and the Governor of the Colony, extending from Sir West Ridgeway's time in 1903 up to a quite recent date. I do not propose to trouble you with communications that have passed, the ultimate result of which, now proposed to be laid before you, differs so greatly both in detail and in principle from the earlier suggestions, that a perusal of them would not contribute to clear the issue.

The proposals that are to be laid before you, some immediately and all within a very short time, relate to practically all classes of Public Servants in this Colony, and will ultimately entail a considerable addition to the charges on the revenue, an addition which will probably not be less in the end than Rs. 500,000 per annum.

The Secretary of State in granting permission to lay these proposals before you has stipulated that they should be adopted only if the Colonial Government is satisfied that the Colony can afford the expenditure. On this point the figures that I have already laid before you warrant my giving you the assurance that it can. It is for you, Gentlemen, to decide whether the proposed increments are justly due and suitably distributed.

In dealing with this matter I shall not, of course, enter into details here, but propose to explain as briefly as I can the principles on which are founded the schemes that you are asked to consider. For the purpose of dealing with this matter the Colonial Service has been divided into three great classes: the class of officers who are ordinarily recruited in Europe; the class of officers, other than and speaking generally above the rank of clerks, who are ordinarily recruited in the Colony; and the Clerical Service in all its branches and ramifications. It will be known to you that in respect of these different classes the necessity for the increase of salary does not arise in precisely the same way or from exactly the same causes. All three classes have suffered from the greatly enhanced cost of living: the first class has suffered from that cause, but also and more especially from the fall, since the scale of salaries was fixed in 1870 or earlier, in the exchange value of the rupee for purposes of remittance to Europe.

It is proposed to deal with the three classes in three different ways.

In respect of the first, it is proposed to fix their salaries in sterling. A scale approved by the Secretary of State is on the table before you. All officers who join the Public Service in any of the offices shown on the scale, after it has been approved by this Council, will draw the salaries shown on the scale, and will draw pensions when they earn them, and leave pay when they go on leave, on those salaries. To officers now in the Service, employed in the listed offices, will be given the option of continuing on a rupee salary or of electing the scale. If they elect the scale, they will forfeit all special rates of exchange (2s. per rupee, 1s. 10½d. per rupee, or 1s. 6d. per rupee), whether for leave for remittance or for pension purposes.

But because many of them, who have served the Colony long and have earned pensions on higher rates of exchange than the true rate of 1s. 4d. which will in future rule, would be losers by electing the sterling scale, and because it is not right that they on whom has fallen the heavy burden of the past should be left with their positions unimproved, the Secretary of State has directed that there should be offered to those who on that account decline the sterling scale the option of drawing, in addition to the 1d. exchange compensation now drawn by them, a further 1d., the 2d. to be added to the salaries and the whole to be pensionable, the rate of exchange to which the officer is now entitled being maintained for all purposes.

Officers who elect the sterling scale will cease to draw fees in respect of any public service which they render, all fees—other than payments for overtime work, and in the case of Medical Officers, drawing in sterling, the fees which they are expressly permitted to retain—being paid into the Public Treasury. Deductions for Widows' and Orphans' Fund, for rent of Government houses, &c., will be made in accordance with the sterling scale.

If this proposal is approved and carried into effect, charges for exchange compensation and the bewildering complexity of rates of exchange for leave and pension purposes, differing for different officers, will ultimately disappear, to the no small advantage of everybody who is concerned with the finance and accounts of the Colony.

The second class of Public Servants in the division which has been made for this purpose is the class of officers whose position is intermediate between the highest class recruited in Europe and the Clerical Service. These officers enter the Service in the Colony, and their salaries will be fixed in the future, as they have been in the past, in the currency of this country.

They have not suffered to the same extent as the first class by the loss in exchange, but they have undoubtedly suffered by the increase of prices of which the fall in exchange is an important cause, and they feel the pinch generated by the higher scale of living which the much augmented prosperity of the Colony has generally induced.

They were, I think without exception, given the benefit of the 1d. exchange compensation in 1893, but this 1d. is neither pensionable nor does it continue during leave.

It is proposed to add it to the salaries of the officers concerned and to make it pensionable, and the Secretary of State has directed that the salaries of this class of officers should be generally revised, making this addition and giving them the benefit of a very slight further increase. When on leave or on pension their rate of exchange will be 1s. 4d. Time and opportunity have been lacking to prepare a scale for this class of Public Servants, and it will be necessary to refer the matter to a small Committee or Commission, if the Council approve of the principle laid down. In view of the variety of conditions on which officers of this class have been appointed and that many have, like the other class, earned pensions on high rates of exchange, very full powers will have to be given to the Commission to advise regarding every case.

The last of the three divisions of the Public Service is the class of Clerks. This class has suffered as well as the class last mentioned by the increase in the cost of living throughout the Colony, and is entitled to consideration. Proposals relating to this section of the Public Service were early in the year, by the Governor's order, referred for the consideration of a Departmental Committee, and a scheme of improvement has been prepared for that branch of the Clerical Service which enters by competitive examination, and has received the approval of the Secretary of State. The claims of other branches of the Clerical Service of the Colony are being similarly considered.

The Committee which considered the proposal—and for whose care and ability in dealing with the subject I take this opportunity of offering the thanks of the Government—make as their most important recommendation a proposal to increase the number of the better paid and to diminish proportionately the number of the worse paid appointments in the various branches whose conditions of service have so far been dealt with.

The principal defect of the organization of the Clerical Branches of the Public Service is in the unskilful grouping of the various classes. The number of well-paid appointments is small; the number of moderately paid is few; the number of poorly paid is very great. The general principle which will govern the re-arrangement and grouping of classes in the scheme to be laid before you to-day is to materially diminish the proportion between the poorly paid appointments at the bottom and those above by increasing the latter in point of numbers and slightly in regard to emoluments.

The effect will be to accelerate promotion, and so it is expected to improve the general efficiency of this branch of the Public Service. The initial cost is not very considerable, but gradually there will be added to the salaries of this body of deserving Public Servants a sum estimated at Rs. 155,500.

Besides the three classes with whom it is proposed to deal as above, there is a subordinate class, the Peons, whose case I am going to ask you to consider. This useful and respectable body of men have had no general addition to their scale of pay since the Estimates of this Colony were first printed. The earnings of the class from which they are recruited have in recent years much increased; they suffer as much as any class by the increased cost of house rent; and it is fair that they should share in the general improvement of prosperity. It is proposed to grant them after five years' satisfactory service a general increase of pay based on a 10 per cent. scale, the details to be so arranged that total salaries may be expressed in round figures.

It has been impossible, at the period of the year at which the authority of the Secretary of State to recommend these great changes to the Council has been received, to rearrange the Estimates so as to incorporate the particulars in them. This, if the schemes are approved, will be done in the Estimates of 1907.

The proposals will be laid before the Committee on the Estimates for consideration, and if approved by the Council you will be asked to vote the necessary sum of Rs. 250,000 on account of 1906, the Government undertaking to expend it on the sanctioned schemes.

The Secretary of State has expressed a hope that the Council, in view of the delay that has extended over more than two years' of discussion in the case of the first of the three classes of Public Officers, will be willing to vote the increases of salary to them with effect from the 1st January, 1905. More than sufficient was left available of the Colony's revenue for this purpose when the Estimates of the year were approved, and it is hoped that the Legislature may not be unwilling to take this step. The cost cannot be exactly calculated until officers have made their choice of the alternatives proposed to be placed before them, but it is not likely to exceed Rs. 200,000, or one-half of what was left for the purpose.

I would further appeal to this Council that in the case of the other two classes of officers, although the schemes for their salaries are not yet fully prepared and ready, and in some cases may probably not be approved by the Council until after the Estimates in their present shape have been passed, they may be allowed to benefit by the changes in their favour from the 1st January, 1906.

FORM OF ESTIMATES.

In conclusion, I would invite the attention of Members to the fact that the alterations in the form of the Estimates, for which they asked last year, have been adopted. The obsolete Fixed Establishments Ordinance has disappeared; the provision of labour under the Thoroughfares Ordinance has taken the form they desired; the printing has been improved, though it is not yet all that I desire, and the items on the pages have been consecutively numbered.

I have alluded to the changes that have been made in the grouping of the Heads of Revenue, with the object of making that side of the Budget Estimate more readily comprehensible; and I would also invite your attention to the re-arranged order of the Expenditure, now grouped on the lines of the Estimates presented to the Imperial Parliament, and summarized under eight convenient heads of description on page 6.

On page 3 of the Estimates is set out, not only as in the past the Annual Estimate of Revenue, but the general effect of all the financial considerations which affect the Colony's position in regard to the coming year, and a calculation is made of the probable condition of the balances at the end of it. This forecast of the future has been framed with a strict regard to prudence, and if the prosperity of the Colony is maintained, the estimated result will be more than realized.

The usual report of the Director of Public Works and a like report by the General Manager of the Railway, now furnished for the first time, will be laid on the table. And the usual explanations of the changes in the details of the Estimates will be laid before the Committee.

I now leave the Estimates of the Colony in your hands.

A. M. ASHMORE,
Lieut.-Governor.

Colombo, November 14, 1905.