

Then after finding these, it is necessary to find the sum which, if it were invested at compound interest in the same 4-per-cent. stock, would extinguish the augmentation made to the debt in 1929; and this has to be deducted from the gross saving.

If there are any other points which you think ought to enter into the calculation, they will be such as are familiar to your experience, and you will of course include them. After all the factors have received your consideration, you will be able to determine, first, the net annual saving to the colony; and, secondly, the present net capital value of that saving.

You will observe that the time fixed for receiving applications expires on the 30th instant and I am anxious to be in possession of your computation before that date. Then, after the 30th November, when the amount actually converted is a known quantity, I shall ask you to apply your computation, and so determine the net result upon the facts.

A. H. Bailey, Esq., and Ralph P. Hardy, Esq.

I have, &c.,
F. D. BELL.

Enclosure 2 in No. 36.

The ACTUARIES to the AGENT-GENERAL.

SIR,—

London, 24th November, 1883.

We have the honour to acknowledge the receipt of your letter of the 12th instant, requesting us to make some computations as to the financial effect of the proposed conversion of further portions of the public debt of New Zealand into 4-per-cent. consolidated stock. We have accordingly made several calculations, the results of which are embodied in the table appended to this letter, which will, we trust, afford the information you desire.

If the whole of the bonds which form the subject of the present operation be converted into stock in the manner proposed, the general result will be as follows, viz. :—

The capital of the debt will be increased from £9,082,000 to £9,392,212; the increase arising from—

Premium on conversion	...	...	...	...	£223,750
Initial expenditure on operation	...	...	...	...	86,462
					£310,212

On the other hand the annual charge will be diminished by £44,625, viz. :—

Reduction of interest	...	...	...	...	£48,412
Less, increased expenses	...	...	...	...	3,787
					£44,625

Assuming that the future rate of interest will be 4 per cent. per annum, the capital value of the saving to the colony will be found to be £239,088, thus :—

Present value of diminished annual charge	...	...	...	£380,677
Less, present value of increased capital liability	...	...	...	141,589
				£239,088

It should be observed that in entering into a contract for so long a term as 45½ years, there must of necessity be much uncertainty as to the rates of interest that will prevail in the market during that period. If the rate should fall below 4 per cent., the benefit of the operation would be less than that stated, and, possibly, the Government might be a loser by the transaction. On the other hand, if the market rate of interest should rise above 4 per cent., the amount of the benefit previously stated would be enhanced.

We have, &c.,
A. H. BAILEY.
RALPH P. HARDY

Sir Francis Dillon Bell, K.C.M.G., Agent-General.