

1892.

NEW ZEALAND.

PAYMENT OF INTEREST ON LOANS DOMICILED AT
THE BANK OF ENGLAND

(CORRESPONDENCE AS TO MODIFICATION OF TERMS).

Return to an Order of the House of Representatives dated 13th July, 1892.

Ordered, "That there be laid before this House a copy of any correspondence which has taken place with the Agent-General respecting an arrangement recently entered into with the Bank of England for the payment of interest on New Zealand loans, and which arrangement it is stated in the Financial Statement involves a further issue of Treasury Bills to the amount of about half a million sterling."—(Hon. Sir J. HALL.)

No. 1.

The AGENT-GENERAL to the PREMIER.

Westminster Chambers, 13, Victoria Street, London, S.W.,

27th October, 1891.

(No. 1,753.)

Bank Orders.

It has been the practice of the Treasury in preparing the bank orders for the amounts of interest and Sinking Fund payable through the Crown Agents to make the date at which the amounts are to be paid over to the Crown Agents one day prior to that on which such interest and Sinking Fund is actually due.

But in the case of the payments of interest on the loans domiciled at the Bank of England it is only necessary to pay the amount on the tenth day before the interest is due; but the bank orders for the same, as sent from the Treasury, are made payable on dates prior to that day.

For instance, as regards the payment to the Bank of the amount of interest (£52,676 5s.) due on the 15th of this month, the bank order was made payable on the 3rd, whereas it was not absolutely necessary to pay the amount to the Bank until the 5th; and, as regards the amount (£491,285 2s.) of interest due on the 1st November, the bank order was made payable on the 20th October, instead of on the 22nd.

As the amount of interest allowed by the Bank of New Zealand on balances of such large amounts is of some consequence, it has been the practice here to request the Bank of New Zealand not to pay the amounts until the correct date of payment.

But I venture to suggest that it would be more in order, and would prevent the possibility of payments being made before they are due, if the proper dates were given in the bank orders when issued from the Treasury.

Similar remarks to the above are applicable also to the payment of interest due to the Colonial Bank of New Zealand, in which case it is only necessary to make the bank orders payable on the actual due date of payment.

Considering that sums aggregating over a million and a quarter are now payable in each year to the Bank of England, it might be desirable when approaching the Bank with respect to the reduction of the charge made for the management of the New Zealand Public Debt domiciled thereat to endeavour to make an arrangement so that the amounts of interest need not be paid until, say, the day before the interest becomes due, as is the case with the Crown Agents. The fact that the Bank holds in deposit the £800,000 guaranteed debentures, and also has the custody and the discounting of the drafts remitted from the colony, ought, I consider, to be sufficient assurance that the money will be available when required without enforcing the obligation to pay it over to the Bank ten days before it is wanted.

The Hon. the Premier, Wellington.

WALTER KENNAWAY.

No. 2.

The PREMIER to the AGENT-GENERAL.

(No. 61.)

SIR,—

Premier's Office, Wellington, 21st December, 1891.

I have the honour to acknowledge the receipt of Mr. Kennaway's letter of the 27th October, No. 1,573, regarding the dating of bank orders.

With respect to the practice of making the bank orders payable a day before the interests is due, I have to refer you to "The Public Revenues Act, 1891," section 61, which you will

perceive makes it obligatory on the Treasury to do so; and the fact that in some cases bank orders have been made payable two or three days before the money was actually due is explained by Sunday intervening. But after all it is not of much consequence if the bank orders be antedated, as you are not called upon to exercise them until the day you require to provide the money due.

I quite concur in the opinion expressed by Mr. Kennaway that the Bank of England should not require us to provide the money for interest on our inscribed stock ten days before the interest is due, and I shall be glad if you will approach the Governor with the object of obtaining a modification of the existing arrangement.

I have, &c.,

W. P. REEVES,

For the Colonial Treasurer.

The Agent-General for New Zealand, London.

No. 3.

The AGENT-GENERAL to the PREMIER.

(No. 405.)

Westminster Chambers, 13, Victoria Street, London, S.W.,

22nd March, 1892.

SIR,—

Referring to your letter, No. 61, of the 21st December last, instructing me to approach the Governor of the Bank of England with the object of obtaining a modification of the arrangement under which the amounts of interest on the New Zealand Public Debt domiciled thereat have to be deposited at the Bank ten days before the interest is due, I beg to state that, having communicated to the Bank your views in respect to the matter, I received a reply stating that, in the opinion of the Governors, the present was not a happy time for the consideration of so large a question, as any concession of the kind made in favour of New Zealand would have to be extended to other colonies and corporations.

To this I replied, showing that whatever may be the case with other colonies the present time was exceptionally opportune as regards New Zealand, for the favourable consideration of the matter, and, in order to bring it to a point, I suggested certain conditions under which the proposed modification could be adopted so as to be applicable to any colony or corporation that asked for a similar concession.

To this the Governors of the Bank replied that, having given my communication their fullest consideration, they were disposed to meet my request; and would, therefore, be satisfied if the moneys required for the interest were deposited two days (instead of ten) before it was due, provided that the Bank held at the time a sufficient amount of guaranteed debentures to cover the whole of the amount.

In mentioning "negotiable securities" in the proposal I made to the Bank I intended to include the drafts from the colony, which the Bank have so far discounted without demur. The Bank, however, limit such securities to the guaranteed debentures.

I think, however, the Government may be satisfied with the concession as proposed by the Bank, as one that virtually gives, as regards the future, all that was required.

I attach copy of memo. from the Audit Officer, showing that the saving in interest which is effected by this new arrangement may be estimated at £985 per annum, being eight days' interest at $3\frac{1}{2}$ per cent. per annum on, say, £1,284,111.

I attach copy of the correspondence which has taken place with the Bank.

I have, &c.,

W. B. PERCEVAL.

The Hon. the Premier, Wellington.

Enclosure 1 in No. 3.

13, Victoria Street, 4th March, 1892.

GENTLEMEN,—

In the arrangements that were made for the payment of the interest on the New Zealand Government stock domiciled at the Bank it was originally provided that the moneys required to meet the same should be deposited thereat one month prior to the date at which such interest became due, and this provision was subsequently modified to the extent of reducing the time within which such deposit should be made to ten days before that date.

I need scarcely point out that under this mode of payment the colony now loses interest for several days in each year on over a million and a quarter. At the same time I do not lose sight of the fact that the Bank by reducing the time is depriving itself of the use of the money for a short period. I imagine, however, that I am right in assuming that this mode of payment was originally required, not for the purpose of providing money for the use of the Bank, but in order that it may be in some measure assured that the money would be in its hands, ready to meet the interest when due.

I desire to represent, however, that under present arrangements as regards New Zealand, the Bank has the custody and the discounting of the drafts which are remitted from time to time from the colony for the purpose of providing the necessary funds to meet the interest, and that the Imperial guaranteed debentures are also deposited with it; and that, therefore, it may fairly be considered that a sufficient assurance is thus given without any further safeguard that the moneys required will be forthcoming at the proper time.

Under these circumstances, my Government are of opinion that they are justified in requesting the Bank to reconsider this provision, with the view of reducing the time within which the money shall be deposited to, say, one or two days prior to the due date of interest.

I therefore beg that you will do me the favour of giving this matter your careful consideration, and I trust that you will see your way to a determination in consonance with the views of my Government.

I have, &c.,

W. B. PERCEVAL.

The Governor and Company, Bank of England.

Enclosure 2 in No. 3.

Bank of England, London, E.C., 8th March, 1892.

SIR,—

I have to acknowledge the receipt of your letter of the 4th instant, in which you convey a request on behalf of your Government that the Bank would reconsider the modified provision agreed upon between the Bank and your Government in June, 1885, under which the money is provided for the payment of dividends on New Zealand stock ten days before the dividends become payable.

Having brought your letter before the Governors, I am directed to say that, in their opinion, the present is not a happy time for the consideration of so large a question, as any concession of the kind could not be granted to the New Zealand Government without its extension to other colonies and corporations which are under similar arrangements as to the provision for the dividends.

The Agent-General for New Zealand.

I am, &c.,

F. MAY, Chief Cashier.

Enclosure 3 in No. 3.

GENTLEMEN,—

13, Victoria Street, 18th March, 1892.

I have to acknowledge the receipt of Mr. May's letter of the 8th instant, in which he informs me that, in your opinion, the present is not a happy time for the consideration of the question which I did myself the honour of bringing under your notice in my letter of the 4th instant.

I certainly feel somewhat at a loss to understand the grounds on which you thus designate the present time. It may be that, in alluding to it in this way, you refer to circumstances which have occurred, or are occurring, in connection with other colonies and corporations, but of which I am not cognisant.

For, as regards the colony which I have the honour to represent, I feel justified in expressing a strong opinion that the present time is exceptionally opportune for the favourable consideration of the matter on the part of the Bank.

With regard to the colony's finance, I desire to state for your information that the remittances from the colony for the service of the Public Debt, already received and on their way, amount at the present time to £575,000 (not including the drafts for £100,000 which matured on the 11th instant) which by themselves are more than sufficient to meet the amounts payable through your Bank in April and May. Moreover, I would point out that my Government have now paid off the advance (£260,000) made by you in 1890-91, on the security of a portion of the £800,000 Imperial guaranteed debentures deposited at the Bank.

These debentures, I may remark, remaining in the hands of the Bank provide security for any temporary advances which may be required by my Government in order to meet the amounts of interest as they become due, thus, in my opinion, giving additional assurance that the money will be available at the right time, and placing the colony in a position which, I submit, can be very favourably compared with that of any other colony and corporation.

I would also take the opportunity of calling your attention to the colony's great increase in material prosperity, as evidenced by the value of its exports for the year 1890 as compared with previous years. In 1888 their value amounted to £7,767,000, while in 1890 it was £9,820,000—an increase of over £2,000,000. Meanwhile the imports had only increased by £320,000, being £5,941,900 in 1888, and £6,260,500 in 1890. I will not trouble you with further statistical evidence, but will content myself with saying that in other respects there is continued proof of the colony's great advance in material prosperity.

I may, I trust, be allowed under these circumstances to express my regret that the Bank adopts the principle of not granting any concession to New Zealand unless it can at the same time extend it to other colonies and corporations; and I venture, if you do not see your way to depart from such principle, to submit a proposal which could, I think, be made generally applicable.

My proposal is as follows, namely: That if negotiable securities, applicable for the purpose of meeting the whole or portion of the interest, are in the hands of the Bank on and during the ten days prior to the due date thereof, then and in such case the amount represented by such securities will not be required to be paid over to the Bank in cash earlier than one or two days before the said date.

I trust that this proposal will commend itself to your favourable consideration.

The Governor and Company, Bank of England, E.C.

I have, &c.,

W. B. PERCEVAL.

Enclosure 4 in No. 3.

SIR,—

Bank of England, London, E.C., 21st March, 1892.

I have to acknowledge the receipt of your letter of the 18th instant with further reference to the subject of your previous communication of the 4th instant.

The Governors have given the reasons set forth by you their fullest consideration, and in view of all the circumstances of the case they are disposed to meet your request. I am therefore directed to say that so long as the Bank hold an amount of guaranteed debentures sufficient to cover the whole of the interest ten days before it becomes payable they will be satisfied if the money required for the dividends be paid to the Bank two days before it is due.

The Agent-General for New Zealand.

I have, &c.,

F. MAY, Chief Cashier.

Enclosure 5 in No. 3.

MR. KENNAWAY,—

In continuance of our conversation yesterday with regard to the lodgment of interest-moneys at the Bank of England, I have worked out that our saving per annum at, say, 3½ per cent. (which I think a fair rate to adopt), will amount to £985. I append some figures which you might compare with your own and see how far they agree.

Interest on inscribed 4-per-cent. stock, in round numbers, from the 1st May next, I make to be £1,164,852 per annum, being interest on £29,121,302 stock.

The interest on 3½-per-cent. stock will amount to £119,259, being interest on £3,407,397 stock. The total interest is, accordingly, £1,284,111, on a total amount of inscribed stock, £32,528,699.

The addition to the 4 per-cent. inscribed stock by automatical conversion of the Consols (£4,509,087) and 5 per cent. of 1863 (£47,960) comes to £4,557,047. The Consols were £4,214,100 converted at 107, and the 5 per cent. of 1863 converted at 110, £43,600.

I may, I think, here state that this automatic conversion will save the colony in interest some £30,600 per annum.

22nd March, 1892.

C. F. WRAY PALLISER.

No. 4.

The PREMIER to the AGENT-GENERAL.

(No. 26.)

SIR,—

Premier's Office, Wellington, 19th May, 1892.

I have the honour to acknowledge receipt of your letter, No. 405, dated the 22nd March last, informing me that you had approached the governors of the Bank of England on the subject of obtaining a modification of the arrangement under which the amounts of interest on the New Zealand public debt payable at the Bank have to be deposited ten days before the due date.

I must congratulate you on the result of your correspondence with the Bank, which has led to the substantial reduction of from ten days to two days of the deposit of the amount required for the payment of interest falling due at the Bank.

In consideration of this concession, I notice that you have agreed, on behalf of the Government, to provide that there shall be held by the Bank at the time a sufficient amount of guaranteed debentures to cover the whole of the amount payable.

I regret you were unable to persuade the Bank to include as "negotiable securities" the drafts from the colony which the Bank have so far discounted without demur, and I shall feel obliged if you will again approach the Bank with the view of their reconsideration of the matter, as it seems to me that, if the drafts are considered good enough by the Bank to be discounted, they are surely of sufficient value to be held as cover for the two days intervening before payment has to be made by the Bank.

Of course, in the matter of a delicate negotiation such as this, I desire to be guided by your opinion, and therefore, if you do not consider it advisable, or the time opportune, for you to again approach the Bank on the subject I shall be satisfied with your decision, but I reserve the right to ask you to reopen negotiations at any future time.

The Agent-General for New Zealand, London.

I have, &c.,

J. BALLANCE.

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