No. 71.

MEMORANDUM by the SECRETARY to the TREASURY.

Hon. Colonial Treasurer. Wellington, 4th May, 1893.

THE Agent-General writes, suggesting we should discontinue the remittance of moneys to the Crown Agents in excess of the bare requirements to pay the interest on bonds of the 1867 Consols held by the public. This is a very important matter, and requires grave consideration before a decision is arrived at.

I may explain that the 1867 Consols are subject to an annual "drawing." The original loan was £7,283,100; but, owing to the annual "drawings" and the conversion operations, the outstanding bonds in the hands of the public on 31st March last only amounted to £1,056,400. The fund to provide for the annual "drawing" is made up by a charge of 1 per cent. on the £7,283,100, and 5 per cent. on the amount of the drawn bonds; and the amount so provided reached £220,800 for the "drawing" in March last, of which sum only £51,100 was paid over to the public for the bonds they had drawn, and £169,700 was returned to the Treasury in respect of drawn bonds which had already been converted.

The present position of the original loan may be thus stated:—

Bonds in the hands of the public	£1,056,400
Total of bonds cancelled at the annual "drawings"	3,160,600
Converted bonds held by the Treasury subject to the annual "drawings"	3,066,100
	£7,283,100

The proportion of the result of the "drawings," as between the public and the Treasury, may be reckoned as something like one to three, and therefore the bonds drawn by the public will annually diminish, and those drawn by the Treasury will increase.

Five per cent. on £1,056,400 = £52,820, and this sum would most probably more than provide for the amount which would be likely to be drawn by the public in March of next year: whereas we shall remit (if we continue as before) upwards of £228,000 during this current year to provide the drawing fund, of which £178,000 would probably be returned to the Public Account.

On the face of it, such an arrangement as this appears to be unbusiness-like; but the finance connected with it causes me to hesitate in recommending any change until a sufficient grasp of the result of a change has been achieved. I have not yet informed you that the 1867 Consols are included in the scheme under "The Consolidated Stock Act, 1884," whereby we are enabled to issue debentures for an amount equal to the value of accretions of sinking funds during the year, and, therefore, under this scheme we shall be at liberty to issue during this month debentures for £229,200 (the estimated accretions for the current year of the sinking fund belonging to the 1867 Consols), whereas the remittances representing this amount will extend over the whole of the financial period, being made in four quarterly instalments; we, therefore, derive very substantial assistance to our finance at a time when such assistance is most required—namely, to provide for the heavy sum of interest due on the 1st instant (some £600,000). If we cease to remit, or, in other words, charge, more than is absolutely necessary to provide for the bonds likely to be drawn by the public, we shall be deprived to an equal extent of the borrowing power under the Act of 1884. In reply, it may be said that we have an ample margin in the authority to issue Treasury Bills; but I do not, just now, consider that that is a sufficient reason for relinquishing the benefit we derive from the present method of dealing with the 1867 Consols.

The Assistant-Controller and Auditor drew the Treasurer's attention to this matter in July of last year, advocating the remittance of money only absolutely required to provide a "drawing" fund for the bonds held by the public; and, about the same time, the Agent-General submitted a scheme whereby the funds required to pay off the drawn bonds held by the public could be supplied by sale of 3½-per-cent. Stock created for the purpose.

The Hon. Mr. Ballance was doubtful about the Agent-General's scheme, and nothing has since beeen done in the matter. After careful consideration, I am not at present inclined to recommend any change should be made.

JAS. B. HEYWOOD,
Secretary to the Treasury.

The Hon. the Colonial Treasurer.

No. 72.

The PREMIER to the AGENT-GENERAL.

(No. 20.)

SIR,— Premier's Office, Wellington, 18th May, 1893.

I have the honour to acknowledge the receipt of your letter No. 300, dated 16th March last, wherein you submit for my consideration the question of doing away with the practice of remitting the full amount of the sinking fund required for the annual "drawing" of the 5-per-cent. Consols.

The attention of my predecessor had been drawn to this subject in July last, and I have myself given it very careful thought, and have come to the conclusion that a change is not advisable at present. At the same time, the matter is of so much importance that I do not desire to lose sight of any advantage which a change of system might secure. With this object in view, I shall be glad if you would place yourself in communication with the Crown Agents, and ascertain from them what modification they would be willing to agree to, so as to obviate sending any larger amount than is required for the purpose of providing a sufficient sum to pay off the bonds drawn by the