1935. Kenya.

No. 38024.

SUBJECT CO 533/455

Conversion of Kenya Loans.

Previous	
23335/34.	
Subsequent	
1936 file	

FILE C.

(1711) Wt.55484/336 5,000—3/44 N.P.Co. G.682/10

C.I.
Loan Conversion

23335 35024/5

Mr. Freeston

The Secretary of State has received the attached letter from Mr. Bickersteth, and will be glad to see the papers relating to the scheme referred to in the letter.

Lake
17.1.35.

1 Mr Bickersteth 16th Jan 1935
States is submitting scheme for relief of Kenya re entitled "No 7 Annuity scheme.

2 Crown Agents (s/o Mr Ezechiel) — 14th Jan.
Encloses two copies of memorandum respecting proposals for relief in connection with Kenya High Interest Loans. Refers to section 7 relating to "annuity scheme".

Nos. 31 and 33 on 23335/34 provide an answer to the Secretary of State's enquiry of the 8th January on that paper; the Treasury and the Bank agree in thinking that, in the light of the distribution figures, 20% is an optimistic forecast of the probable response to a "long" Conversion offer. In No.33 Mr. Waterfield also explains his reference to underwriting a Conversion issue.

No.2 above results from a discussion with Mr. Ezechiel a week ago, when it was suggested that the Crown Agents should prepare a note on the various

possibilities

possibilities of affording relief from present Loan charges other than by means of direct conversion. It was understood that the Crown Agents should merely formulate these various devices without attempting to pass judgment on their merits.

The various suggestions in Mr. Ezechiel's letter were discussed this morning and I append a note.× Possibly the Secretary of State may now wish to explore the position with Mr. Ezechiel, Sir Cecil Bottomley and Sir John Campbell before deciding whether the Treasury should be approached in regard to the Bickersteth scheme.

×Sir J. Campbell has not yet seen it. [illegible] 3

J. Preston 21/1

J. E. W. Flood 21.

Yes. Mr. Bickersteth's scheme involves so many considerations of confidence that I should not myself feel able to ask the Treasury to discuss it with the condition that they should not mention it to the Bank or brokers.

W.C.B. 21.1.34

? For discussion

[illegible] 22/1/35

The Secretary of State discussed this yesterday with Sir John Maffey, Sir Cecil Bottomley, Sir John Campbell and Mr. Ezechiel. The following points made in the discussion are recorded:-

(1) Sir C. Bottomley pointed out that under the Bickersteth scheme the immediate relief to Kenya from a conversion of the full £5,000,000 (6 per cent.) would be £92,000 per annum (i.e. the difference between 7 per cent. now paid and 4 per cent. on the present capital × $\frac{129}{100}$).

(2) Sir J. Campbell observed that there were two formidable hurdles - the ~~existence of~~ resistance which must be ~~investigated~~ anticipated from the Board of Inland Revenue, and the very doubtful position of trustee holders. He drew attention also to the fact that the scheme held out little or no inducement to the small holder, to whom immunity from income tax was of relatively slight concern.

(3) Mr. Ezeckiel said, in reply to the Secretary of State, that the Crown Agents might perhaps be prepared to convert a small part of their holdings under the Bickersteth scheme. He suggested that the annuities could be arranged, not with an Insurance Company, but with one or more Municipal Corporations, some of whom are prepared to repay borrowed capital on an annuity basis.

(4) The Secretary of State agreed that if this were done Mr. Bickersteth might be given the job of negotiating with the Corporations. Mr. Bickersteth could not, however, expect any other recompense from Government for his idea - it was not entirely novel, and the Crown Agents were quite capable, if necessary, of carrying it out without his assistance.

(5)

(5) The Secretary of State directed that, after Mr. Bickersteth's concurrence had been obtained, the scheme should be submitted for examination and comment by the Treasury, the Bank of England and the Board of Inland Revenue.

(6) It was generally agreed that, of the various other proposals, the only one worth further investigation was that for straight conversion into a short term 3 per cent. stock. Sir J. Campbell suggested that the objections to such an issue entertained by the Treasury and the Bank might be met, at any rate in part, by providing a two-year margin for redemption instead of a fixed date. The Secretary of State agreed that this varient should be explored with the Treasury and the Bank.

Mr. Ezeckiel undertook to invite Mr. Bickersteth's concurrence in putting his proposals to the Treasury, the Bank and the Board of Inland Revenue. When we hear that this has been obtained, it will be necessary ? to write to Mr. Waterfield and Mr. Holland Martin sending them the Bickersteth scheme as outlined in the enclosure to No. 2 and invite their comments; at the same time asking their opinion on the effect of a two-year redemption period in regard to the short term conversion issue.

1/2

seen. We can only wait. I may as well record here an impression I have got (no more) that the Inland Revenue are looking askance at "capital alterations" and are meditating a tightening of their methods. If so, the inducement to convert may vanish altogether.

J.S.W. Flood
2.2.

4/2/34

4. Crown Agents (s-o, Mr. Ezechiel) — 4th Feb.
(Has obtained Mr. Bickersteth's concurrence)

5 To Waterfield S/o (Treasury) — 7. 2. 35
6 Holland Martin S/o (BK England)
(with copies Commodity scheme Section 7 of encl. to No. 2)

7 To Mr Ezechiel S/o (with copies 5 & 6) — 7. 2. 35

JETS

DESTROYED UNDER STATUTE

P.T.O.

8. — Mr Ezechiel S/o — 12. 2. 35
Submit: obvious on proposal that payment of part interest on high interest stocks should be met by borrowing.

I never intended that the suggestion of borrowing year by year to meet the difference in interest or sinking fund should be treated as eliminating the other alternatives. I wanted this worked out in order to see what it would save the K.U.R. in charges up to 1946, and what additional capital charge it would put on Kenya after 1946. The chief snag in this scheme is that you can't say with certainty at what rate of interest Kenya would be able to borrow in the years between now and 1946, and it may well be, therefore, that the scheme is inacceptable because it does not enable Kenya to take sure advantage of the present cheap money rate.

There are therefore in the field four possible schemes -

(1) the above plan:

(2) an offer of long-term conversion:

(3) an offer of short term conversion with a margin of two years.

You were to find out from Holland Martin and the Treasury what their views were as to the reasonableness of this proposal, because as I understood it, the absolute objection taken was not to a short-term conversion, but to being tied down to a particular date for that conversion. I gathered from our last discussion that Holland Martin was inclined

to

to regard a short-term conversion offer with a margin of two years as a reasonable risk.

(4) The Bickersteth proposal. This was to be submitted secretly to the Treasury in order that they might express their views on the tax aspect of this proposal.

What I now want is a considered review of these four proposals with their exact financial implications.

R. L.
13/2

Mr Preston
Pl. see if you can arrange a discussion (you & me, & Mr Hood, with Sir J Campbell). I shall be free all tomorrow, & Friday morning.

Mr Waterfield will try to get down to it but must consult the Inland Revenue. Mr Holland Martin ~~with~~ has a draft reply before him — it will reach me tomorrow.

C.W.B. 13.2.35

9 B. England (S-O) 13th Feb.
(Replies to 6)

Mr Hood
Sir J. Campbell
Sir C. Bottomley

The discussion took place yesterday; & I send on the first draft of the memorandum called for in S of S.'s minute of Feb. 13th. §2 of the draft (attached) embodies part of Sir C. Bottomley's note & Sir J. Campbell's comments thereon.

C B Preston
16/2

A very good & clear effort to set out the proposals.
J.E.W. Flood
16.2.

Campbell
19/2/35

10 Treasury (S-O) 20th Feb.
(Replies to 5)

11 Treasury S/1 confirms Inland Revenue view re Anonymous Scheme 29.2.35

12. Revised memorandum herewith, embodying the upshot of No 10 and suggestion by Sir C. Bottomley.

C B Preston
21/2.

(Note: Subsidiary action, when S. of S.'s decision has been taken, must include
(a) Reply to Mr. Bickersteth's letter (1. on file).
(b) Copy of 9 & 10 to Mr. Ezechiel, as promised in 7.
(c) Acknowledgment of 10, pointing out the misunderstanding which underlies the last paragraph).
C.B.

P.T.O.

Secretary of State (through Sir J. Maffey)

Following on your minute on no: 8 I now submit a memorandum agreed between Sir J. Campbell, Mr. Flood, Mr Preston, and me.

Mr Osterfield's letter, no: 10, is important, but he has made a mistake in the last paragraph.

W.C.B.
25.2.35

J.A.M.
26.2.35

I spoke to the S. of S. again about this today: it should come forward one month hence when the Treasury's reply to our letter about the K.U. Railway Renewals Fund.

E. Lloyd
18/4/35

i.e. 38039/35 Kenya, which is marked to be brought up on May 3rd. This paper shd. be b.u. at the same time

? Preston
23/4 ?

B.u. in one month

? Preston
19/7 ?

Notes
? ?
19/7/35

7

13 Extract from "The Times" of 22/8/35.
{Mr Sandford, Deputy Treasurer, to discuss loan conversion during his leave.}

14 A. de V. Wade — 12 August '35.
{Re. schemes submitted by Capt. Schwartze and Mr R. L. Hansard}

Spoke to Sir C. Bottomley, who agreed that this could wait Mr. Sandford's arrival. After discussion with him, & subject to his views, we should send the Governor s.o. material to enable Mr. Walsh to speak with knowledge & authority in the Leg. Co. debates on next year's Estimates. Such material might be copies of 2 & 12 on this file, suitably edited (e.g. Mr. Bickersteth's name should not appear).

B.u. on Mr. Sandford's arrival, which may be expected about 8th Sept.

? Preston
23/8 ?

Notes
? ?
26/8

Sir C. Bottomley had time for only a few minutes' talk with Mr. Sandford. He agreed that the documents scheduled to the attached letter to Sir Wade could be sent out, on the understanding in the last para. of the letter.

Mr. Sandford subsequently spent a morning going through these files with me.

Put by
B Austin
4/9 ...

Kirtland

15 To Wade s.o., with encl. as shown. 3rd Sept. 35

16. G. R. Sandford s.o. —— 5 Sept. '35
(Encloses a note on 1921 + 1927 Kenya Loans + gives substance of a letter which he has sent to Walsh on the subject)

17. To Sandford s.o. (Ackt. of 16) —— 7 Sept. 35

Mr. Sandford's ingenious scheme comes to this:-

(1) Assume a wholly successful conversion of the Railway share of the 6% + 5% loans on Crown Agents terms. The immediate savings in loan charges would be £x, and the increased loan charges after 1946-8 would be £y.

(2) Instead of effecting the conversion on the market (which we are advised would be impracticable), take £x from the theoretical Railway contribution to Renewals, (and 8 apply it to rate-reduction etc.); but increase the Renewals contribution by £y after 1946-8.

encl. to 7 on 23335/34

From the Crown Agent's calculations it appears that: $£x = £132,452$
$£y = £136,469$

R'y Report pp. 134-5

A 1% Renewals contribution (on 1934 figures of wasting assets) = £147,647.

Mr. Sandford's scheme, if adopted, would result in reducing the annual Renewals provision by rather less than ·9 of 1% until 1946-8, & increasing it by rather more than ·9% thereafter.

Sir Godfrey Rhodes wants to reduce the %age from 3.11% to 2% = 1.11%.

Treasury ~~have agreed (for the current year) to a reduction of to~~ are standing out for the $3.11\% - \frac{S.F}{2}$ formula, = about 2.8%.

? It is hardly profitable to pursue Mr. Sandford's suggestion any further. Treasury determination to have their pound of flesh is not likely to be weakened by hypothetical considerations.

[illegible signature]
18/9

What Mr. Sandford's scheme boils down to is simply that the Railway Renewals Fund should be raided by an amount which would give the same relief as a Conversion of the 6% and 5% Loans on the Crown Agents' calculations. The effect of this would be to allow the Railway to reduce its rates <u>pro tanto</u>, but apparently Mr. Sandford does not contemplate piling up a reserve fund on the Railway, which is what Sir Godfrey Rhodes is after. I do not think then, that the scheme would altogether commend itself to the Railway Administration because it is an essential feature of Sir Godfrey's proposals that he shall be allowed to pile up a reasonable reserve fund as a condition precedent to engaging in comprehensive rate reductions.

If the Treasury remain obdurate in regard to the Renewals Fund there is no use in pursuing Mr. Sandford's suggestion for it simply boils down, as I have said, into raiding the Renewals Fund and in this case simply raiding it for window dressing purposes because the Loan and the Railway's liability would not be affected in any way. The only thing that would ha[illegible] would be that less money would be credited to Renewals. The Treasury are, I am afraid, not likely to agree to this. We should, I think, have a better chance of getting them to agree to Sir Godfrey Rhodes's proposal which will, not immediately but fairly soon, enable the Railway to reduce its rates. But the Treasury. as we know, look askance at that.

The

The situation as regards gilt-edged Stock is now altering to the detriment of the said securities and with things as they are at present I do not think that any loan would have much chance of successful issue at reasonable terms. A good deal of the arguments in Kenya are based on the mistaken assumption that Kenya's credit is as good as that of H.M.G. I do not think that that is really the case and if we did try to float a loan we should promptly find that Kenya would have to pay much more than they think. (They calculate on 3% interest & 1% S.F.)

The settlers are, of course, making the matter a political issue instead of what it is - an economic one - which is unfortunate but cannot be helped.

J. E. W. Flood
25.9.

(There is one small thing which is obvious when mentioned but perhaps needs to be stated. The enclosures in 14 all assume that Kenya's credit is good enough to allow of its playing tricks with its finances. Sinking Funds are discussed airily and so on. But Kenya's credit per se is not good. It derives its basis because it is in the general structure of Colonial credit and that credit is sound only because tricks and repudiation are not allowed in Colonies. The structure is based on the rock of complete control by the S. of S. in order to avoid financial unsoundness and to let Kenya go and do queer things would re-act disastrously on the whole lot - for, if Kenya may misbehave why not Nigeria? Part of the Colonial Loan structure is the requirement of sinking funds and they can't be done away with without breaking faith with the stockholders. And so on, ad nauseam. The point only needs mentioning from time to time for its importance is self evident)

This is basic.
[illegible initials]
30/9

I agree generally with the preceding criticisms of the Sandford scheme. It seems to me to stand less chance of success than the straightforward 2% renewals proposal which we have, repeatedly and unsuccessfully, urged. I do not think Sir G Rhodes would approve of it:--because he insists that, for permanent rate reductions, he must have behind him the balancing tank which a fairly big reserve would give. The two Govrs: have already concurred in that view. It is obviously sound financially. (From memory, he did propose rate reductions totalling about £ 100,000 in 1936; but he was providing for that by adopting the new " normal" scale of receipts and expenditure, which depression experience seemed to justify. For anything further, he insisted on the necessity for a considerable reserve.)

The Treasury stated, as one of their major objections, their refusal to admit now of hypothecation of the 1946-48 relief from loan charges for rate reductions. They are thinking of their £ 5 millions; and their main point is that they cannot allow a policy which earmarks a substantial portion of the 1946-48 relief, in prejudice to their claim. That hurdle still stands, under the Sandford proposals.

The 27th: September, 1935.

[signature] 27/9/35

Seen. Mr. Sandford deserves our thanks for his very ingenious scheme. It is the best I have seen. He has driven us to this point — that there is no scheme which secures any measure of relief which is free from objection.

[initials] 30/9

Seen [initials] 1.10.35

Mr.R.L.Hansard (author of one of the schemes enclosed in No.14) came today with an introduction from Mr. ~~Morris~~ Nanner of the Ministry of Agriculture and Fisheries and saw Mr.G.R.Sandford and myself. A long discussion ensued in which Mr.Hansard strove to persuade us (a) that the holder of £100 Kenya 6% Stock would jump at an immediate offer of £125 in cash; (b) that conversion on these terms would be immediately beneficial to Kenya and the Railway without being unfair to posterity. We met him with the Crown Agents' calculations of December last year (enclosed in 7 on 23335/34); we also asked why if conversion is so simple and so profitable does not the British Treasury convert the £323,000,000 outstanding of the 5% Conversion Loan, 1944-54 (now quoted at 120)? His only answer to this latter query was to point out that Mr.Olav Hambro had successfully carried out a conversion of the 6% Preference Shares of Hambro's Bank.

We did not tell Mr.Hansard that the Crown Agents had signified their readiness to exchange their own holdings of Kenya 6 per cents. for a new short 3% on the basis of £130 for £100; if we had mentioned it we should have been drawn into further discussion on the effect of payment or non-payment of income tax on the holder.

Mr. ~~Sandford's~~ Hansard's positive suggestion was that confidential enquiries should be made from some of the large holders of Kenya 6 per cents. as to what they would accept in immediate cash in

return

return for the surrender of their Stock. If the answers to such enquiries looked promising Crown Agents should then circularize all holders, offering, say, £125 cash for each £100 of Stock; the cash required would be advanced to Kenya by the Crown Agents pending its repayment from the proceeds of a new 3% Loan with a Treasury guarantee behind it. We pointed out that however confidential such enquiries were made, there was always a risk of leakage and the effect of any publicity would be to force the price up; nor would Kenya's credit in the City be improved by a suspicion that transactions of this kind were under consideration. We also dwelt upon the difficulties attendant upon the proposed Imperial guarantee for the new Loan. I promised, however, to pass on Mr. Hansard's suggestion to higher authority in the Office.

Later on, after I had spoken to Mr. Flood, Mr. Sandford and I saw Sir Cecil Bottomley. He agreed that we might go so far as to invite Crown Agents' opinion informally whether any good purpose would be likely to be served by initiating enquiries of the nature suggested by Mr. Hansard, making it clear, however, to the Crown Agents that the enquiries should not in any case be set on foot without further approval from here. Mr. Sandford emphasised the importance of consulting the Govt. of Kenya before authorising the enquiries and Sir Cecil Bottomley suggested the

possibility

possibility that Treasury acquiescence might also have to be sought.

I have put the question by telephone to Mr. Ransom, who has promised to consult Sir Percy Ezechiel and let us know their views as soon as they can spare the time from their present preoccupation with the new Ceylon Loan. ? Wait. Bring up in a week if nothing has been heard from Crown Agents.

[signature]
9/12.

X. I should be very surprised if the Treasury agreed to guarantee a loan for Kenya. There is no reason why they should and many why they should not. Also I rather think an Act of Parliament would be needed or at least a resolution of some kind.

W.C.B.

All these ideas are based on two assumptions

i) Kenya's credit is good & it can borrow as cheaply as H.M.G.

ii) In any case, in view of the Imperial Importance of Kenya, the ordinary man will be only too pleased to lend Kenya money specially cheap.

Neither is true.

J.E.W. Flood
10.12.

X: A year ago Mr. Waterfield was chiefly concerned to show that the guarantee would not help materially: he did not then say that Treasury would refuse. But clearly such a step could not be taken up for Kenya only – nor would its chances of success in Parliament be increased by such a limitation.

Wait for

C.A.'s reply. We will then get Sir J. Campbell's views.

W.C.B.

10.12.35

18. Mr Ransom Crown Agents S/O — 12 Dec 1935

Considers unlikely that large holders of stock would be prepared to accept reasonable cash offer for redemption of stock

Sir J. Campbell

Please see above. There is great force in the C.A. letter: The holder of Kenya 6% (now around 124½) would certainly want more. As it is he has an asset (dwindling in value perhaps but never vanishing below about 103 until the last interest is paid) and he gets six per cent on every £100 stock. As things are now if he got £140 for his stock he could not get more than 2½% on it so down would come his income though he would have more capital. ~~[illegible]~~

And then why should it be assumed that money will be as easy in 1946 as it is now? If in 1946 things yield a better return than now the man who held on will be better off than the man who sold now and re-invested in a 'long' stock at low interest.

So I think this scheme is also dead

J.E.W. Flood

16.12.

All the various schemes suggested have broken down under examination. I agree with the C.Ags: here. I would not consult the principal holders. The 17th: December, 1935.

Campbell

17/12/35

Sir J.Maffey.

As the scheme which has been under consideration may come to you from some other source I think it desirable that you should see these December minutes and the result of our enquiry of the Crown Agents.

I think there is no doubt that the scheme is impracticable. Indeed it must be assumed that a bargain which has proved good for the stockholder and bad for Kenya can only be terminated with loss to the latter.

We are ascertaining from Mr. Nuston whether Mr. Howard expects a reply - probably not. Subject to that,

Put by W.C.B.

18.12.35

JM

Mr Flood has written to the question. C.K.

At once

JM

19/xii

13

18

4, MILLBANK,
WESTMINSTER,
LONDON, S.W.1.

(VICTORIA 7730)

12th December, 1935.

Dear Freeston,

You have asked whether we think that any useful purpose would be served by our making confidential enquiries of some of the large holders of Kenya 6% stock, 1946/56, as to the amount in cash which they would be prepared to accept for the redemption of their stock now.

The answer is, I think, in the negative, since an offer of cash for stock is likely to be less advantageous to the Kenya Government than an offer of stock for stock would be.

The holder of Kenya 6% 1946/56 stock would undoubtedly want more than its current market value if invited to sell it to the Government. We think that he would want even more than the market value of the amount of a new Kenya 3% stock which he would accept in exchange for his holding. We think this because he presumably wants to keep his money invested and if he gets cash he has got, not only to pay the market turn and brokerage on any other investment which he buys, but also /to

L.B.Freeston, Esq., O.B.E.
COLONIAL OFFICE.

d

CA

to find a suitable investment which, especially if he wanted a 1946 stock, might not be easy.

Yours sincerely

J C Hanson

d CA

~~Mr Abbott~~ (C.A.)

I promised to let you see our recent files on the Kenya Loan Conversion proposals. Please return them as soon as convenient; they may be required shortly in connexion with a suggestion which Mr. Sandford (Deputy Treasurer, Kenya, on leave) may be putting up to us.

(38024/35 is "Secret" because of the references to "Bickersteth" — ~~which were~~ his name was eliminated in the copies which have gone to Kenya)

S Freeston
4/9

Mr Freeston

Returned with many thanks

M Harrison
(C.A.'s Office)
13/9/35

Downing Street.

7th September, 1935.

My dear Sandford,

Many thanks for your letter just received. I have had time for only a hasty perusal, from which I infer that you and Sir Godfrey Rhodes have reached the same conclusion from different standpoints. Rhodes has long been pressing to reduce the Renewals rate to 2% until loan relief comes in 1946-48 on the understanding that it would be put up to the actuarial level thereafter, and apply the savings to a rate reduction fund.

The dossier is going out to Wade by tomorrow's Air Mail; we could not get it off sooner as there was so much to be copied.

I hope that by now the official letter offering you the Tanganyika Treasurership has reached you.

Yours sincerely,

W.P.

G. R. SANDFORD, ESQ., O.B.E.

16/17

Colindale
Beach Road
Trevone
Nr Padstow.
5th September 1935

My dear Preston,

I have found the distractions of bungalow life in Cornwall and fine weather impervious to conversion problems and am sorry for the consequent delay in writing to you. Luckily, I sent a line to Walsh before leaving so he will know by the end of this week that papers are coming. I told him that the loan conversion problem had been very fully examined with the best authorities six to eight months ago and that you would send a full summary of the papers to Mr Wade. I added that as the Railway was principally interested in the 1921 and 1927 Loans the General Manager's views seemed all-important to further discussion of the problem and that the general conclusion reached was the same as that reached in 1932, namely that the Colony would lose rather than gain by conversion.

I also told him that it was not accepted that an offer of present market price at a lower rate of interest would prove acceptable to stockholders and that while the figure which might be offered, on both short and long term conversion schemes was expressed as being open to doubt, figures had been suggested on a stated formula which formed the basis of calculations and comparisons made.

With regard to the suggestion to secure the effects of conversion by adjustments in the payments to be made into the Renewals Fund I wrote as follows:-

"The idea occurred to me as I was reading the papers that as it was the Railway that was 18 primarily concerned, and as any offer of voluntary conversion could not result in benefit to Kenya at the expense on balance of the stockholders, and as, therefore, the only practical effect of such conversion would be to save so much a year now at the cost of additional payments to be made annually after 1946, it might be possible to put forward a strong case for applying the effects of such conversion without going to the market at all by operating on the Renewals Fund, paying so much less into the Renewals Fund until 1946 and so much more after 1946 and basing this adjustment

solely on the factors arising out of calculations relating to the gain or loss on conversion. I am not qualified to know whether such a line of approach would be practicable or theoretically sound or whether, if it should prove worth considering, the Treasury would look at it; and I have hardly had time yet to think out the implications from an arithmetical point of view.... The papers ... deal in part at least with the problem created not so much by the high loan charges as with the issue arising through inability to pay these charges, and this, on the basis of Railway working for the past two years, is not the issue. What seems to me to be wanted is an assured reduction in present standing charges so as to enable the management to give some additional relief to users of the Railway until 1946 when the maturity of the 1921 Loan will ease the position. And if the Renewals Fund could be used to effect this there would be no need to approach the Market."

I enclose a further note dealing with the matter in case you think it worth while to see whether it provides a line of approach. I do this, however, with much

hesitation as I am not sufficiently conversant with Transport Administration finances and principles to know whether the suggestion is worth examination or not.

Yours very sincerely

G. R. Sandford

Kenya 1921 and 1927 Loans

The Kenya Government has the right to redeem the 1921 Loan at par in 1946 and the 1927 Loan at par in 1948 but has no right to redeem either Loan before those dates. A reduction in annual interest charges can therefore be effected only by making an offer acceptable to stockholders. If it is assumed that an offer would not be acceptable to stockholders unless the terms were on balance not less favourable to stockholders, it follows that any relief that might be secured during the period preceding maturity must be offset by greater annual payments for some years afterwards.

Of the £10,000,000 involved in these two Loans, more than £9,000,000 was borrowed for Railways and Harbours purposes. The effects of a successful offer would therefore be mainly to relieve present users of the Transport system at the expense of subsequent users of the transport system, not at the expense, on balance, of the stockholders. It would enable a certain measure of relief to be given by an immediate reduction in selected railway rates and port charges instead of a greater measure of relief after 1946 and 1948.

Expert advice has been given as to the terms upon which an offer might be made in respect of both Loans, but the success which might attend such offers has been expressed as open to doubt. If, however, the terms suggested for conversion to long-dated issues at a lower rate of interest are taken as a basis for discussion, the potential effect of a wholly successful offer can be calculated and comparison can be made with successive annual charges on the present basis, subject to lack of precise information as to the terms upon which the Colony will be able to borrow money on the

Market when the Loans mature.

It is suggested that the possibility might be examined of securing this effect upon present users of the Transport system at the expense of subsequent users by accepting the principle of making annual contributions to the Renewals Fund until 1946 or 1948 at a rate less than the normal rate by the amount which would be saved in annual interest and sinking fund charges if a wholly successful offer of conversion of the Transport part of these Loans were now to be made, accompanied by a commitment to make a consequentially increased contribution over and above the normal rate after 1946 or 1948 for the period which would have been covered by the 'conversion' loans.

By this method the present standing charges would be reduced at the expense of the Renewals Fund and present users of the Railway and Port would obtain all the benefits of a wholly successful 'conversion' offer. After 1946 or 1948, standing charges in respect of the Loans would be substantially less and the additional burden on account of Renewals Fund contributions should throw no undue strain on Transport Administration resources.

The Colony maintains no fund similar in kind to the Renewals Fund and the possibility of securing relief to present taxpayers at the expense of posterity cannot therefore be sought on these lines.

C. O.

Mr. Freeston 30/8 [illegible]

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley.

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

~~1~~ (15 25

4th for me

Confidential

DRAFT.

A. de V. Wade Esq. CMG. OBE.

— A ~~(Encl. to 7 on 23335/34)~~
B ~~(5 on 23385/34)~~
— C ~~(Encl. to 2 on 38024/35)~~
D ~~(3 on 38024/35)~~
E ~~(8)~~
F ~~(12)~~

FURTHER ACTION.

My dear Wade

Your letter of August 12th (Loan Charges) ~~arrived~~ reached Bottomley only a few days before he went on leave. ~~On his instructions. He asked me to see Sandford, and Sandford & I have now spent several hours on~~

Sandford, however, has spent the greater part of a day going through the material which we have accumulated here during the past eight months; and, at his suggestion, I now send you a selection from the mass of memoranda &c. on our files.

The sequence is as follows:-

A is a Crown Agents' memorandum which was discussed at the meeting recorded at B. C is a further note contributed by the Crown Agents, covering various proposals, some of which have a strong taint of financial heresy; the Crown Agents were particularly anxious that their formulation of these schemes should not be construed as endorsement. D is the record of a further meeting in the C.O., commenting on C. E is a letter from Ezechiel, elaborating one of the proposals in C. Finally there is a memorandum (F), reviewing

C. O.

Mr.
Mr.
Mr.
Mr. Parkinson.
Sir G. Tomlinson.
Sir C. Bottomley.
Sir J. Shuckburgh.
Permt. U.S. of S.
Parly. U.S. of S.
Secretary of State.

DRAFT.

subject of correspondence in 1932

FURTHER ACTION.

26

the whole field of suggestion; it was prepared for Sir Philip Cunliffe-Lister, who had not, however, passed final judgment on it when he left office.

The objects of our inflicting this paperasserie upon you are (1) to convince you that the S. of S. & his advisers have not been entirely inert, so far as this particular question is concerned since it last formed the subject of correspondence in 1932, (2) to afford material which we hope will enable you to deal with the Schwartze & Hansard projects enclosed in your letter to Bottomley.

I need hardly add that these documents are strictly confidential in the sense that they must not be referred to, or quoted from, publicly; but there will, of course, be not the slightest objection to the use of the various calculations or estimates by Government spokesmen in Legislative Council or elsewhere.

Yours sincerely

27

14

GOVERNMENT HOUSE,
NAIROBI,
KENYA.

12th August, 1935.

My dear Bottomley,

LOAN CHARGES.

I enclose for your information a copy of a tentative conversion scheme submitted by Captain Schwartze at the recent Session of Legislative Council for consideration by Government. As you know, the possibility of obtaining some relief from this heavy burden of loan charges ~~is~~ the subject of constant discussion in Kenya.

A cutting from the "Kenya Weekly News" dated 5th July, 1935, giving details of a somewhat similar scheme formulated by Mr. R. L. Hansard is also enclosed for your information.

It has been pointed out to Captain Schwartze and Mr. Hansard that a Loan Conversion which is dependent on the completely voluntary choice of individual investors is an extremely difficult matter and that as the terms to be offered to investors must be sufficiently attractive to induce a large proportion to accept the Conversion Scheme, the prospect of securing any financial advantage to Government is necessarily remote.

The conclusion reached by the Secretary of State in the enclosure to your Confidential despatch of the 31st August, 1932, was to the effect that in all the circumstances he could see no

escape........

GOVERNMENT HOUSE,
NAIROBI,
KENYA.

escape from the opinion of the Crown Agents than an offer of conversion would not be to the financial advantage of the Government and that he could hold out no prospect of relief at that time.

A comparison of the enclosed schemes with the Crown Agents' assessment of the position in 1932 would appear to indicate that both Captain Schwartze and Mr. Hansard are far too optimistic in regard to the terms which would prove sufficiently attractive to ensure the success of any Conversion scheme of this sort, and that neither has taken proper account of the costs incident upon conversion. At the same time the mere fact that these Schemes have been evolved is a sufficient indication of the public interest taken in this problem and it may be that opinion in financial circles in London has undergone some modification since the problem was last investigated in 1932.

In order therefore that I may be in a position to state that Government has fully re-investigated the matter, I should be extremely grateful if you cause these schemes to be examined, and if you would also afford Sandford, the Deputy Treasurer (who is now on his way home) facilities to discuss them and the general question of Loan Conversion with the authorities immediately concerned at the first convenient opportunity.

Yours sincerely,

A. de V. Wade

SIR W. C. BOTTOMLEY, K.C.M.G., C.B., O.B.E.,
COLONIAL OFFICE, S.W.1.
LONDON.

K E N Y A   L O A N S.

Memorandum in connection with the possibility of the conversion of the (1) £5,000,000 1946/56 Loan.
(2) £5,000,000 1948/58 Loan.
(3) £3,500,000 1950 Loan.

The following possible method of conversion for the above three loans, with a subsequent saving of £191,500 per annum, is put forward merely as a suggestion for the consideration of Government and for discussion by the Deputy Treasurer with the Colonial Office and Crown Agents while he is on leave in England.

It is realised that the whole success of the scheme depends on the bond holders being prepared to accept repayment at the present market price of the Loans coupled with a long term investment at a rate of interest which, considering the present price of money, is not, in my submission, unattractive.

Clearly if Government is advised that the price offered is inadequate the saving above mentioned of £191,500 a year would be diminished proportionately to the increased price which it will be necessary to pay to bond holders.

The figures work out as follows:-

(1) <u>£5,000,000 Loan at 6% repayable 1946/56</u>.

In respect of this Loan the Colony is paying at present interest at 6% plus 1% Sinking Fund - a total of 7% making an annual charge of £350,000.

If the bond holders are paid off at present market prices which are £125.0.0 per £100 stock the cost would be £6,250,000 and the annual charges of the Colony with interest at 3% and 1% sinking fund - a total of 4% - will amount to £250,000 which is equivalent to an annual/

0 years – see over

annual saving of interest of £100,000. The bondholders will be getting 5% on £6,250,000 which is equivalent to 5¾% per annum on the par value of the stock.

(2) £5,000,000 Loan at 5% repayable 1948/58.

In respect of this Loan the Colony is paying at present interest at 5% plus 1% Sinking Fund - a total of 6% making an annual charge of £300,000.

If the bond holders are paid off at present market prices which are £120.0.0 per £100 stock the cost would be £6,000,000 and the annual charges of the Colony with interest at 3% and 1% sinking fund - a total of 4% - will amount to £240,000 which is equivalent to an annual saving of interest of £60,000. The bond holders will be getting 3% on £6,000,000 which is equivalent to 3 3/5th % per annum on the par value of the stock.

(3) £3,500,000 Loan at 4½% repayable 1950.

In respect of this Loan the Colony is paying at present interest at 4½% plus 1% Sinking Fund - a total of 5½% making an annual charge of £192,500.

If the bond holders are paid off at present market prices which are £115.0.0 per £100 stock the cost would be £4,025,000 and the annual charges of the Colony with interest at 3% and 1% sinking fund - a total of 4% - will amount to £161,000 which is equivalent to an annual saving of interest of £31,500. The bond holders will be getting 3% on £4,025,000 which is equivalent to 3 9/20% per annum on the par value of the stock.

If this scheme is feasible it would appear to be greatly advantageous to both the Colony and the bond holders as, if the conversion can be for a long period of say forty years,/

years, the bond holders will be assured of a rate of interest considerably in advance of rates at present ruling or likely to rule for many years to come, and the Colony will effect an immediate and very heavy saving annually and will be insured against the possibility of money becoming dearer from some unforeseen cause.

While this is not anticipated the payment of a set rate of 3½% per annum in respect of interest can be looked upon as fairly sound borrowing.

I wish it to be made quite clear that I am putting forward this scheme without any intimate knowledge of the money market at home and merely as a possible avenue of exploration by this Government and its financial advisers in England.

(Signed) H.E. SCHWARTZE.

31.7.35.

31st July, 1935.

KENYA GOVERNMENT LOANS.

A PLEA FOR ATTEMPTING TO CONVERT.

BY R. L. HANSARD.

I find a certain difficulty in putting forward this case as it is one that I have convinced myself of so thoroughly that I find it hard to understand other points of view. I fear that in consequence that this argument will wander from the obvious to the obtruse, so that whilst refraining from the popular fashion of pretending that this is The Intelligent Woman's Guide to Conversion, I do plead that this is a question that affects everyone in Kenya.

The 2 loans which might be converted are the 5% and 6% Loans each of which are for £5 million. The Kenya Government has the right to repay these @ £100 each for each £100 Stock in 1948 & 1946 respectively, in the mean time besides paying 5% and 6% we pay 1% Sinking Fund. It is of course true that the Government does not pay the whole £650,000. per year, but that some of these Loans were used by the Harbours & Railways and in Government a/c. appear as re-imbursements. This is however irrelevant as the money has to be collected somehow from us. If however the Loans are not redeemable for another 12 years, what can we do NOW? There are many interesting methods of approaching the matter, and although I will outline one method, there are others and had we the facts in the possession of the Treasurer, even we could better this scheme a fortiori!

Mr. Hambro.

It is interesting to note a very similar question by Mr Olav Hambro, Chairman Hambros Bank & London Assurance. The latter Corporation (whose size is indicated by the size of their Life Insurance Dept. invested Funds of which exceed £9 million.) has 6% Preference shares. To quote Mr Hambro reported Times 9/5/35. "These shares, at the option of the Corporation, are redeemable not earlier than 1943—It is proposed to give the 6% pref. shareholders an opportunity to convert their present holding into holdings of the new shares, and having regard to the difference in interest from 6% to 4%, the offer of conversion to the existing Pref. shareholders will, of necessity and in equity, be accompanied by the offer of a cash bonus".

Now there is one assumption I will make before applying this principal to our loans and that is that the British Government will be prepared to guarantee the new loan. The case for them doing so is so strong that, if the case is put up properly, it would be premature to suppose that they would not help.

Now although money can be raised on Government security so that £100 loan pays an interest of under 3%, no one would buy £100 Kenya 6% for £200 as although they would then get £3 per year for each £100 cash invested, in II years time the loan would be repaid and they would loose ½ their capital. In consequence we find the 6% loan is sold in London 124 i.e. this is the sum in cash which holders are converting every day. So suppose we raised a loan of £124 repayable in 1949. Then on this £124 we should have to pay £3 per year. It would obviously be advisable to have a sinking fund so that the debt of the country would be the same as it is now i.e. at simple interest £1/14/- Thus instead of paying £6 plus £1 every year we should pay £4/14/- or a possible saving of £115,000 per year. A similar calculation with the 5% gives a further £30,000. per year.

Where does it Come From.

One is naturally suspicious of clever financial jugglery, which seems to give money to everybody. It is therefore reassuring to see where it comes from. Now taking the case of the 6%. The holder of the loan does not get £6 for each £100 stock, the British Government take 27/- income tax & more in the case of stock held by people with income exceeding £2000. It is out of the remaining £4/13/- that the holder must put aside a sinking fund to repay the present premium. Under the new arrangement the British Government would only collect the tax on £3 instead of £6, thus loosing £34,000 a year on the 6% alone.

In obtaining the British Government guarantee one is improving the security of the loan. There must be a certain risk that Kenya will default when it is realised that Governmet expenditure 'cannot' be diminished and locusts & droughts etc etc. can reduce income. For this extra security people are willing to pay.

Date of Redemption.

The date for redemption is chosen to give a low yield. Now as Insurance Companies Banks etc. take engagements to pay definite sums in the future they want to know that their investments will not drop. e.g. if owing to lack of confidence in a Socialist Government money became as dear in London as it is today in Paris an irredeemable 2½% irredemable loan would drop to, say, 50 whilst a loan redeemable in 3 years would remain at, say, 95. (I am sorry to contradict Major Grogan's obiter dicta, but such is life) In consequence there is more competition for short dated loans, not at a premium, than long dated ones. Hence the Banks with their peculiar needs get less for their money than you or I (todays bright thought).

The Kenya Government view of finance is of course somewhat peculiar; they may suddenly become squeamish about paying £125 for what stands on their books as an obligation of only £100. The Treasurer should however cheer up about a little item like that when he realises that he has 'balanced' this year's budget by writing up investments, without, I fear, putting aside anything out of income for their eventual redemption, as our prudent investor above has done. So that if in two respects he cannot reach the standard of orthodox finance practiced by what I am sure he considers a speculative Co., like Rand Mines he should not be ashamed to follow in the example of Mr. Hambro who knows a good deal more about the subject than anyone in Kenya or even Whitehall.

He will doubtless find a ready support in Gen. Rhodes, who is so worried about the price of money in 1946 that he wants a 33% reserve fund.

Summary.

To summarise This scheme shows the possibility of saving £200,000. a year, if for example this was used to reduce taxation and freights to the amount of £85,000 as far as the Europeans were concerned this would be equivalent to giving every man woman & child a present of £5. Surely if there was a prize of £5 for finding out how many spelling and grammatical mistakes there were in this article there would be a flood of answers, to understand me may be much more difficult, but I will try and assist any one attempting to solve it, so do have a try. I deprecate the action of an irresponsible individual demanding answers from Governments, or telling people outside Kenya Kenya's case as that person happens to see it, but I do appeal to bodies such as the Elected Members Chambers of Commerce etc., to master the question. I am anxious to answer any questions about the matter even though that shows that I am wrong. But this is OUR shauri, not Montagu Norman's or the fault of Wellington at Waterloo, or even primarily Whitehall's It is our job and wants doing NOW, to quote P.G.W. "TIME IS OF THE ESSENCE."

Addendum.

Addendum owing to the helpful criticism of the Chairman Chamber of Commerce who indicated possible lines of creticism.

It is possible that the British Government will refuse to guarantee a Loan.

The effect is as follows. Kenya 5% red. 48 is quoted 117 Nigeria 5% 47 is 117. Therefore Kenya credit is the same as Nigeria. Nigeria 3% red 55 is 103 British Government credit is -

	3% red.	59-69	103
	3% ,,	48-53	105½
	X 2½% ,,	44-49	102¾.

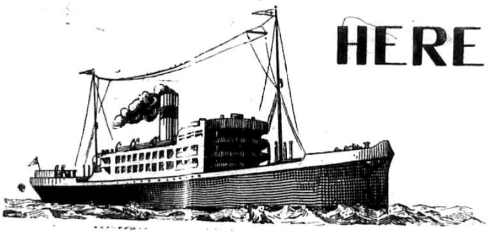
My calculations are based on this last figure. The figure to compare with Nigeria and thus Kenya would be appro. Br. Gvt. 55 105. or instead of raising money at 103 for a 2½% loan redeemable in 1949 we should only get 100 and so £124 would cost us £3/2/- instead of £3.

It is also true that the taxpayer in 1949 will have to pay 14% more than if we continued to redeem our loan with a 1% Sinkink Fund but as that taxpayer will probably raise his money at less than 4¾% he will pay less per year than we do now under this scheme. (If we pay 1% per year Sinking Fund it does not follow that the capital MUST be 14% less at the end; the Sinking Fund is invested, if it were all invested as some of it is in Kenya 6% it would only redeem 11.2% or if all invested in an irredeemable Government security and money rates rose as I assumed to 4¾% it would only redeem some 6¼%.)

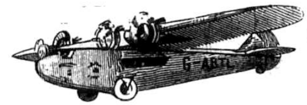
It is perhaps missleading where I state that the British Government looses money and the Kenya Government gains the British Government Income tax. This gain and loss is included in the price of the Stock and will never appear in anybodies Ballance sheet.

It has been pointed out (I believe by Government?) that if the money were raised by a 3% loan (20% too much)—if ~~£825~~ were paid now that the interest would be 3¾% and

(Continued on page 25.)



HERE AND THERE



AN important step towa ds eliminating interlocking directorat s in telephone and telegraph business has been taken by the Federal Communications Commission, which has refused applications from ten of the most prominent figures in industry for permission to serve as an officer of more than one company or on more than one directorate.

Amongst the petitions denied are those of Mr. Walter Gifford, who will have to give up his posts with 21 subsidiary Bell companies if he is to remain president of the American Telephone and Telegraph Company; Mr David Sarnoff, president of the Radio Corporation of America; and Mr. Newcomb Carlton, chairman of the board of the Western Union Telegraph Company.

* * * *

GENERAL LUDENDORFF has given his blessing in his periodical, "At the Holy Spring of German Power," to the new conscription law. Now, he declares, the German people is "a nation under arms."

He is glad that "non-Aryans" will no longer be able to serve in the German army, but aggrieved that the Christian religion should still be preached to soldiers

"The Jew," he writes, "can never again command German soldiers, but his God Jehovah is still to be revered, (owing to the existence of the Bible), by the German people and millions of soldiers of German blood, for this God's true nature is not yet recognised. The teaching of Christianity is pacifist and opposed to the character of our people."

* * * *

FOUR members of the family of "Kim"—Mr. F.M.A. Beatty—were killed in the Quetta earthquake. They were:

Mr. George Beatty, son;

Miss B. Beatty, daughter;

Two granddaughters Betty and Phyllis.

Mr. Beatty, senior, and his wife were injured.

Mr. Beatty, on whom Mr. Kipling based the character of "Kim", was sports secretary of the Quetta Club. He was formerly in the Baluchistan Police, in which force his son was serving.

One of the most picturesque personalities in Quetta, he was a superb athlete in younger days. His career has been one round of adventure.

* * * *

A London County Council school teacher is to bind the Codex Sinaiticus, which was bought from the Soviet Government for £100,000.

The trustees of the British Museum have entrusted the work to Mr. Douglas Cockerell, of Norton Way, Letchworth, whose name is well known in the comparatively small circle which has to do with the binding of valuable books.

There is a bookbinding department at the British Museum, and, so far as is known, this is the first time the trustees have ever commissioned anyone outside the ranks of their own expert craftsmen.

Mr. Cockerell teaches bookbinding at the L.C.C. Central School.

He told a representative of "The Daily Telegraph" last night that he would be assisted by his son and partner, Mr. Sidney Morris Cockerell. They would work at the Museum.

The dummy binding they had made at Letchworth had been approved. The actual binding would be of Spanish mahogany boards and white pigskin back.

"The aim," he said, "will be to use no materials in the binding that may not reasonably be expected to last for 500 years under library condition".

* * * *

A new record for swift trans-continental travel has been established. The latest American streamlined train entered Chicago station after covering the 2,250 miles from Portland, Oregon, and reducing by 19h 15min the time taken by the regular expresses.

The journey took 39h 45min and was made at an average speed of 75 m.p.h., but the train once attained that of 105 m.p.h.

The train is to run regularly between Chicago and the Pacific coast. It is driven by electric motors, for which current is generated by a 1,200 h.p. engine.

In March last a light L.N.E.R. train covered the 268 miles between Newcastle and King's Cross in 3 hours 51 minutes—an average of 69.6 m p.h.—and reached at one part of the journey the world record speed for steam of 108 m.p.h.

* * * *

TELEVISION has reached such an advanced stage in Montreal that images are now being obtained which are almost as clear as the films, according to the New York inventor, Mr. William Hoyt Peck, who returned to Canada after a visit to the U.S. The experimental stage is now passed, he declares, and attention is being concentrated on installing permanent apparatus and making broadcast as regular as those of ordinary sound programmes.

"We are now broadcasting pictures 16in square on wave-lengths of 6 metres through the metropolitan area in Montreal," he added. "The greatest distance covered so far is 60 miles, but by July 1st, we expect to supply Ottawa with images from Montreal station.

"Television receivers now used throughout the city experimentally are intercepting clear images which can be viewed at a distance of 10ft from the screen."

Three new 180-line transmitters are now under construction in Canada for installation in Montreal, New York and London.

* * * *

"GERMANY'S State finances are in the very best order" is the remarkable statement made by a writer in "Angriff"—the newspaper founded by Dr. Goebbels, the Propaganda Minister. The writer does not give any satistics in support, or explain why no Budget has been forthcoming this year.

He admits that the Government gold reserve is now only £7,000,000. "Nevertheless," he says, "every German knows his savings are safe because the Nazi Government is watching over them"—a phrase received not without irony in financial cirles here.

Official figures show that the cost of living is still steadily increasing in Germany. The index figures for wholesale prices have increased 4½ per cent. since the corresponding month last year.

Detailed statistics of retail prices, especially for foodstuffs and clothing, are not available, but it is the common experience of every housewife that they have risen sharply during the last two months.

As there has been no rise in wages to correspond, dissatisfaction is again growing among the working population.

Complaints of bad trade come from Solingen, in the Ruhr—the German Sheffield. The state of employment is reported as unsatisfactory, though no figures are given. The slump which was noticeable in April continues

Firms more directly concerned with rearmament business show increased profits. The Thale iron foundry concern has increased its turnover by 56 per cent. and has been able to pay back instalments of its foreign loans.

* * * *

TWO prisoners each serving a sentence of five years in Bucharest for murder, are to sit for their school examination in prison. They are students, aged 16 and 17, respectively, named Dennescu and Cescano, who last year murdered the Cabinet minister, M Popovitch.

They made an application to the Minister of Education to be allowed to take the examination preliminary to matriculation, and the application has been granted. The Minister of Education is sending two commissioners into the prison to conduct the examination.

* * * *

SAMUEL Pepys began his famous diary in 1660 and ended it in 1669. In the years that immediately followed, he won national repute as chief official at the Admiralty, was greatly trusted by Charles II. and the Duke of York (afterwards James II) and became a member of Parliament.

Then, at the height of his power, Pepys was the victim of plots hatched by the enemies of the Duke of York. Finally, on a charge of high treason, he was sent to the Tower.

The remarkable story is told in the second volume of Arthur Bryant's "Life of Pepys." A large part of this work is based on the two later diaries written by Pepys which, with other documents he preserved. were recently discovered at Cambridge. It is an important addition to historical knowledge.

Kenya Government Loans.

(*Continued from page 13.*)

that it would require a Sinking Fund of 2.27 to reduce the loan to 100 in 1946. This argument shows a loss; it however imagines the Sinking Fund being in a non interest bearing a/c. If it was used to redeem itself the average loan would be not 125 but 112 and interest would be 3.37 not 3.75. Even this fool arrangement gives a gain on the 6% of £18,000 a year.

(*Errata:—The figure £825 in the beginning of the above paragraph should read £125.*)

It has also been suggested that my scheme in effect does away with the present Sinking Fund and however desirable this may be, that that it would so shock the Colonial Office that they would turn it down. The present Colonial Secretaries have certainly not yet been approached and it certainly does not seem worth while paying £200,000 a year even to save Mr MacDonald's blushes, if any. The real authority is Mr Chamberlain. In his own Budget he has before now estimated to borrow against his Statuary Sinking Funds, and the British Treasury has shown a surplus for the year before applying the Statuary Sinking Funds. The Majority of British Government borrowings have not now obligatory Sinking Funds operating or attached to them. The reason obligatory Sinking Funds are attached to loans is for the purpose of attracting the investor. In the case I have outlined the Sinking Fund from his point of view is higher than the present one.

Kenya Horticultural Society.

(*Continued from page 23.*)

81 Rhubarb 6 Sticks Grade E
1st Miss Loch, Turi.
2nd Mrs Eason, Njoro.

82 Cauliflower Single Specimen Grade D
1st Mrs Colvile, Njoro.

83 Any Vegetable or Vegetables not provided for in the Schedule Grade C
1st Miss Loch, Turi. 2nd Mrs Eason, Njoro. 3rd Mrs Eason, Njoro.

Junior Section.

85 Collection of Pressed Wild Flowers. Must have been collected this year.
Senior 1st K. Odendaal.
2nd Bessie Simpson.
Junior 2nd Edna Cairns.

86 Brushwork of Flowers. Work of Current Year.
Senior 1st Joy Nelson. 2nd J. Mortimer.
Junior 1st Beth Dawson.

87 Moulds of Flowers Work of Current Year.
Juniors 1st C. Oliver.

88 Decorative bowl of cut Garden Flowers arranged by exhibitor Prizes given by the Hon. Mrs Grant.
Seniors 1st P. Peirson. 2nd Joy Nelson.
Juniors 1st Edna Cairns. 2nd Anne Turton.

89 Minature Garden.
Seniors 1st Leo Dwen,
2nd P. Peirson and P. Keeling.
Juniors 1st Beth Dawson and I. Fenton.
2nd J. Hobden, H. McInnis, I. Milner.

91 School Gardens.
To be judged later in the year.

Additional Prizes.

The Keny Horticultural Society's Challenge Cup to the winner of the largest total number of marks at the Show.
Winner: Markwell, Subukia.

The Nakuru Branch of the Kenya Horticultural Society's Cup to be won outright for the best staged exhibit.
Winner: Mrs Cooper, Elburgon.

Mrs W.A. McClelland's Challenge Cup for the largest total number of marks in the Fruit and Vegetable Section.
Winner: Mrs Colvile and Mrs Eason. (Equa') Njoro.

The Mount Elgon Challenge Cup presented by Major and Mrs. Chater Jack for the most meritorious exhibit in the Show.
Winner: Mrs Couldrey, Njoro.

RAIN.

Weekly Report.

For the week ending 26th June, 1935, at certain stations in the Colony and Protectorate of Kenya and other East African Territories.

District.	Over a period of 7 days June 20th/June 26th	No. of Days.	Total Jan. 1st/ June 26th.
	Ins.		Ins.
Eldoret, D.C.	0.95	3	23.01
Eldama Ravine, Ettrick Est.	0.81	4	23.62
Eldoret, Eldalat	1.33	4	26.24
Fort Hall, D.C.	0.20	1	23.87
Fort Ternan Kipteris	0.56	7	30.27
Kabete Observatory	0.01	1	19.39
Kaimosi, Kapwaren			
Kericho, D.C.	1.68	5	42.65
Kiambu, D.C.	0.08	2	25.81
Kiambu, Digwa	0.03	2	21.54
Kilifi, D.C.	1.39	3	24.27
Kiparren River, Clemusagai	2.65	6	23.58
Kisumu Marine Dept.	1.13	6	33.10
Kitale, D.C.	1.95	5	24.67
Koru, Ngirimori	0.60	6	48.56
Lamu, D.C.	1.15	2	16.43
Limuru, Mabroukie	0.10	4	25.60
Limuru, Togi	0.08	5	27.52
Lumbwa, Mtaragon	1.27	6	20.46
Machakos, D.C.	0.00	–	18.01
Mackinnon Road, U.K.R.	0.00	–	28.30
Makindu, K.U.R.	0.00	–	6.80
Makuyu Sisal Ltd.,	0.06	1	20.95
Makuyu, Kinenguy Est			
Malindi, D.C.	0.96	4	22.24
Maragua, Njugu	0.25	1	24.49
Meru, D.C.			
Moiben, Spring Valley Est.	2.38	3	21.08
Miwani, The Mill	0.48	5	30.67
Mombasa Observatory	0.97	3	28.90
Nairobi, K.U.R.	0.00	–	17.88
Naivasha, Sterndale	0.21	3	14.96
Nakuru, D.C.	1.03	4	14.22
Nandi Escarpment, Kimuten	1.99	6	34.52
Nanyuki, Silverbeck Hotel	0.54	1	17.55
Narok, D.C.	0.00	–	20.37
Ngong, P.C.	0.26	1	18.83
Njoro, Plant Breeder	1.37	4	17.16
Nyeri, D.C.	0.14	2	17.01
Rumuruti D.C.	0.30	1	9.38
Ruiru, Sukari Ltd.,	0.24	1	18.09
Ruiru, Marula	0.00	–	19.68
Ruiru Kahuguni	0.00	–	22.54
Ruiru, Karamaini	0.04	1	13.76
Simba, K.U.R.	0.00	–	11.26
Songhor, Mbogo Vale Est.	0.76	5	39.00
Soy, Soy Estate. Ltd.	1.89	6	25.13
Thika Avontuur			
Thika, D.C.	0.04	1	18.26
Thompsons' Falls, Marmanet	0.48	3	17.40
Tsavo, K.U.R.	0.00	–	4.99
Voi, D.C.	0.00	–	5.81
Butiaba. Uganda	1.22	4	14.00
Kampala Observatory,	0.43	5	26.79

Note:—The above figures are records taken a certain Raingauges throughout the Colony, and received by telegram. When a monthly return is received from the recorder, the figures are adjusted if a slight variation from the telegraphic information is shown. When no rain falls .00 is printed. When no return is received, a blank is shown.

Visitors to or interested persons in Great Britain may be regularly furnished with the above information, upon application being made to the Commissioner, East African Trade and Information Office. Grand Buildings, Trafalgar Square, London.

General Smuts at Dundee, Natal.

ABIDING PEACE IN FUSION.

(Extract from the Johannesburg "Star" of 21/6/1935.)

Corner Turned in Union's History.

Dundee, Friday.—General Smuts who was the guest of honour at a dinner given by the Town Council last night, made a speech which deeply impressed his audience.

"The peace we have now made," he said, "is, I feel sure, an abiding peace. I am persuaded that the success with which the old South African and Unionist Parties were unified will be repeated in fusion. In the South African Party we have learned that it was possible for English and Dutch-speaking to work together in harmony. The Ice was broken in that party, and the crust finally torn through by fusion.

"I am glad I had the courage to break the old racial traditions in South Africa. We had learnt in adversity—and, after all, the wisdom of life is learnt not in prosperity but in the hard times—and I have no doubt we shall win through and that South Africa has definitely turned the greatest corner in her history.

Shield of the Empire.

"The complete intermingling of the races here today has so struck me that I wondered how it was possible to keep them apart. Our people have come together, and I think it is a final coming together.

"There are still a few people who have not seen the light, people whose minds run in the old grooves. We need not mind that. I have felt for many years that we were living with the shield of the mightiest empire in the world over us. We have now reached our majority and must realise that it is impossible for us always to claim this shield. We must behave like grown-up men and face our responsibilities. We have taken the most salutary, the most wholesome and the wisest step, and can now turn our whole attention to the problems facing us.

Great Possibilities.

"I am convinced that this country has enormous possibilities of expansion. Our geographical position and mineral assets will help us to go forward by leaps and bounds. With smaller national resources, the other Dominions have outstripped us, simply because they had no internal strife or racial divisions. I will ask you, therefore, not to mind the small things, but to keep your minds on the big things and to stick to the great principle of justice, fair play and sportsmanship.

"In future we cannot rely so much on the outside world because the various countries have become closed preserves. We must therefore look more to our own country and to the development of our internal resources. One of the greatest of these is our docile native population, which can, with wisdom, become our future market. We must look to the north and lay the foundation of a larger South Africa which will extend right up to the equator. That is the goal of which I have looked forward most of my life.

Sir J. Sandeman Allen's proposals
(handed to Sir C Bottomley 28/2/35)

A. A very substantial proportion of stockholders would prefer a long dated 4 per cent. Loan to the 6 per cent. Loan 1946.

B. A 4 per cent. long dated Loan would be attractive to holders of Kenya 6 per cent. if they received say £115 of the 4 per cent. Loan per £100 stock of the 6 per cent. Loan.

C. The short dated 6 per cent. Loan will be in demand from now on as the short date loans are useful to so many people. A long date 4 per cent. Loan would in itself be attractive, although Kenya is not helping her own Credit.

D. A 4 per cent. long dated Kenya Loan would be no attraction to any but a very few to receive in exchange for 6 per cent. or 5 per cent. short Loan. If a reasonable premium were offered it might attract more.

Another suggestion to relieve the present situation would be to advance as a 3½ Loan to the Kenya Govt. the difference between 3½ or 5½ of the average interests of the two high interest loans.

This would mean roughly a relief of £200,000 p.a. for the next 10 years, and if applied in the first instance to the Kenya

Government share of the loan would make a great difference.

J. Sandeman Allen.

1st March 1935.

ABCD are various financial authorities whom Sir J S-A has consulted

1 C/4/pl

A. A very substantial proportion of stockholders would prefer a long dated 4% Loan to the 6% Loan 1946.

B. A 4% long dated Loan would be attractive to holders of Kenya 6% if they received say £115 of the 4% Loan per £100 Stock of the 6% Loan

C. The Short dated 6% Loan will be in demand from investors as these Short dated loans are useful to so many people. A long dated 4% loan would in itself be attractive assuming Kenya is not helping her own Credit.

D. A 4% long dated Kenya Loan would be no attraction to any but a very few to receive in exchange for 6% or 5% stock loan. If a reasonable premium were offered it might attract more

---

Another suggestion to relieve the present situation would be to advance x as a 3½ loan to the Kenya Govt. the difference between 3½ & 5½ & the average interest of the two high interest Loans.

This would mean roughly a relief of £200000 per annum for the next 10 years & if applied in the first instance to the Kenya Govt share of the loan would make a real difference

Sir John Sandeman Allen, M.P.

1 March 1935

x from C D F [illegible]

1/3

KENYA LOAN CONVERSION.

Effect of the Ezechiel Schemes.

No.8 on file.

1. On the (purely arbitrary) assumptions that the amount of auxiliary borrowing authorised is £150,000 per annum till 1946 inclusive and that the prevailing rate of interest for the whole of that period will be 3% (+ 1% S.F.) the effect on the Colony and the Railway of Mr. Ezechiel's alternative proposals would be as follows:-

Under Scheme (a), whereby the auxiliary borrowing is applied entirely to meet interest charges on the 6% Loan, the nett annual saving to the Colony would taper from £22,638 in 1935 to £18,138 in 1940 and £13,638 in 1946; and to the Railway from £127,362 in 1935 to £101,862 in 1940 and £71,362 in 1946.

The additional capital liability in 1946 would be £1,650,000; the annual charges on this (at 3 + 1 per cent) if proportionately distributed would be £9,900 to the Colony and £56,100 to the Railway.

Under Scheme (b), whereby the borrowing is applied to providing Sinking Fund contributions on the whole of the Kenya Loans (£17,205,000) the annual relief proportionately distributed between the Colony and Railway would taper from £34,465 in 1935 to £27,565 in 1940 and £19,285 in 1946 in the case of the Colony; and in the case of the Railway from £115,535 in 1935 to £92,435 in 1940 and £64,715 in 1946. The additional capital liability in 1946 would be the same as under (a); its service would cost the Colony £15,180 and the Railway £50,820 per annum.

2.

<u>Comments on the Scheme</u>.

) Loan can ... why

2. The above figures show that the main benefit of Mr.Ezechiel's proposals in either form would accrue to the Railway. In effect, the annual working surplus of the Railway would be proportionately increased. The General Manager, supported by both Governors, is aiming at hastening the amortization of its existing capital liabilities; it would be little short of absurd to increase those capital liabilities as the result of further borrowing.

The Governors are strongly opposed to any distribution of Railway money between Kenya and Uganda. They aim at a consolidation of the Railway's position by which, subject to adequate provision for renewals, a reserve shall be built up until (when a figure of, say, £1,000,000 has been reached) it is possible to contemplate a wide and permanent reduction of freight rates.

Under this policy, it is not clear what advantage could be gained from any scheme which would enable the Railway to pay less than at present on account of its Loan charges at the cost of increasing them later on. The reserve would grow more quickly; but the prospect of increased Debt Charges later would be a deterrent against permanent rate reduction entailing loss of revenue.

Moreover, the case for permitting a lower renewals rate than is actuarially necessary rests very largely on the need for affording relief to the railway during the years before relief from heavy loan charges becomes automatically

automatically due. If the measure of loan relief in 1946 is reduced, the case against the Treasury is proportionately weakened.

If, then, the Colony is to derive no immediate benefit either by a distribution of Railway profits or by the reduction of freight rates it seems doubtful whether it is worth while to touch the Railway debts at all.

Variants on the Scheme.

3. It remains to consider the application of Mr.Ezechiel's suggestion to the Colony's share (distinct from that of the Railway) of the present Loan charges. Of the two high-rate loans the Railway is responsible for all but £754,614 on which the annual interest charge is £45,277. If Kenya were allowed to borrow this amount, the saving would taper from the full amount in 1935 to £36,222 in 1940 and £25,356 in 1946. By that time additional capital liability would have accrued to nearly £500,000, calling for £20,000 a year in annual charges.

If the suggestion is extended to embrace the 4½% Loans, the Colony's share of the total debt is £3,648,192, on which it pays interest at an average rate of 4.81%. To reduce the nett charge on the Colony's revenue to the current rate, say 3%, it would be necessary to borrow about £66,000 per annum. The effect (on the conditions assumed in (1) above) would be to save the Colony an annual amount tapering from £66,000 in 1935 to £52,800 in 1940 and £37,160 in 1946. By this date the additional capital liability would be £726,000, calling for £29,040 in annual service.

The

The advantages claimed by Mr.Ezechiel on pages 4 and 5 of his letter apply with equal force to the above modifications of his scheme. (There are, of course, other possible variants; e.g. application of the borrowings to provide S.F. contributions on the whole of the Colony's loan liability (£3,953,792)). The uncertainty as to the rate of further annual borrowings could perhaps be met if it were found possible (after the fullest consultation with the High Commissioner for Transport) to take these borrowings from the dormant balances in the Railway Renewals Fund at a rate of interest fixed in advance over the whole eleven-year period. If this rate were 3% it would exceed what is at present earned by the greater part of the Renewals Fund; and this excess might be held to compensate for any short fall caused by a subsequent rise in the earnings of the Joint Colonial Fund, where the bulk of the Railway Renewals Fund is held.

<u>Long Term Conversion</u>.

4. It is necessary to start from the assumption that a long term offer on the basis actually discussed would not meet with more than a 20% acceptance. The effect of converting £1,000,000 of 6% stock would then be to reduce the annual charges by £16,000 and to add £350,000 to the capital liability. If it is further assumed that the amount actually converted proved equal to the Colony's share of the 6% stock (£754,614) and could properly be applied to the extinction of that share, the saving on Kenya's budget would barely exceed

£12,000

£12,000 per annum, and the additional capital liability would be ~~just over~~ about £270000 ~~£225,000~~.

Short Term Conversion.
No.9 and 10 on the file.

5. The Bank and the Treasury are still hostile to a "short" offer, even with a flexible date of redemption;

If, in spite of this opposition, advantage were taken of the Crown Agents' readiness to convert short so much of their holdings as would extinguish the Colony's share of the 6% Loan, the savings would amount to about £13,500 per annum at the cost of an addition to capital debt of £195,000.

The ~~Bickersteth~~ Annuities Scheme.

No. 9

6. Mr.Holland-Martin writes:- "The underlying principles of the annuity idea seems open to objection on general grounds, and, having regard to the sponsors (i.e. the Government) may form a somewhat undesirable precedent".

No. 10

The Treasury take a stronger line. The "provisional and informal" advice from Somerset House is that the annuity could be regarded as return of capital, not subject to Income Tax. But the Chancellor, (whose formal approval is necessary to any conversion Scheme for a trustee security) could not possibly approve a proposal which would constitute a most embarrassing precedent, and might have very serious consequences to the United Kingdom Revenue.

J.E.A.B. Scheme

7. Sir John Sandeman Allen called on the 21st of February and explained that, while his Committee had not arrived at any definite conclusion, they thought that a long term (40 years') conversion loan at 4 per cent or a little less would find many holders ready to convert their short term holdings and that even if the response was not great it would be some relief, especially if it were applied to the colony part of the 6 per cent. ~~£5,000,000~~ loan. He was informed that, although the question of a 4 per cent. conversion loan had not been raised, the advice received was definitely that the response to a long term conversion offer would be very small, even with the promise of a premium on conversion. The Joint East African Board's proposal is for conversion on a cent per cent. basis.

He said that the Board had been advised by various banks and others that the response would be substantial. He admitted that Sir Theodore Chambers was doubtful. (In the minutes of the first meeting of the Committee, supplied to us confidentially by Major Dale, we were told that Sir Theodore Chambers was optimistic on the point). Sir John Sandeman Allen was asked if he could get any further assurance as to the probability of success on the lines contemplated. It was pointed out that to choose 4 per cent. would introduce a new element of speculation since, while we could regard 3 per cent. as a bedrock figure, we might, if we converted at 4 per cent. now, find between 1946 and 1956 that it was possible to borrow at a substantially lower figure.

It

It seems extremely improbable that the proposal will be attractive. Calculating on rough 3 per cent. tables and allowing for income tax at 4/- in the £, the present value of the 6 per cent. loan paid off by £100 in 1946 is £116.66, while the present value of a 4 per cent. loan paid off by £100 in 1976 is £104.68.

At all events, the ordinary trustee could not look at the proposal. It has been ascertained that the Crown Agents would not accept it.

8. On the second point made by the Joint East African Board, of applying the proceeds of conversion to the colony's share of the loan, Sir John Sandeman Allen said that it could be justified on the ground that as the colony is the guarantor for the whole of the loans, it had the right to apply the relief from conversion to its own share in the first instance, its guarantee of the unconverted Railway portion being unaffected.

---

9. To sum up; ~~Mr. Bickersteth's~~ The Annuities scheme must clearly be ruled out. We recommend also that the suggestion of loan conversion should be given up so far as the Railway part of the loans is concerned. The Governors are entirely against such a proposal, either from the point of view of a distribution of profits between the two Governments or from that of a reduction of freight rates, which could only be piecemeal.

As regards the colony part of the Kenya loans, we now have the advantage of Sir John Sandeman Allen's view that the colony will be justified in applying the partial results of the conversion loan to its own relief. At the same time, it might prevent some criticism

if

11

45

Telephone No.: WHITEHALL 1234.

In any reply please quote Regd. No.

S.39556.

TREASURY CHAMBERS,
WHITEHALL, S.W.1.

29th March, 1935.

RECEIVED
30 MAR 1935
C. O. REGY

My dear Bottomley,

Kenya

10 In my letter of 20th February I promised to confirm later the view of the Inland Revenue on your "anonymous" scheme, and I now enclose copy of a further letter from them on the subject, dated 21st March.

Yours sincerely,

A.P. Waterfield

Sir Cecil Bottomley, K.C.M.G., C.B., O.B.E.,
Colonial Office.

Shaw

46

COPY

SECRETARIES' OFFICE,
INLAND REVENUE,
SOMERSET HOUSE,
LONDON, W.C.2.
21st March, 1935.

Dear Waterfield,

Kenya Loan

We have given further consideration to the question which you raise in your letter to Slee of the 20th ultimo and the result is only to confirm the view (expressed in your letter to Bottomley) that if, under the proposed scheme, a recipient of the £129 three per cent stock were to give up £29 of that stock for an annuity of £3 per annum for a definite term of say eleven years, we should have to regard large parts of the annuity payments as payments of capital.

From one point of view, it might be said that it is the first step in the scheme, rather than the second, which deprives the British Exchequer of its due. For it is the first step which in effect converts income into capital by giving additional stock in exchange for the surrender of the right to receive a taxable profit, viz. interest. But, given the first step, there is perhaps much to be said on general grounds in defence of the view - which we think is correct in law - that, where the additional stock is in its turn exchanged for a fixed term annuity, appropriate parts of the annuity payments (amounting in the aggregate to the value of the stock surrendered) must be regarded for Income Tax purposes as capital payments.

Yours sincerely,

(Sgd.) H. DUNFORD.

A.P. Waterfield, Esq., C.B.

10 47

Telephone No.: WHITEHALL 1234.

In any reply please quote Regd. No.

S.39556.

TREASURY CHAMBERS,
WHITEHALL, S.W.1.

20th February, 1935.

Confidential.

My dear Bottomley,

As I understand that your Secretary of State is anxious for an early reply to your letter of the 7th instant about the Kenya conversion proposals, I send you this provisional reply. I will confirm later the views of the Board of Inland Revenue on the "anonymous" scheme, but I do not think that anything further that they may say would modify our present conclusions.

Generally speaking I agree with the views expressed by the Bank of England in Holland-Martin's letter to you of the 13th February; and as regards your first point I do not think I can usefully add anything to his remarks.

As regards the "anonymous" scheme, I fear that it is open to a number of very grave objections from our point of view. So far I have only been able to obtain a provisional and quite informal view from Somerset House,

Sir Cecil Bottomley K.C.M.G., C.B., O.B.E.,
Colonial Office.

to

to the effect that prima facie there would appear to be a case for regarding an appropriate portion of the proposed eleven year annuity as capital and therefore not subject to income tax. But assuming that to be so - and of course it is only on that assumption that the scheme offers any attractions at all - I do not see how the Treasury could possibly lend their support and approval (and you will remember that under present conditions any conversion scheme for a trustee security requires the formal approval of the Chancellor of the Exchequer) to a scheme which not only involves a sacrifice of United Kingdom income tax, and is therefore just as truly a contribution by the United Kingdom Exchequer to Kenya as a subsidy out of voted moneys would be, but would certainly constitute a most embarrassing precedent. It would be difficult to refuse permission to other Colonies which were in a position to follow suit; while holders of such United Kingdom securities as 4½% and 5% Conversion - both standing at a high

premium

premium - would be encouraged to dodge the tax-collector in the same manner. At present such holders are of course liable to income tax on the full amount of interest received, notwithstanding that a prudent investor would probably regard a portion of the dividend as a capital reserve against the loss of capital that will follow when the stock is redeemed at par hereafter. But by selling their present stock and reinvesting £100 per cent in the purchase of a longer-dated security at round about par, and the balance, representing the premium, in the purchase from an insurance company of an annuity, equal to the difference between the income on the new security and that on the old, expiring on the date when the old loan is expected to be redeemed, they would, if my provisional advice from Somerset House is confirmed, be entitled to claim relief from income tax on the portion of the annuity that represents amortization of the original capital. This would put them in exactly the same position as the Kenya Stockholders under your anonymous scheme; and there appears to be nothing to prevent any such holder, including those of the Kenya loans, from trying such a device at

present.

present. I imagine that the reason why it isn't done on a larger scale - apart from the trouble of accounting, which would not deter a large investor - is doubt about the law. But if we go out of our way to point out publicly, and express our approval of a way of dodging the revenue claims in such a case, I fear that the consequences to the United Kingdom Revenue might be very serious.

These objections are, I fear, fundamental; but I may add two more, which will perhaps help to reconcile you to our unsympathetic attitude. First, it seems to me quite inconceivable that a trustee who has successfully claimed tax relief from the Revenue authorities on the ground that £2.10.5 out of each £3 of annuity is capital, can then proceed to distribute the same £2.10.5 to the beneficiary of the trust as income, without incurring a charge of breach of trust: the inconsistency would be too patent. But, if so, no trustee would accept the scheme, unless his beneficiaries could afford to undergo a considerable reduction of income for the sake of capital accretion.

And

And such are rare.

The other is that, unless I have misunderstood the scheme, it completely fails to achieve what I understood to be the Secretary of State's special object, namely to reduce the immediate burden on the Kenya budget. In fact the scheme will leave the burden for the next eleven years exactly as it is today, that is, six per cent ~~interest~~ on account of interest (3% on the new loan plus 3% annuity), together with one per cent sinking fund on the same nominal capital as before. From this point of view, what advantage does it bring to Kenya?

No - 3% on the annuities

Yours sincerely,

A.F. Waterfield

50

9

CONFIDENTIAL

Bank of England

13th February 1935.

Dear Sir Cecil Bottomley,

I am writing in reply to your letter of the 7th instant regarding conversion possibilities for Kenya Loans.

As regards your first point, a two-year margin may be, from the Government's point of view, an advantage but vis-à-vis existing holders it is to the same extent a further factor against conversion. But apart from this our objection to a short conversion offer at the present time is on general principles. When money is cheap it is sound to borrow for the longest time possible, for it is probable that on maturity rates will be higher and that, if a short loan is issued, in the end the advantage of cheap money will only have been secured over a short length of time.

As regards the note which you enclosed, I cannot of course express any opinion regarding the various assumptions on points of law, but assuming their legality and that they are acceptable to the Inland Revenue Authorities, which, personally, I consider extremely doubtful, the underlying principle of the annuity idea seems open to objection on general grounds and, × having particular regard to the sponsors, may form a somewhat undesirable precedent. Finally, the suggestion seems open to

X? This means that Government should not be the first to adopt a plan of this kind

the

the same objection as other schemes in that it invites existing holders to consolidate their holdings over an extended period of years on the basis of existing rates and even your correspondent himself on Page 2 seems of the opinion that the average rate over the period would be higher.

Yours sincerely,

E Holland Martin

Sir Cecil Bottomley, K.C.M.G., C.B.

38024/35 S.

E

52

6

4, MILLBANK,
WESTMINSTER,
LONDON, S.W. 1.
(VICTORIA 7730)

16

12th February, 1935.

Dear Bottomley,

KENYA LOAN CHARGES RELIEF.

The Secretary of State asked me last week to consider a suggestion which had been made to him for relieving Kenya's finances simply by borrowing money with which to pay part of the interest on its high-interest stocks. I gathered that he was rather disposed to favour this idea. I reminded him it was one of the several ideas included in our memorandum (Section V.) but it had evidently not caught his special attention there.

The personal view which I have reached - and in which Gowers agrees - is that if the Secretary of State decides that something must be done to enable Kenya to pass a portion of its loan charges from the present to a later generation, the method of doing this which is probably open to the least objection is by a scheme, based on Section V. (and VI.) of the memorandum, such as is worked out below.

Let the Secretary of State decide in the first place

Sir Cecil Bottomley, K.C.M.G., C.B.

how/

how much of the annual loan charges he is prepared to allow Kenya to meet by borrowing, say, £150,000 a year to start with. Let Kenya then pass an Ordinance authorising the Governor to borrow up to £150,000 a year until 1946 (or for some other limited period, say ten years) for this purpose.

Here there are two alternatives. The borrowing might be (a) towards meeting the interest charge on the 6% loan, or (b) towards meeting the sinking fund contributions on the whole of Kenya's loans. I have no doubt myself that (b) would look less objectionable in the eyes of the market.

The Ordinance would be in the widest form for a specific loan ordinance, i.e., it would enable the loans to be raised either as loans under the General Loan and Inscribed Stock Ordinance or independently of that Ordinance, so that the loans could be raised as public issues under the Colonial Stock Acts, or placed privately× outside, or raised under the inter-colonial scheme.

The Ordinance would (as usual) make no mention of the period or periods of the loans, but the intention would be that all the loans would mature at the same date, and preferably a distant date, say 1955-65, giving a ten-year option. Probably they would all carry the same rate of interest, say 3%, and be issued at different prices according to the market level of the day; they would in fact be extensions of the original loans.

× possibly with the Renewals Fund?
(Mr Freeston has suggested that it may be worth exploring, so long as we keep fluid enough R.F. to meet all reasonable current requirements,

The/

54

6

The amount to be borrowed each year (within the limit of £150,000) would be approved by the Secretary of State. If Kenya regained a measure of prosperity (whether through its goldfields or otherwise) the yearly borrowing could be reduced or discontinued according to the circumstances of the time. It must of course be remembered that if £150,000 were borrowed each year the saving to Kenya's budget would be progressively reduced each year, owing to the interest and sinking fund charges on the amounts already borrowed.

& of course [illegible] not the Budget but the [illegible].

I find on investigation that the provision of £150,000 a year under the inter-colonial scheme would not be beyond our capacity; and that is the method of raising the money which we should adopt as the standard method, although, as already stated, the Ordinance should leave it open to the Crown Agents to adopt other methods if in future they should prove to be necessary.

The first loan to be raised would require interest to be paid on the capital sum raised at approximately 3%. In the future the rate might, of course, have to be higher, in response to market changes; but on the other hand a higher rate of interest would tend (it may be hoped) to coincide with improved conditions in Kenya and therefore with a less urgent necessity for budget relief.

As regards sinking fund contributions on the new loans, we have in the past, as you know, always felt it

necessary/

necessary to stipulate that inter-colonial loans should have full sinking fund contributions, sufficient to repay entirely at maturity. In the special circumstances of the present case, however, we should be prepared to let the contribution be at the rate of 1% per annum.

We should require the Secretary of State's formal authorisation to invest colonial sinking funds in these loans.

So far the matter has been dealt with as one concerning Kenya alone; but if the scheme is carried out for Kenya, it is I suppose quite possible that Nigeria, or the Gold Coast, or both, will press the Secretary of State for a similar scheme for themselves. If he wished to allow it to them, we should of course do our best to arrange it, but the total amount of annual borrowing involved would then be greater and might (with other demands) be so large as to strain the resources of the inter-colonial scheme. It would in any case probably mean the placing of so much of the inter-colonial stock in the sinking funds of Gold Coast, Kenya and Nigeria as to give them a far larger proportion of such stock than we should normally admit.

The advantages of this scheme, when compared with the others set out in our memorandum, are:-

1. Simple and straightforward - no arrangements with stockholders or complications over income tax law.

2. No/

56 (10)

2. No "voluntary conversion" - therefore no question of giving anything away as inducement.

3. For same reason no uncertainty as to results × (except as to rates of borrowings after the first).

a very important exception.

4. Measure of relief can be adjusted yearly to the needs of the Colony.

5. Money borrowed will be borrowed for a long term.

6. Minimum publicity - no appeal to the stockholders or other investors in London market, only a local Ordinance.

7. No loss to United Kingdom income tax revenue.

Yours sincerely,

J. Trechie

P.S.- Besides the alternatives (a) and (b) which I have mentioned in paragraph 4 above, there is also the possible course (c) of borrowing openly to meet a budget deficit. This would be less favourably regarded in the City than borrowing to meet sinking fund charges (though there is not much in that) and is also, I know, open to objections from your point of view, such as the difficulty of limiting such a practice once the example has been set. The peculiar position of Kenya and the Kenya-Uganda Railway respecting Kenya loans which you mentioned when we first discussed the question of relief may, however, compel you to adopt course (c) in spite of its drawbacks.

There is no deficit.

Ie, that it is the colony & not the Railway that needs help.

B.S. C. O.

5/6
57

Mr. Freeston. 5/2

Mr. Hood 5.2

Mr.

Mr. Parkinson.

Sir G. Tomlinson

Sir C. Bottomley. 5-2

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

Semi-official for Sir C.Bottomley's signature.

CONFIDENTIAL.

Downing Street,

7th February, 1935.

DRAFT.

1. A.P.WATERFIELD, ESQ., C.B.

2. E. HOLLAND-MARTIN, ESQ.

Copies to Mr Ezechiel 5/6 7.2.35

Copy last two pages of enc. to 2 on the file.

FURTHER ACTION.

Dear Waterfield,
Dear Holland-Martin,

We have had a further talk with the Secretary of State on the possibility of converting the Kenya high rate loans and I am writing to you (and also to Holland-Martin / Waterfield) for an opinion on two outstanding points.

(1) You will remember that at our discussion on the 14th of December objection was raised to a short 3% conversion offer on the ground that Govt. would thereby be bound to a fixed redemption date. It has since been suggested that this difficulty might be met by providing a two year margin - say 1946 to 1948 - for redeeming the new issue. This

would

would go some way towards lessening the risk of embarrassment to the Colonial Govt.; would it make the stock proportionately less attractive to the holder? And if not, would the ~~Treasury~~ Bank have any other reason for discouraging such a short term offer?

(2) The enclosed note outlines a novel and ingenious suggestion for reducing the present burden at the expense not so much of posterity in Kenya, ~~but~~ as of the British Income Tax payer. As is recognised in the Memorandum, the successful working of the scheme would depend on (a) a benevolent attitude on the part of Somerset House, and (b) certain requisite assurances to trustee holders. The further criticism has been made that the scheme presents little attraction to the small man, to whom a refund of Income Tax at 2/3d. on a few pounds dividend per annum would scarecely be worth the trouble entailed.

(to Waterfield) I should be grateful for an

indication

C. O.

Mr.
Mr.
Mr.
Mr. Parkinson.
Sir G. Tomlinson
Sir C. Bottomley.
Sir J. Shuckburgh.
Permt. U.S. of S.
Parly. U.S. of S.
Secretary of State.

DRAFT.

FURTHER ACTION.

indication of how the proposal would be received by the Treasury and the Board of Inland Revenue.

(toHolland-Martin) I am consulting Waterfield as to the probable reception of the scheme by the Board of Inland Revenue. Will you let me know how it presents itself to the Bank?

(to both) There may be other points which have escaped our detection and I shall be glad of a general expression of your views.

The originator of the suggestion (who is not in Govt. Service) is most anxious that it should not get into the hands of anyone but the Departments concerned and the Bank of England. He has been assured that we will regard it as strictly confidential and that it will not be

communicated,

communicated, at any rate for the present, even to the Government broker.

Yours sincerely,

(Signed) W. C. BOTTOMLEY.

4. 59

CONFIDENTIAL

4, MILLBANK,
WESTMINSTER,
LONDON, S.W. 1.
(VICTORIA 7730)

4th February, 1935.

Dear Bottomley,

I have had a talk with Bickersteth in accordance with the Secretary of State's instructions.

As you will appreciate, the particular combination of ideas constituting his scheme is a novel one. He is quite content to let the Colonies use it without any special remuneration for himself but it contains potentialities also for home counties and corporations, and perhaps other borrowers, and for that reason he asks that it should be treated as confidential as far as possible and as long as possible. He has no objection to the Treasury and the Inland Revenue, whose opinion is clearly necessary in any case, and the Bank of England, being consulted with regard to it confidentially. He is very anxious to avoid the scheme being communicated to the Government broker or to any other broker or outside person; but I do not think that

that/

Sir W. C. Bottomley, K.C.M.G., C.B.

9

that should present any difficulty because I do not imagine that the Treasury or the Bank of England would consider it necessary to consult their broker at present. The only question they might ask him is to what extent the alternative offers in his scheme are likely to be accepted by the stockholders, and on that point he is in no better position to judge than we are. No doubt the annuity offer would be accepted by a substantial proportion of the holders, other than those whose total income is below the tax limit, holders of small amounts who might think the game not worth the candle, and trustees with life-interest beneficiaries (unless in the case of the latter the legal objection to paying out returned capital as income can be got over); but I feel sure that no one could give a figure for it.

It seems very possible that the Treasury and the Inland Revenue may turn the scheme down on general grounds, and in that case no broker need be consulted; if on the other hand the scheme is further pursued, a stage must arise, as Bickersteth recognises, when publicity cannot be avoided.

Yours sincerely,

[signature]

KENYA LOAN CONVERSION.

Present:-

Sir C. Bottomley
Sir J.Campbell
Mr. Flood
Mr. Freeston.

Note of Discussion held on January, 21st.

1. It was agreed that the following suggestions should be ruled out from further consideration:-

(a) Cessation of Sinking Fund contributions (No.IV in Crown Agents' memo.) In view of the terms of the prospectus, this would be a direct breach of faith with the stockholders and might seriously impair the credit of Colonial Govts. generally. The Treasury would probably prefer to make a grant-in-aid rather than ~~to~~ countenance such an extreme step.

Cancellation of Loan Stock held in the Sinking Fund of the Loan itself would be only slightly less objectionable, and the relief obtained would be inconsiderable (about £20,800 per annum in the case of the Kenya 6% and 5%).

(b) Reciprocal borrowing (No.VI in Crown Agents' memo.) It was felt that the adoption of any such device would have unfortunate market repercussions; moreover, as no Sinking Fund provision was contemplated for the inter-Colonial borrowings, serious difficulties might arise when the time came to redeem the loans, to the Sinking Funds of which these borrowings had been applied.

2. Borrowing to meet debt charges (No.V in Crown Agents' memo.). The public admission of such a necessity would shake the credit of Kenya and possibly of other Colonial Govts. while, of course, adding to their future capital liability. If recourse were had to this expedient it should be on a year to year rather than on a consolidated basis; and the possibility might be examined of borrowing

from

from the K.U.R. Renewals Fund (of which a large portion is liquid and uninvested).

The Bicllentech scheme

3. Annuities scheme. (No.VII in Crown Agents' memo.) It was agreed that this was a most ingenious suggestion, the net result of which, if carried through, would be to transfer to the United Kingdom Income Tax payer part of the Colonial Govt.'s burden. The attractiveness of the scheme to the holder of Kenya stock lay in the prospect of receiving nearly half his 6% dividend free of Income Tax, but:-

(a) It is at least open to doubt whether the Treasury and Somerset House would acquiesce in its implications.

(b) The position of a trustee would require careful investigation and possibly a test case in the Courts would be necessary.

(c) The small holder would not be greatly attracted. Not only would his Income Tax Relief be less but by accepting £100 3% Stock and a £3 Annuity he would forgo the possibility of turning his present holding, with its substantial premium, into ready cash - a possibility which is naturally more present to the mind of the small man rather than to that of the large holder.

(In this connection Sir John Campbell pointed out that it is not true to suppose that the premium on a high interest Loan diminishes progressively to nil at redemption date. If the present low rates for money persist, a 6% security will command a high premium right up to the eve of its redemption; e.g. one year before redemption it becomes equivalent to a twelve months' Bill at £6%).

4. Sir John Campbell's view was that, if the Annuity scheme proves unworkable, the least objectionable possibility would be a short term Conversion Loan with, say, two years' margin for redemption.

63 2

4, MILLBANK,
WESTMINSTER,
LONDON, S.W.1.
(VICTORIA 7730)

CONFIDENTIAL

17th January, 1935.

My dear Bottomley,

As arranged at our discussion on the 14th, I enclose a memorandum respecting proposals for relief in connection with Kenya high interest bearing loans, which I hope you will find suitable for submission to the Secretary of State.

(2 copies)

The last section, section 7, of this memorandum deals with the highly confidential scheme which I mentioned on Monday. The author of this scheme is particularly anxious that his idea should not be stolen by some other financial expert as, for example, Mullens and Company, the Government brokers, and, lest it should get round to them, would prefer that it should not be communicated even to the Treasury. Perhaps you could arrange therefore to have it suppressed unless the Secretary of State is inclined to favour it, in

x withdrawn pro tem

which/

SIR CECIL BOTTOMLEY, K.C.M.G., C.B., O.B.E.

Encl. 2.

CA

64

which event I should propose to introduce the author of the scheme direct to the Secretary of State, and let him say for himself how he wishes his interests to be safeguarded. Obviously if the scheme were adopted its features would become known to everybody. On the other hand, if the Secretary of State does not think it worth further consideration, you will be able to take section 7 away from the rest of our memorandum before referring that memorandum to the Treasury or any other experts if you should wish to do so.

Yours sincerely,

[signature]

(Encl. 2 ~ 38070/35)

C 65

11

K E N Y A H I G H I N T E R E S T L O A N S .

NOTE ON PROPOSALS FOR RELIEF

(Crown Agents' Office, January, 1935.)

1. Circumstances in which the 6% loan was raised.

2. Previous conversion proposals.

3. Conversion Schemes discussed at Colonial Office, 14th December, 1934.

4. { Cessation of Sinking Fund contributions, and
   Cancellation of stock in Sinking Funds.

5. Borrowing to pay debt charges.

6. Reciprocal borrowing to meet Sinking Fund contributions.

7. Scheme for offering annuities.

Cop Section VII to H. Hand Martin S/o (BK England) 7.2.35
Waterhouse S/o (Treasury)

I. CIRCUMSTANCES IN WHICH KENYA 6% LOAN WAS RAISED.

The Kenya 6% loan 1946/56 was raised in November 1921. Long-dated 6% loans had been raised for Nigeria (6% 49/79) in November 1919 and Gold Coast (6% 45/70) in January 1920. The Governor of Kenya first asked for a loan in September 1920, but its issue was postponed pending consideration of various financial difficulties. The Governor had suggested a loan of as short a period as possible and, in fact, 6% loans with an option of redemption in 1936 were issued in June 1921 (Ceylon), October 1921 (Nigeria) and December 1921 (Straits). But the position of Kenya made it impossible to float a loan for Kenya on such favourable terms as for these other Colonies.

The impossibility of securing for Kenya better terms than those which were in fact secured was attributed to the fact that "Kenya" was a new name in the market, that there had been much press criticism of Kenya's financial position, that active persons were interested in blocking the loan, that Kenya was in fact in very serious financial difficulties and that large financial houses in the City which supported other loans by applying for large amounts would not do this for Kenya.

The fact that £2,100,000 only was taken up by the public, leaving £2,900,000 to be taken up by the underwriters, and that the stock was first quoted at a discount, indicates that the terms had not been too generous.

II. PREVIOUS PROPOSALS FOR KENYA.

Suggestions for a voluntary conversion offer for the Kenya 6% stock were made as long ago as 1923 when an option of taking either £114 in cash or £131 of 4% Stock 1946, was suggested by one adviser as being possible terms. (The general rate for Colonial loans was at that time over 4½%). In 1931 the matter again came up for consideration (the general rate for Colonial loans being just over 4½) and possible terms discussed in the C.A.'s office were:-

Equivalent value at market price of 4½% 1961/71, stock plus an inducement worth about 2% (say 112¼ of new stock with a dividend benefit worth about 1)

The Crown Agents' brokers did not consider conversion by such a method to be "practical politics". One large Insurance Company holder suggested 121 as the amount of new stock which they __might__ accept. The Crown Agents told Colonial Office semi-officially that they could convert £850,000 held by them for other funds into a 4½% 1961/71 stock at the rate of 119 for 100. The effect on Kenya finances of conversion into (a) 119 or (b) 115 of such new stock was investigated fully in consultation with Sir J. Campbell and it was agreed that Kenya would do better financially by not converting.

The whole question was raised again in June 1932 (when the Colonial loan rate was about 4%) as the result of a request by the Kenya and Uganda Railway which had estimated a saving of £100,000 a year by converting 100 6% into 115 4½ 1961/71 and 100 5% into 110 4½ 1961/71. The Crown Agents reported to Colonial Office that an offer of 125 (of a long 4% stock for 100 6%) would be favourable on the basis of

market/

market prices but nevertheless such an offer was not likely to meet with much success. They explained that, since the War Loan conversion had lowered rates generally, the possibility of re-borrowing in 1946 at not more than 4% seemed now to be a fair assumption and a conversion offer was therefore certainly not to the financial advantage of the Government.

III. CONVERSION SCHEMES DISCUSSED AT COLONIAL OFFICE, 14.12.34.

The possibility of a successful offer of voluntary conversion was discussed with representatives of the Treasury and the Bank of England at the Colonial Office on 14th December 1934 and figures were tabled which had been prepared at the Crown Agents' Office to illustrate the result of some possible offers on certain purely hypothetical assumptions.

The offers assumed were:-

For £100 of Kenya 6% 1946/56		£130 of 3% 1946
	or	£135 of 3% 1960/70
For £100 of Kenya 5% 1948/58		£122 of 3% 1948
	or	£126 of 3% 1960/70

The offer of stocks redeemable, without option, in 1946 and 1948 would, owing to the readiness of the Crown Agents to convert their holdings, provide a certain saving of £27,000 a year on 6% Stock and £15,692 a year on 5% Stock, but was open to the objection (x which was stressed by the Treasury representative) that it would leave no option to the Government to choose the most suitable time for redemption over a period, but would entail re-borrowing in 1946 (or 1948) whatever the conditions of the market then happened to be. On the other hand the probability of a satisfactory response to an offer of a 1960/70 3% stock, which the Crown Agents considered unsuitable for the conversion of their holdings, was felt to be very doubtful.

With regard to the offer of a long stock in exchange for the 6% stock, figures had been worked out by the Crown Agents as follows:-

Reduction/

(x <u>NOTE</u> - The Treasury objection might perhaps be met by offering a 1946/48 or 1948/50 stock.)

Reduction in annual charges till 1946	£16,000 for each million pounds converted.
Additional capital liability	£300,000 for each million pounds converted.
Increase in net effective yield for a tax-paying stockholder	7s. 7d. for each £100 converted.

There are, of course, a variety of other forms in which an offer might be made, e.g., the offer of an appropriate amount of cash, or of new stock bearing a higher nominal rate of interest than 3%, or of new stock redeemable above par.

71

IV. Cessation of Sinking Fund contributions.

The simplest and most direct method of passing on to a later generation a part of the loan burden would be to postpone sinking fund contributions for a time.

It might be argued that the necessity of raising money at a time when a 25/35 year loan at 6% was the best that could be arranged arose out of the need for immediate expenditure for development; that the accumulation of a sinking fund contribution of 1% would in any case not suffice to redeem the loan in 1946 or even in 1956 (it is estimated to accumulate, in the case of the £5,000,000 6% loan, to approximately £2,000,000 by 1946 and £3,250,000 by 1956); that money will thus have to be borrowed for its redemption eventually; and that a larger deficiency might well be left for re-borrowing then.

A very serious difficulty, however, is that the loan prospectus specified a "Sinking Fund of not less than one pound per cent per annum to be formed in this country under the management of the Crown Agents" and that failure to pay contributions regularly would be a breach of faith with the stockholders. In view of the publicity which has been given to Kenya's difficulties, such a breach might be sympathetically viewed by the public. But it would tend to shake public confidence in Colonial loans generally, whose high standing in the market is partly due to the Sinking Fund system. Moreover other colonies might press for the same concession and, if this were allowed, the effect on colonial credit would undoubtedly be very serious.

The total/

IV. Cessation of Sinking Fund contributions.

The simplest and most direct method of passing on to a later generation a part of the loan burden would be to postpone sinking fund contributions for a time.

It might be argued that the necessity of raising money at a time when a 25/35 year loan at 6% was the best that could be arranged arose out of the need for immediate expenditure for development; that the accumulation of a sinking fund contribution of 1% would in any case not suffice to redeem the loan in 1946 or even in 1956 (it is estimated to accumulate, in the case of the £5,000,000 6% loan, to approximately £2,000,000 by 1946 and £3,250,000 by 1956); that money will thus have to be borrowed for its redemption eventually; and that a larger deficiency might well be left for re-borrowing then.

A very serious difficulty, however, is that the loan prospectus specified a "Sinking Fund of not less than one pound per cent per annum to be formed in this country under the management of the Crown Agents" and that failure to pay contributions regularly would be a breach of faith with the stockholders. In view of the publicity which has been given to Kenya's difficulties, such a breach might be sympathetically viewed by the public. But it would tend to shake public confidence in Colonial loans generally, whose high standing in the market is partly due to the Sinking Fund system. Moreover other colonies might press for the same concession and, if this were allowed, the effect on colonial credit would undoubtedly be very serious.

The total/

V. Borrowing to pay Debt charges.

The charges on the Kenya 6% loan, 1946/56 are:-

	Per annum
Interest 6% on £5,000,000	300,000
Sinking Fund contribution 1%	50,000
	£350,000

Suppose it be desired to relieve Kenya of half the interest on the above until 1946, merely by transferring the burden to a period after 1946 so as to reduce the present burden to the existing market interest rate of about 3%, then this might be done by raising a fresh loan (or loans) redeemable in or after 1946 and using the money so raised to pay £150,000 a year towards the present loan charges.

This, if arranged, would secure the postponement of burden in a simple and direct manner.

The advantages would be:-

(a) A definite immediate annual saving would be assured.

(b) Nothing would be "given away" as an inducement to stockholders to convert.

(c) Money borrowed now would be borrowed at a favourable rate.

The disadvantages would be:-

(a) It would involve openly borrowing to pay debt charges - a practice normally open to strong criticism.

(b) It would form a precedent for other Colonial Governments and possibly even for other borrowers.

The new money might be borrowed either in one sum sufficient to cover £150,000 a year for 11 years <u>or</u> in separate annual loans of £150,000 each.

A series/

A series of annual loans would avoid the difficulty of using borrowed money to advantage while held in reserve for later expenditure but would entail the risk of having to pay higher rates of interest than that now ruling. At the same time, it would make it possible to leave open the number of years for which such relief was to be allowed. Thus if, in a few years time, higher interest rates had returned, accompanied by trade revival and higher prices for East African produce, the relief might be discontinued.

An annual loan of £150,000 might be placed privately. A single loan of (say) £1,400,000 (the approximate present value at 3% of 22 half yearly payments of £75,000 each) would involve a public issue and the proceeds would have to be used to secure an annuity to provide the requisite half-yearly sum.

The result would be somewhat as follows:-

Annual relief	£150,000
Less 4% on £1,400,000 (i.e. 3% interest and 1% Sinking Fund Contribution)	56,000
Net annual relief	£94,000

j.

VI **Reciprocal borrowing to meet Sinking Fund contributions.**

The method of borrowing periodically in order to meet current loan charges might be applied by means of loans under the Inter-Colonial Scheme, if it were decided to allow two or more Colonial Governments to avail themselves of this method of relief in regard to Sinking Fund contributions; though this would merely amount to a camouflaged postponement of such contributions (see IV above).

Suppose that Kenya invested £160,000. a year of its Sinking Fund contributions as follows:-

£60,000. in an Inter-Colonial Loan issued by Gold Coast
£100,000. " " " " " " Nigeria;

while at the same time, Gold Coast invested £60,000. and Nigeria £100,000. of its Sinking Fund contributions in an Inter-Colonial Loan issued by Kenya. No cash need pass and the saving in the first year would for Kenya be £160,000. against which must be set off the payment of interest on that sum (say £4,800.), which must accrue to the Sinking Fund (not to the Government) each year until 1946. Similarly in the case of each subsequent borrowing.

The date of redemption of such Inter-Colonial Loans could be varied to suit the particular Sinking Funds concerned. Such a scheme would be subject to the approval of the Secretary of State each year and could be discontinued as soon as circumstances no longer justified it.

Certain points arise out of such a scheme in connection with the liquidation of the various sinking funds when the time comes for redemption of their respective loans. Moreover, in order to reap the full advantage of

/this

this scheme, it is suggested that no sinking fund contribution would be made for the inter-colonial loans themselves. For both these reasons the reciprocal method of borrowing is suggested rather than the simpler course of letting Kenya issue loans from time to time under the general inter-colonial scheme.

There would, as indicated above, be interest to pay on these inter-colonial loans, which although they were reciprocal should be fixed at the right rate having regard to the period of the loan and the time of issue. The payment of this interest would progressively diminish the saving to Kenya revenue, but would accrue to the sinking fund which held the inter-colonial loan.

A statement of Gold Coast, Kenya and Nigeria loans running to or beyond 1945 is attached for easy reference.

LOANS OF GOLD COAST, KENYA AND NIGERIA

of which the earliest redemption date is 1945 or later.

			Amount of loan (in millions)	S.F. Contributions Annual	S.F. Contributions Half-yearly
Gold Coast	6%	45/70	4	25,000.	12,500.
	4½%	56	4.628	46,280.	23,140.
	4½%	60/70	1.17	11,700.	5,850.
	3%	54/59	.55	5,500.	2,750.
				88,480.	44,240.
Kenya	6%	46/55	5	50,000.	25,000.
	5%	48/58	5	50,000.	25,000.
	4½%	50	3.5	35,000.	17,500.
	4½%	61/71	3.4	34,000.	17,000.
	3½%	57/67	0.3056	3,056.	1,528.
				172,056.	86,028.
Nigeria	6%	49/79	6.363	39,770.	19,885.
	5%	47/57	4.25	42,500.	21,250.
	5%	50/60	4.263	42,634.	21,317.
	4%	1963	5.7	57,000.	28,500.
	3%	1955	4.188	41,880.	20,940.
				223,784.	111,892.

VII SCHEME FOR OFFERING ANNUITIES.

(CONFIDENTIAL)

Details of an offer of voluntary conversion designed to provide sufficient benefit to attract stockholders and yet to secure financial benefit to the Government also have been received by the Crown Agents in confidence from a financial Trust which has consented to the following principal features being communicated to the Colonial Office on the clear understanding that the salient features are on no account to be divulged to any other Trust, or to any representative of the Stock Exchange or of banking or financial interests. If the Secretary of State for the Colonies is disposed to regard the scheme favourably arrangements for applying it without detriment to its originator could be further discussed.

The scheme involves making to the holder of each £100 of Kenya 6% stock, 1946/56 two alternative offers of either a certain amount of a longer dated 3% stock <u>or</u> of £100 of such 3% stock, plus an annuity of 3% until 1946.

Thus, the offer might be either :-

say (a) £129. 3% stock 1955/65 or

(b) £100. 3% stock 1955/65 plus an annuity of £3. until 1946.

In practice, offer (a) would probably be made, coupled with an undertaking to those who accepted it to give if requested an annuity of £3. per annum in exchange for £29. of each £129. of new stock taken by them.

The payment of the annuity would be met by selling the surrendered stock, and obtaining with the proceeds, in one way or another, the required annuity.

The advantage to the stockholder would be that a part of the annuity of £3. (viz. about £2.10.5.) would be certified to be return of capital and would thus, it is assumed be exempt from income and sur tax.

In/

79

In addition to the temporary saving in annual charges there would be an advantage to the Government in that it would have replaced a liability to pay £6. a year till 1946, plus £100 in 1946, by a liability of no greater present value even assuming a 3% basis for the calculation thereof and therefor of less present value if, as is probable, the average rate over the period exceeds 3%. Also they would have taken advantage of the present cheap money conditions to reborrow from 1946 to 1955-65 at 3%.

The scheme presents the following special problems:-

(1) How to bring effectively to the notice of a sufficient number of tax paying stockholders the advantage to be derived which is (while income tax remains at 4/6d in the pound) a net income of £5. 4. 7. until 1946 instead of the present £4. 13. -.

(2) Whether the trustee of a life interest could claim exemption from tax on the £2.10.-. as returned capital and yet pay it to the life interest as though it were income.

(3) Whether the Inland Revenue Department would allow exemption from tax and if so, what form of certificate and other requirements would be necessary.

and (4) Whether Trustee Status and an official quotation could be secured for such an annuity, which is a wasting asset; and if not, whether there would be any considerable response to such a conversion offer.

In this respect it may be pointed out that British Corporations frequently borrow on mortgages repayable by equal instalments of principal and interest. In this case the amount representing return of Capital is free of income and sur tax. Though these mortgages rank as full trustee securities, provided the circumstances and standing of the borrowers warrant it, yet trustees of a life interest are unable to apply as income the Capital returned.

/
80
END

TELEPHONE: LONDON WALL 4723.

10^A Union Court,
London, E.C.2.

16th January, 1935.

Dear Philip.

You may be amused to learn that you will shortly have submitted to you a scheme for the relief of Kenya (and others) which emanates from me. It is entitled, I believe, "No.7, Annuity Scheme", and is marked "exceedingly confidential" or words to that effect.

It looks to me a good scheme; getting a good deal more than a pint out of a pint pot. But I am very anxious to try it out in other directions, whether the Colonial Office decide to use it or not, which is why I want it kept so very private.

If you would like me to come and talk to you about it, I am always at your service, but I thought it best to submit it "through the usual channels" rather than directly to you personally.

Yours ever

Basil Blackett.