

1931.

Kenya.

No. 17020.

SUBJECT

CO 533/405

Conversion of the 1921 Loan.

Previous

16100/30 (Colonial Loan)

Subsequent

See 17221/31.  
Financial position of  
K. A. Coy  
17185/32.

1 minutes re discussion between Sir A. Wilson  
and Sir H. Huggins on subject of the conversion  
of the 1921 loan

Registered for record. Copy of

15 Feb.

J. V. Allen

16/1  
Rance

Mr. Allen

Please see your minute of 16/1/31. above

shows

17/2/31

Sr. C. Robertson

I don't know what degree of  
urgency (if any) to attach to this  
- but do you wish me to refer  
to Davis if and when a minute  
is maybe expected from the  
General.

J. V. Allen

18/2/31.

Mr. Allen

P.L. ask Mr. Davis about this.

It is too much to expect that Mr.  
Eschsch will deal with this before  
he leaves for England; but he may be able

to put the Davis Commission  
This means is that the matter  
could take up.

[I am rather looking forward  
to the articulation of the subject  
I am a little sceptical of  
there being much substance in it.]

S.C.S. 18/1/31

Mr Davis tells me he has the  
draft of a letter to Sir Chatterley,  
already prepared & he hopes to  
be able to show it to the  
Director before the end of this  
week.

Wait ten days

St Allen

18/2/31

- 2 4. H. E. G. 7% ————— 20 February  
Enclose copy letter from Mr. Moore re resolution by  
Railway Advisory Council on conversion of the 1921 loan  
of £5,000,000, together with a memorandum on the  
subject, comments on the chances etc. of conversion.

Mr Davis told me that  
although they have adopted £19  
as the basis, they would hope to

do better than this.

The Treasury would of course have to  
be consulted as conversion would increase  
the capital commitments to the Colony.

Mr Davis also mentioned that,  
if a conversion operation were approved, the  
any ~~share~~ opportunity for making an offer  
would occur in connection with the  
half year dividend payments on 15th  
March next. In view of this Sir C.  
Bostwick said this should get an offer  
sent to Sir Campbell for his  
views.

I put up a copy of the  
London & Lancashire Stock Order (Ref 46)  
& the Amending Order (No 6 of 1928).

St Allen

3/2/31

Mr Campbell

Will you, please, advise on  
desired by Sir Chatterley.

Acc Parkman

26.2.31

*7*  
*Memorandum to Mr. John Campbell*  
*Dates 2nd March 1931*

I saw Mr. Davis about this to-day. There were two points which seemed to want further looking into:--

(i) a legal point. Does the wording of section 33 of the General Loan and Inscribed Stock Ordinance allow of the arrgt: proposed, where something more is given than the amount necessary "to make up the difference in saleable value"? My own view is that we cannot, under the Ordinance, give any "turn" to make the conversion offer more acceptable to holders of the old loan stock. Mr. Davis, I understand, agrees. It might be well to consult the legal advisers as to this matter. Something more than the difference in saleable value will apparently have to be given; and it looks as if an amendment of the Ordinance would be necessary to permit of that. I assume that, as important interests are concerned, and for obvious reasons, any Ordinance of this kind must be strictly construed.

(ii) a financial point. The discussions hitherto have been limited to what one may perhaps call the more immediate financial effect. Mr. Davis agrees that, before we can judge of the desirability of the proposed conversion, we ought to have the two alternatives reduced to a common measure:--which would be the "present value" of the full obligations incurred in each case. We discussed the details to-day; and he is having the thing worked out, on a basis which we agreed ~~in~~. The calculations, when completed, will show the relative financial advantage (or disadvantage) of conversion, on the transaction as a whole.

(Certain assumptions have of course to be made: for instance, we agreed that the sinking fund

rate of accumulation might be taken at 4%, over the whole period. The rough calculations suggest that conversion will show an advantage, in terms of "present value", of a sum of the order of about £ 100,000, on the assumption that the whole loan was converted. If the exact calculations confirm that result, conversion would seem desirable, even at the 11% per £100 rate. The immediate effect would be considerable, and would relieve what is at present a most difficult situation; and the thing would be profitable, on the whole. [I told him there was no hurry. Meantime, the legal point can perhaps be looked into.]

The End: March 1931.

*On 1/3/31*

*W.C.S.*  
*23/3/31*  
*\* Yes - the law is changed by being 4 before 15 March.*

Mr. Vernon.

Before this goes to the Legal Adviser I think it desirable to see if the General Division have any precedent which would help us. The Kenya General Loan and Inscribed Stock Ordinance is in common form, and questions of conversion have no doubt arisen in other Colonies.

*W.C.S.*  
*3.3.31*

*I am practically certain that we have had no previous case of 'conversion' proper - i.e. of something more than exchange of inscribed stock for bonds. I have*

Spoken to Mr Davis who agrees  
that there is no precedent.

T.P.V. Verma  
4.3.31

Mr Budge  
Wed. 4.3.31

Is the 1931 loan described as issued  
under the 1931 Act? If so I doubt  
at the moment see how it is paid that  
the first part conversion is covered by § 32  
at all.

§ 33 is a limitation on forces.  
First of all we must find the forces.  
I doubt think the Act  
covers the proposal at all. H/B  
17/3/31

Mr Allen has spoken to me  
A. This appears to be the case.

I suggest that I might now put  
the above to the Law Society  
by way of H/B  
26/3/31

See memo  
in 6037/20 A.  
I am not quite  
happy about this,  
but it is not  
a law question  
Wed. 10.10.31.

3 To. Sir H. Lambert. \_\_\_\_\_ London 2 APR 1931  
(W.C.S. King. Chap. 46 + 47,  
Nigeria Chap. 112 & here chap. 35.13)

4 Sir H. Lambert % \_\_\_\_\_ 14 April  
Agrees that there is nothing in Ordinance 17 of 1921  
to permit Governor to sanction conversion but sees  
nothing to preclude Governor from offering any  
for conversion

? first to Mr Budge for his  
views on the point at B in Sir H.  
Lambert's letter.

When the legal point has  
been disposed of, the paper might go  
to Sir J. Campbell to report progress  
with the calculation of the  
"present value" calculations.

J. Gordon  
18.4.31

W. Budge  
Please, Mr. Parkinson  
S. C. C.

Mr. Parkinson  
In my view fresh legislation will be necessary.  
11/5/31 H. Driscoll

RECEIVED

E & Dept.

Note by Sir Henry Lambert dated 21 April 1911

There is a file as to this matter. My recollection is that there were two points to decide--which were of course <sup>to some extent</sup> interlinked--one, legal, the other financial. This note deals solely with the second point.

RC

See previous minutes 19/11

2. Mr: Davis has taken a great deal of trouble with this matter [and (if custom permits that) I suggest that he be thanked.] I agree with his minute. The calculation which seems the most suited to all the circumstances is in Stat: 1, on the £ 110 basis. The " present value" -allowing for roughly £ 9 per £ 100 from the existing sinking fund to be credited to revenue-works out almost exactly the same for "doing nothing" and for " conversion". The immediate advantage to the Colony, on various assumptions, is discussed by Mr: Davis. I agree with Sir Henry Lambert's criticism as regards postponement of the sinking fund payments: I see no justification for that, on a conversion.

See the end of draft of 21/11  
Lambert  
2 APR  
1911

3. The whole thing seems to boil down to this:--
- (i) conversion, on a number of plausible assumptions, which are still however assumptions, would involve little or no real additional liability.
  - (ii) the immediate gain, if the sinking fund is applied at once, as it should be, would be small.
  - (iii) if the view I formerly expressed be correct, conversion here would necessitate legislation. It would imply negotiations of a rather difficult character with the leading holders of the 6% stock; and if they held out for more than £ 110 ( which seems

quite probable) any concession in that matter would result in a net increase in the real liability of the Kenya Govt.:

(iv) I do not think that the existence of a 6% stock, selling round about 108½-109, is at all prejudicial to Kenya's credit. The reasons for the low price are well known:--Trustee Stock limitations, etc. Their credit is measured by the price of the 4½% stock; and the recent issue makes that point abundantly clear.

4. On the whole, then--it is a question of trying to balance various imponderabilia--my view is that it is not worth while trying to convert. But admittedly there is not much in it, either way. My guess--it can only be a guess--is that Kenya will do better, financially, by not converting.

The 20th: April 1931.

As to the legal point Mr Duncan advises in his minute 2 "May that a legal check that legislation would be necessary.

I assume that the matter should now be put to Sir J. Byrne: & submit draft for Carson, also draft to Sir St Lambert for advice & for his concurrence. I understand that Sir Campbell will have no objection to his minutes

being sent out in the course of the week. I have marked it Confidential. But I pass drafts through him as I have suggested two minor omissions the way like to read his minutes.

J. H. Allen

19/5/31

suppl  
20/4/31

I have inserted words in para 2 of the dft. to Sir H. Lambert. When we get his reply it may be necessary to send the papers on, & in any case it is not desirable, in consulting him, to say that we have made up our minds.

W. G. 14.5.31

6. To Sir H. Lambert (Kans) - Com - 5.3.31  
(with dft. to Sir J. Byrne - 1st + 6th Encl) 27 MAY 1931 Conf.

to see if it can be put on dft. of encl. to be

4  
Sir H. Lambert % \_\_\_\_\_ if they  
concur in draft letter to Sir J. Byrne  
with small amendment shown

I have written in regard  
to his offer and an approval of  
what alterations are made & Sir H.  
Lambert.

Also put up a draft  
of it to Sir H. Lambert.

to be put up to Sir Lambert  
J.W. Allen

3/6/31

~~It passed to Sir Lambert~~  
~~as I was advised~~

~~3/6/31~~

Sir Shields

As the draft to Sir J. Byrne  
(last para) states the view "shared by  
all of us here" I have bound it on.

W.A.S.

3.6.31

W.A.S.

6.6.31

Mr. McSweeney,

Dr. Shiela is unwell, and unable to deal  
with this file before he goes to Geneva.

He therefore asked me to send it on to  
Lord Passfield.

PH Morris

11/6/31.

DESTROYED UNDER STATUTE  
(7 ans)

To Sir J. Byrne (w/c 3, 2, 3, 4, 5 +  
copies of mins below 7) 6ms. 50 }  
Sir J. Byrne (w/c 8 + mins below 7  
returned) 50. } Conf  
24/10  
2  
JUN 1931

See  
acc  
30/6/31

10 Sir J. Byrne s/o ..... 28th August 1931.  
Considers would not be justified in converting  
loan and recommends matter be allowed to stand over.

I am afraid that '2 1/2%' will be found  
engraved on General Rhodes's heart.

The recent developments have, of course,  
put out of the question any possibility of a  
conversion loan within any foreseeable period.  
For example, Mr. Davis, to whom I have spoken, tells  
me that there were in the early part of the month  
transactions in the 6% Kenya Loan at 102 and 103.

Whatever weight, if any, should be attached  
to General Rhodes's point, it seems useless to go  
into it now, and perhaps it will be sufficient to  
reply to Sir J. Byrne, noting what he says, but  
remarking that, in view of the changed circumstances

there

there can, of course, be no question of a conversion loan <sup>in any case</sup> till the general financial position is stabilised; but if later on he wishes the question to be further pursued he will no doubt send an official despatch as already suggested to him at the end of No. 8 of the file.

If, however, you think that General Rhodes's point is <sup>not</sup> really relevant, or in any case <sup>not</sup> of sufficient importance to influence the question of conversion one way or the other, Sir John Byrne might be so informed, in which case we should get back to his view that it is not justifiable to convert this loan at the expense of posterity, and the matter would drop.

W.A. Allen

5/10/31

I have not been following the prices for Kenya loans recently; and in any case--in a tricky matter of this kind--would not like to pronounce any definite opinion till the calculations had again been worked out on the new basis. At present, there is of course no real basis; prices are hopping about daily; and no one knows <sup>at what level</sup> how, or when, they will become relatively stable.

I would simply let the thing rest where the Govt. wishes:--that the whole matter be allowed to stand over for the present. If Kenya wants it taken up again, it will be for them to make a move.

The 6th: October 1931.

4/4/31

Draft reply to Sir Byrnes herewith

for answer.

W.A. Allen

7/10/31

To Sir J. Byrne - 10 and 5/2 Conf. - 30/10/31

2. H.C. to Transport --- Conf --- 30/10/31

Refers to the financial position of the Kenya-Uganda Railway, suggesting the conversion of the £5,000,000, 6% Stock 1946-56, as a means of easing the burden on the Railways.

I have spoken to the Davis (CA)

The case of course is as regards a conversion at present - so for the moment about the Kenya despatch

30/11

4/1/32

W.A. Allen

30/10 atace

W.A. Allen

? Any further action at present please. The Kenya def. has not yet arrived. R 297 11/2/32

Wait another month.

W.A. Allen

Wait till 25/10/31

W.A. Allen

11/2/32 atace atace

AM

and

the paper

paper brought forward.  
See ~~min~~  
of ~~preo.~~ page

247. 17/2/52

10 / 12



HIGH COMMISSIONER FOR TRANSPORT.

OFFICE OF THE HIGH COMMISSIONER FOR TRANSPORT,  
GOVERNMENT HOUSE,  
NAIROBI,  
KENYA.

No. Confidential

30<sup>th</sup> September, 1931

Sir,

I have the honour to refer to Lord Passfield's despatch Transport, Kenya-Uganda, <sup>Confidential</sup> of the 27th of July, conveying His Lordship's decision not to re-open with the Treasury the arrangement that the Transport Administration should provide for contributions to the Renewals Fund at the rate of 2½ per cent in 1932 and 1933, and, thereafter, in the absence of any further arrangement, at the full "life" rate, the short provision in the earlier years also to be made good.

2. This important decision, in conjunction with the financial position now confronting these Services as a result of the general collapse of values of all staple products upon which the revenue of the Railways and Harbours depends so vitally, compels me to solicit your consideration of the problem, with a view to finding some means whereby the financial burden now resting on the Railways may be eased.

3. Taking the year 1929 as a normal one, but owing to a general lowering of values one for which a parallel may not again occur for some years, it produced:-

	£.
A Railway Revenue of.....	2,448,960
With Working Expenditure of.....	<u>1,445,069</u>
Leaving.....	£1,003,891

towards meeting contributions to the Renewals Fund, Loan Charges, Loss on Port Working and other expenditure on Net Revenue Account.

THE RIGHT HONOURABLE  
J.H. THOMAS, M.P.,  
SECRETARY OF STATE FOR THE COLONIES,  
DOWNING STREET, S.W.1.

17221/31  
162  
Copy Memo to C.O., 17-6-32  
Treas., 9-9-32 (Dkt. on 1/402/31 K)

4.....

4. In 1929, when the Port loss was £21,630, the total depreciation and Loan Charges on Port Assets was £173,487. To-day, those liabilities are £249,308 - an increase of £75,821.

5. Until, therefore, the trade of the Port expands so as to yield a revenue in excess of that earned in 1929, it is clear that the annual Port loss cannot be brought much lower than £90,000.

6. It is only by the substantial economies which have been, and are being, made that in the meantime a greater loss can be avoided.

7. The position, therefore, is that the liabilities of the Railways in respect of (a) contribution to the Renewals Fund at the rates laid down by your predecessor, (b) Loan Charges and (c) Port loss are:-

	<u>Depreciation on Railway Assets @ 2½%.</u>	<u>Depreciation on Railway Assets @ 3%.</u>
	£.	£.
(a) Depreciation	356,671	423,296
(b) Loan Charges	654,120	654,120
(c) Loss on Port Working	<u>90,000</u>	<u>90,000</u>
	<u>£1,100,791</u>	<u>£1,167,416</u>

8. Under conditions as favourable, therefore, as those which obtained in 1929, when the amount available towards meeting these liabilities was £1,003,891, the Railway would fail to meet its commitments:-

	£
(a) When contributing to the Renewals Fund at the rate of 2½% by.....	96,900
(b) When contributing to the Renewals Fund at the rate of 3% by.....	163,525.

9. I do not propose at the moment to attempt to re-open the question of the rate of contribution to the Renewals Fund, but I would point out that a rate of 2% would have represented a reduction of £133,250 on the total of £1,167,416 given in

paragraph...

paragraph 7 which reduction, with the economies in Railway working expenditure effected and still to be achieved, would have enabled these Services to have met all liabilities. The continued increase in the tonnages of the staple products of these territories being conveyed indicates also that, but for the collapse of the world's markets, a revenue in the neighbourhood of £3,000,000 per annum, which was expected in 1934, would have been received, from which the reserve funds necessary also could have been created.

No 4  
17221/3

10. It will be clear from the foregoing that the possibility of repaying to the Renewals Fund the withdrawals to meet the estimated losses in 1931 and 1932, contemplated in my Transport despatch No. 151 of the 7th of September, and of contributing to a Reserve Fund a sum approaching that which the Lords Commissioners of the Treasury regard as a minimum contribution, is extremely unlikely until the revenue of the Railway exceeds considerably £2,500,000, and then only on the clear understanding that no further capital liabilities are incurred.

11. One reason for the financial embarrassment now confronting the Transport Services is the fact that of the total capital expenditure 64% is represented by loans, analogous so far as the charge on revenue is concerned, to the redeemable debentures of a private company. The Administration has no ordinary stock the dividend on which can be reduced or even passed.

12. Another source of embarrassment is the increase in the rate of contributions to the Renewals Fund, to which I already have referred. No private Railway, so far as I am aware, both contributes on a life basis in respect of all

its....

its wasting assets and also maintains liquid all its contributions as this Administration is compelled to do.

13. In this connection, it may be stated that from the revenue of the Railway £2,958,235 has been invested in Stores and new Capital Assets but which your predecessors have not seen their way to recognise as a contribution in respect of depreciation in excess of cash required to maintain wasting assets in the form of an investment of what I have described as the "Surplus Renewals Balance".

14. Because the Administration's proposals for meeting all the commitments of these Services and balancing its budget - proposals based on well recognised Railway practice - have been partly vetoed, a position is created whereby, even under normal conditions, these Services could not meet all commitments.

15. I am compelled, therefore, to seek advice as to what other means now should be taken to enable the Administration to meet all commitments and place its finances on a sound footing.

16. Having explored every possible means for reducing working expenditure, and being of the opinion that, at a time of depression such as this the resources of these territories cannot yield additional revenue by any rates revision, I can at the moment suggest only one course by means of which a substantial measure of relief to the Transport finances may be secured. I have in mind the conversion of the £5,000,000 6 per cent Stock, 1946-56.

17. Statements are attached showing (A) the annual charge on the Transport Services proportion of the £5,000,000 on the assumption that it could be converted at the rate of

(a)....

(a) £119  $4\frac{1}{2}\%$  Stock per £100 of existing Stock, (b) £115  $4\frac{1}{2}\%$  Stock per £100 of existing Stock, and (B) the corresponding charges assuming the conversion loan could be raised at 4%.

18. These statements show:-

	<u>Calculation (2).</u>	<u>Calculation (6)</u>
	Present loan paid off in 1946. New loan of £2,600,000 raised with sinking fund of 1% without rest.	
		Present loan converted to £115 $4\frac{1}{2}\%$ stock. Sinking Fund of present loan to accumulate. Sinking fund of conversion loan £0.420.
Annual charge per £100 of original loan.	Until 1946 27.3 After 1946 £2.86	£5.658
Present value per £100 of original loan.	£105.7309	£104.5312
Total annual charge on Administration's proportion of loan assuming in the case of (6) that the whole is converted.	Until 1946 £309,913 After 1946 £121,418	£240,204

If it were necessary to convert at £119, all other conditions being as above the comparison with Calculation (2) above would be:-

	<u>Calculation (4)</u>
	Present loan converted to £119 $4\frac{1}{2}\%$ stock. Sinking fund of present loan to accumulate. Sinking fund of conversion loan £0.436.
Annual charge per £100 of original loan	£5.874
Present value per £100 of original loan	£108.5218
Total annual charge of Administration's proportion of loan assuming that the whole is converted	£249,374.

19. It is clear from the foregoing that there is justification for exploring the possibility of raising a conversion loan, even if on somewhat more favourable terms than those used in the enclosures hereto, and I shall be glad if.....

if I may be favoured with your opinion on these proposals with particular reference to calculations (4) and (6).

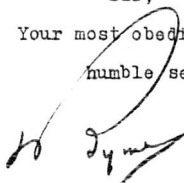
20. It may be also that the possibility of converting other loans for longer terms at lower rates of interest in order to reduce the present annual charge justifies investigation, and I should be glad if this also could be examined.

21. As the Government of Kenya is also interested in this question its views will follow at an early date.

I have the honour to be,

Sir,

Your most obedient,  
humble servant,

A handwritten signature in dark ink, appearing to read 'H. Dymally', is written over the typed words 'humble servant'.

HIGH COMMISSIONER.

## STATEMENT A.

## AVERAGE RATE OF INTEREST 4 1/2%.

				Annual charge per £100 of original loan.		Present value per £100 of original loan.	Total annual charge on this Administration's proportion of the original loan (assuming for the purpose of a conversion loan that the whole would be converted).
				E.	Z.		
1. Existing loan redeemed in 1946. Accumulated Sinking Fund = £2,400,000/-/-	New loan raised in 1946 for £2,600,000/-/-		Sinking Fund on new loan sufficient to redeem in full in 1971. £2,200,000 per annum.	1931-1946	7.5	108.6811	309,915
				1946-1971	2.486		147,994
2. -do- -do- -do-			Sinking Fund on new loan at 2 1/2% per annum.	1931-1946	7.5	108.7309	309,915
				1946-1965	2.86		121,418
3. Existing loan converted on 15th Sept, 1931. Accumulated Sinking Fund = £223,667.	Conversion loan at 4 1/2% stock (redeemable 1971) per £100 of existing stock.	Sinking Fund on existing loan credited to revenue.	Sinking Fund on conversion loan sufficient to redeem in full 1971. £20,913 2/3 per annum.		6.441	118.9971	275,445
4. -do- -do- -do-		Sinking Fund on existing loan to accumulate (£2,100,000)	Sinking Fund on conversion loan sufficient to redeem in full 1971. £20,400 per annum.		5.874	108.5216	249,574
5. -do- -do- -do-	Conversion loan at 4 1/2% stock (redeemable 1971) per £100 of existing stock.	Sinking Fund on existing loan credited to Revenue.	Sinking Fund on conversion loan sufficient to redeem in full in 1971. £20,913 2/3 per annum.		6.225	115.0065	264,275
6. -do- -do- -do-		Sinking Fund on existing loan to accumulate (£2,100,000)	Sinking Fund on conversion loan sufficient to redeem in full in 1971. £20,400 per annum.		5.659	104.5312	240,204

**STATEMENT A.**

**AVERAGE RATE OF INTEREST 4 1/2%**

			Annual charge per \$100 of original loan.		Present value per \$100 of original loan.	Total annual charge on this Administration's proportion of the original loan (assuming for the purpose of a conversion loan that the whole would be converted).	
			E.	F.	G.	H.	
1. Existing loan redeemed in 1946. Accumulated Sinking Fund = £2,400,000/-/-	New loan raised in 1946 for £2,600,000/-/-		Sinking Fund on new loan sufficient to redeem in full in 1971. £2,600 per annum.	1931-1946 7.5	108.6811	309,915	
				1946-1971 2.424		147,924	
2. -do- -do-	-do-		Sinking Fund on new loan at 2 1/2% per annum.	1931-1946 7.5	108.7809	309,915	
				1946-1968 2.86		121,418	
3. Existing loan converted on 15th Sept. 1932. Accumulated Sinking Fund = £283,667.	Conversion loan at 2 1/2% stock (redeemable 1971) per \$100 of existing stock.	Sinking Fund on existing loan credited to revenue.	Sinking Fund on conversion loan sufficient to redeem in full 1971. £20,912 1/2 per annum.	6.441	118.9071	273,445	
4. -do- -do-	-do-		Sinking Fund on existing loan to accumulate (£2,100,000)	Sinking Fund on conversion loan sufficient to redeem in full 1971. £20,420 1/2 per annum.	8.674	108.5218	249,574
5. -do- -do-	Conversion loan at 2 1/2% stock (redeemable 1971) per \$100 of existing stock.	Sinking Fund on existing loan credited to revenue.	Sinking Fund on conversion loan sufficient to redeem in full in 1971. £20,912 1/2 per annum.	6.225	118.0065	264,575	
6. -do- -do-	-do-		Sinking Fund on existing loan to accumulate (£2,100,000)	Sinking Fund on conversion loan sufficient to redeem in full in 1971. £20,420 1/2 per annum.	8.663	104.5512	240,204

C. O.

C.D.  
R 8-OCT  
D 8

Mr. Allen 7/10/31

Mr.

Mr.

Mr. Tomlinson.

Sir C. Bottomley.

Sir J. Shuckburgh.

Sir G. Grindle.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

pto. for Sir C. Bottomley's sig.

Downing Street,

9 October, 1931.

CONFIDENTIAL

My dear Byrne

DRAFT. Cas: v. minute (10)

Thanks for your letter of

the 26th of August, on the subject of

the conversion of the 25,000,000

Kenya 6 per cent Stock 1946-56.

Circumstances have, of

course, radically altered since I

wrote to you in June last, and we

quite concur in your recommendation

that the whole matter should be

allowed to stand over for the pre-

sent. If later you should wish to

pursue it further, you will no doubt

put it on an official basis as

suggested in my letter of the 24th

of June.

Yours sincerely

(Signed) W. C. BOTTOMLEY.

BRIGADIER-GENERAL  
SIR JOSEPH BYRNE, K.C.M.G.,  
K.B.E.,  
C.B.

Recd: *bone*  
W. C. Bottomley  
with 20218/31 57.

10/19

RECEIVED  
23 SEP 1931  
OFFICE

GOVERNMENT HOUSE,  
KENYA,  
EAST AFRICA

CONFIDENTIAL

28th August, 1931.

My dear Bottomley,

N<sup>o</sup> 9

The following refers to your letter 17020/31 of the 24th June on the subject of the conversion of the £,000,000 Kenya 5% Stock 1946-55. I have consulted the financial experts both of the Railway and of this Government and the conclusion I have come to is that we should not be justified in converting this Loan at the expense of posterity. Rhodes, however, makes the following remarks:-

Resol. 11

"I am in agreement with the views expressed in the last paragraph of Sir Cecil Bottomley's letter of 24th June, provided the Secretary of State agrees to our proposals in connection with the rate of contribution to the Renewals Fund.

"The position will be different if contribution at the rate of 2½% is still insisted upon.

"In such circumstances it would seem that there would be a definite advantage in conversion since it would reduce our annual loan charge between now and 1945.

"It is suggested that Sir Cecil Bottomley be advised in the terms of the foregoing and that the matter then be allowed to rest until such time as the Secretary of State has given a final decision regarding our Renewals contribution."

which lead me to recommend that the whole matter be allowed to stand.....

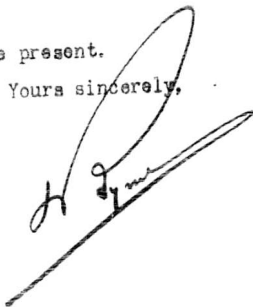
(2)

GOVERNMENT HOUSE,  
KENYA,  
EAST AFRICA.

28th August, 1931.

to stand over for the present.

Yours sincerely,

A handwritten signature in dark ink, consisting of a large, stylized initial 'H' followed by a surname that is partially obscured by a long, sweeping underline stroke.

28

K/12070/31  
Kenya

C.  
16 JUN  
194

TRAF.

Cairo

Ans 10/10

Sr S. C. Bottembie  
Equative

Downing Street,

Sr JOSEPH BYRNE  
K.C.M.G., K.B.E., C.B.

24 JUN 1931

Confidential

My dear Byrne  
in the 6th November, 1930,

Mr Moore 3/6  
Sr C Bottembie 3/6  
Sr S. C. Bottembie 4/6  
Sr J. S. M. 4/6  
Sr J. S. M. 4/6

Mr. Ezechiel  
20th Feb. 2

Minute  
2nd March.

To Sir H. Lambert 3  
2nd April.

Fr. Sir H. Lambert 4  
14th April.

Fr. Mr. Davis 3  
17th April.

Minute  
20th April.

(Sir Lambert has  
caused subject to this  
attention I have  
taken in in res)  
JMS

copy Sir H. Lambert s.o. 24 JUN 1931 copy

Moore wrote to Ezechiel regarding the  
conversion of the £5,000,000 Kenya  
6 per cent Stock 1946-1956.

Ezechiel replied to Moore  
saying that the Crown Agents have  
been making enquiries regarding this  
matter, and promising to let him know  
the result.

Subsequently, Ezechiel sent  
me on the 20th February a letter giving  
the result of those enquiries, and I  
enclose a copy of it for your information.

On this we consulted Campbell,  
our Financial Adviser, who advised us  
as in the accompanying copy of a minute  
dated the 2nd March. You will see that

he

24/6

he raised two points - one legal and the other financial.

I will deal first with the legal one, which, put shortly, raised the question whether there is any authority under existing legislation to arrange such a conversion even if decided upon. It is fully set out in the letter which I sent to Lambert on the 2nd April, and to which he replied on the 14th April. I enclose copies of both letters. We again consulted our legal people and were advised that legislation would be necessary.

On the financial side, Davis *staff, in the absence* of the Crown Agents, ~~who had taken over from~~ <sup>of</sup> Ezechiel who had gone to HongKong, sent Campbell a note dated the 17th April - copy enclosed - giving him the results of the further computations made on the lines

suggested

suggested by Campbell in his minute of the 2nd March.

Campbell advised further in a minute of the 20th April - copy enclosed. While recognising that any conclusion is necessarily largely a matter of guesswork he expresses the view that it is not worth while trying to convert, and that Kenya will on the whole do better financially by not converting. That is shared by all of us here, but I am sending you the papers in order that you may look into the matter with your advisers and form your own opinion. If you concur in our view it will be sufficient if you will send me a line to that effect so that we can have your opinion on record. If, however, you think the question might be further pursued it would be convenient

if

if you would put it on an official basis, and send a reasoned despatch to the Secretary of State in the light of the enclosed papers which should, of course, be kept strictly confidential.

(Signed) W. C. EOTTOMLEY.

25

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

29th May, 1931.

My dear Bottomley,

RECEIVED  
30 MAY 1931  
COL. OFFICE

Your confidential letter of

27th May 1920/31. I see no objection to your sending the papers about the proposed Kenya conversion to Byrne in the confidential semi-official letter. I return the draft, on page 2 of which I have made a small verbal alteration.

I gladly conveyed to Davis the appreciation of his work expressed in your letter.

*Yours sincerely*  
*Henry Lambert*

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

24 JUN 1931 Conf  
} No 6  
Orig copies of Minis. returned  
Copies of mins to Sir J Byrne s.o.

Minute by Sir John Campbell dated 2nd March, 1931.

-----

I saw Mr. Davis about this to-day. There were two points which seemed to want further looking into:-

- (i) a legal point. Does the wording of section 33 of the General Loan and inscribed Stock Ordinance allow of the arrangement proposed, where something more is given than the amount necessary "to make up the difference in saleable value" ? My own view is that we cannot, under the Ordinance, give any "turn" to make the conversion offer more acceptable to holders of the 6% loan stock. Mr. Davis, I understand, agrees. It might be well to consult the Legal Advisers as to this matter. Something more than the difference in saleable value will apparently have to be given; and it looks as if an amendment of the Ordinance would be necessary to permit of that. I assume that, as important interests are concerned, and for obvious reasons, any ordinance of this kind must be strictly construed.
- (ii) a financial point. The discussions hitherto have been limited to what one may perhaps call the more immediate financial effect. Mr. Davis agrees that, before we can judge of the desirability of the proposed conversion, we ought to have the two alternatives reduced to a common measure - which would be the "present value" of the full obligations incurred in each case. We discussed the details today; and he is having the thing worked out, on a basis which we agreed. The calculations, when completed, will show the relative financial advantage (or disadvantage )

of

of conversion, on the transaction as a whole. (Certain assumptions have of course to be made; for instance, we agreed that the sinking fund rate of accumulation might be taken at 4%, over the whole period. The rough calculations suggest that conversion will show an advantage, in terms of "present value", of a sum of the order of about £100,000 on the assumption that the whole loan was converted. If the exact calculations confirm that result, conversion would seem desirable, even at the 119£ per £100 rate. The immediate effect would be considerable, and would relieve what is at present a most difficult situation; and the thing would be profitable, on the whole.

NOTE BY SIR JOHN CAMPBELL DATED 20th APRIL, 1931.

There is a file as to this matter. My recollection is that there were two points to decide - which were of course to some extent interlinked - one, legal, the other financial. This note by Mr. Davis deals solely with the second point.

2. Mr. Davis has taken a great deal of trouble with this matter. I agree with his minute. The calculation which seems the most suited to all the circumstances is in Stat.1, on the £115 basis. The "present value" - allowing for roughly £9 per £100 from the existing sinking fund to be credited to revenue - works out almost exactly the same for "doing nothing" and for "conversion". The immediate advantage to the Colony, on various assumptions, is discussed by Mr. Davis. I agree with Sir Henry Lambert's criticism as regards postponement of the sinking fund payments; I see no justification for that, on a conversion.

3. The whole thing seems to boil down to this:-

(i) conversion, on a number of plausible assumptions, which are still however assumptions, would involve little or no real additional liability.

(ii) the immediate gain, if the sinking fund is applied at once, as it should be, would be small.

(iii) if the view I formerly expressed be correct, conversion here would necessitate legislation. It would imply negotiations of a rather difficult character with the leading holders of the 5% stock; and if they held out for more than £115 (which seems quite probable) any concession in that matter would result in a net increase in the real liability of the Kenya Government.

(iv) I do not think that the existence of a 6% stock, selling round about 108-109, is at all

prejudicial

prejudicial to Kenya's credit. The reasons for the low price are well known: - Trustee Stock limitations, etc. Their credit is measured by the price of the 4½% stock; and the recent issue makes that point abundantly clear.

4. On the whole, then - it is a question of trying to balance various imponderabilia - my view is that it is not worth while trying to convert. But admittedly there is not much in it, either way. My guess - it can only be a guess - is that Kenya will do better, financially, by not converting.

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4. On the whole, then - it is a question of trying to balance various imponderabilia - my view is that it is not worth while trying to convert. But admittedly there is not much in it, either way. My guess - it can only be a guess - is that Kenya will do better, financially, by not converting.

O. O.

Mr. Allen - 19/5

Mr. Campbell 19/5

Mr.

Mr. Tomlinson.

X Sir C. Bottomley 19.5.31

Sir J. Shuckburgh.

Sir G. Grindle.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

7020/31 Kenya

Confidential.

Downing Street,

May, 1931.

*For Sir J. Campbell's  
signature  
has caused  
value of an  
alteration  
see records  
Dr. J.M.P.*

*copy in aft form - will be cancelled. C.A.S.O. 27 MAY 1931*

**DRAFT.**

SIR JOSEPH BYRNE, K.C.M.G.,  
K.B.E. C.B.

(enc. to 2)

On the 6th November, 1930, Moore wrote to Ezechiel regarding the conversion of the £5,000,000 Kenya 6 per cent stock 1946-1956.

(see No.2)

Ezechiel replied to Moore saying

Mr. Ezechiel 20 Feb. (No.2) ✓

Minute by Sir J. Campbell 2nd March. ✓

(Headed as shown in pencil and omitting the passage at the end in pencil brackets)

To Sir H. Lambert 2nd April (3)

Fr. Sir H. Lambert 14th April (4)

Fr. Mr. Davis 17th April (5)

(Headed as in pencil) Minute by Sir J. Campbell 20th April. ←

(Headed as in pencil omitting passage in pencil brackets)

the 20th February a letter giving the result of those enquiries, and I enclose a copy of it for your information.

On this we consulted Campbell, our

*Financial*

*Legal* Adviser, who advised us as in the

2 drafts *causa* :  
*K. minister*

accompanying copy of a minute dated the 2nd March. You will see that he raised two

*Mr. Sakusa to see  
after dispatch*

points -

points - one legal and the other financial,

*N.P.*  
and I will deal first with the legal one,

which, put shortly, raised the question

whether there is any authority under existing

legislation to arrange such a conversion even

if decided upon.

*Seton*  
It is fully ~~stated~~ in the letter

which I sent to Lambert on the 2nd April, and (3)

to which he replied on the 14th April. I (4)

enclose copies of both letters. We again

consulted our legal people and were advised

that legislation would be necessary.

On the financial side, Davis of the  
*staff, in the absence of*  
Crown Agents, ~~who had taken over from~~ Ezechieel

who had gone to Hong Kong, sent Campbell (5)

a note dated the 17th April - copy enclosed -

giving him the results of the further com-

putations made on the lines suggested by

Campbell in his minute of the 2nd March.

Campbell advised further in a  
minute of the 20th April - copy enclosed

~~that~~ While recognising that any conclusion

(*Presented*  
*to Davis*)  
*Seton*

is necessarily largely a matter of guesswork

he expresses the view that it is not worth

while trying to convert, and that Kenya

*on the whole*

will do better financially by not convert-

ing. That is his view, ~~and it is shared~~

by all of us here, but I am sending you the

papers in order that you may look into the

matter with your advisers and form your own

opinion. If you concur in our view, it will

be sufficient if you will send me a line

to that effect so that we can have your

opinion on record. If, however, you think

the question might be further pursued it

would be convenient if you would put it on

an official basis, and send a reasoned

despatch to the Secretary of State in the

light of the enclosed papers which should,

of course, be kept strictly confidential.

-----

C. O.

**C. O.**  
R 20MAY  
D 27

X.17020/31 Kenya.

Mr. Allen 19/5  
Mr. Campbell 11/4/31

Mr.

Mr. Tomlinson.

X Sir C. Bottomley 19.5.31

Sir J. Shuckburgh.

Sir G. Grindle.

Perm. U.S. of S.

Parly. U.S. of S.

Secretary of State.

*Hand to Y*

Downing Street,

Confidential.

27<sup>th</sup> May, 1931.

*My dear Sir*

Many thanks for your letter of

**DRAFT.**

(H)

the 14th April regarding the question of

SIR HENRY LAMBERT, K.C.M.G., C.B. the conversion of the £5,000,000 Kenya

6 per cent stock 1946-1956. Your letter

has been shown to our legal people, and we

are advised that legislation would be

necessary.

But after consideration of

Davis' note of the 17th April, Campbell,

while recognising that any conclusion is

necessarily largely a matter of guesswork,

has expressed the view that it is not worth

while trying to convert, and that Kenya

*on the whole*

will do better financially by not converting

*(So far as the papers have gone)*

Here we all concur in this view, but we

must, of course, give the Governor an

opportunity of forming his own opinion, and

*To Sir H. Lambert  
(containing fr)  
minutes of Sir Campbell 2nd  
" " " " 20th (5)  
(Both to be headed as  
upon submitting papers  
in pencil tracks)*

2 drafts contain.

*1 minute*

if you have no objection, I propose to write to Byrne as in the accompanying draft. I also enclose copies of Campbell's minutes of the 2nd March and 20th April, which you might like to have on confidential record. I hope you will not object to our sending copies of the other papers which the draft purports to enclose, as it is obviously the most convenient course and I am asking Byrne to treat them as strictly confidential.

We all agree with Campbell that Davis has taken a great deal of trouble over this matter, and we should like you to tell him how much we appreciate the valuable help he has given us in considering this intricate business.

*Yours sincerely,*

(Signed) W. C. BOTTOMLEY

33  
17020/31

Sir John Campbell.

Conversion of Kenya 6% Stock 1946/56

The proposed conversion of this stock into Kenya 4½% Stock 1961/71 is not likely to prove so good as it appeared when we discussed the matter some time ago, if examined on the basis which you have suggested.

We have prepared the attached two statements with a view to finding out how the present liability of the Colonial Government in respect of the 6% stock compares with the liability which would be incurred as the result of a conversion.

You will see that we have allowed for the conversion of £100 Kenya 6% Stock into (a) £119 (b) £115 Kenya 4½% Stock 1961/71. £119 is an unreasonably large amount for a holder to expect and we might, for the present, work on a figure of £115. In the memo enclosed in Ezechiel's letter to Bottomley of 20th February we assumed that a holder of £100 of the 6% stock would be able to sell his holding and re-invest the proceeds in £111.5/- Kenya 4½% Stock 1961/71. This was based on a selling price of 111 for Kenya 6% stock and a buying price of 98½ nett. (i.e. exclusive of accrued <sup>interest</sup> but including commission). These prices seemed to be to the advantage of the 6% stockholders and it might prove possible to improve on the figure of £115.

In Statement No. 1 we have assumed that if and when the 6% stock is redeemed in 1946, it will be

/necessary

24 JAN 1931 6mf  
Copy Sir J Byrnes s.o

Check in  
at present.  
20/4/51

4 sh is now 2 pounds  
lower  
20/4/51

I am afraid - despite  
the figures - that  
we will probably  
have to pay £116.  
20/4/51

necessary to pay as much as 4 1/2% p.a. for the fresh borrowing, and the rate of ~~saving~~<sup>earning</sup> for sinking funds has therefore been taken at the same rate. In Statement No.2 we have assumed 4% p.a. as the rate. In both statements 4 1/2% p.a. has been taken as the estimated rate of earning for the existing sinking fund until 1946 - this seems a fair rate having regard to the fact that the yield on the investments already held is at the rate of over 5% p.a.

On a 4 1/2% basis (statement No.1) the difference in present value is approximately <sup>£9</sup> in favour of the 6% stock, but when the £9 which, it is estimated, could be released to revenue for every £100 of 6% stock converted is taken into account, this difference disappears. On a 4% basis the difference is estimated at £15.3, or, allowing for the £9 to be released to revenue out of the sinking fund of the 6% stock on conversion, £6.3 nett in favour of that stock. ~~But~~ But 4% is a very low rate and if it is assumed that yields will not be lower than 4% by 1971 a higher average rate ought to be taken. It is impossible to say what the rate will be, but if we assume that on the basis of comparison which you have suggested the present value of the liability in respect of the 4 1/2% loan would be about 3% or 4% higher than that in the case of the 6% loan, it should be a question of deciding whether the annual saving in respect of interest and sinking fund contributions until 1946 <sup>as a result of a conversion</sup> would be more important to Kenya than a possibly larger liability from 1946 to 1971 if the rate for fresh borrowing in 1946 should prove to be lower than 4 1/2% p.a.

/Present

Present charges on  
£100 Kenya 6% Stk.

£3.65 half yearly

New charges on £115  
4½% Stock 1961/71

2.58 January, 1932

2.58 July, 1932

2.58 January, 1933

2.58 July, 1933

2.58 January, 1934

3.35 July, 1934

3.35 January, 1935

3.35 and onwards

The annual saving in respect of every £100 6% stock converted into £115 4½% stock 1941/71 would, on this basis, be £2.2.10. until the sinking fund begins, and at the rate of 12/- afterwards. If it should prove possible to do better than £115 the position would be improved not only on a comparison of the liability but also as regards the annual saving to Kenya.

I have shown the above and the enclosures to Sir H. Lambert. He criticises the allowance made in the statements for the postponement of the contributions to Sinking Fund on the 4½% 1961/71 until 1934, and on the contemplated new loan to be raised after the repayment of the 6% stock, until 1950, on the ground that as Kenya were allowed three years grace after the 6% stock was issued there is no reason why they should not be called upon to contribute to the new sinking funds without a rest. The only reason for postponing the commencement of a sinking fund is to enable the railway or other enterprise to be constructed out of the loan money, to begin to earn. No such reason can apply in the case of a conversion.

"Quite valid criticism."

20/8/51

If the C.O. confirm this view the amount of saving to Kenya during the first three years after conversion would be reduced to such an extent as to make the conversion of little advantage to the Colony.

*J. Davis*  
CA:

Finance Dept.  
17<sup>th</sup> April 1931

BC.  
17.4.31.

If the C.O. confirm this view the amount of saving to Kenya during the first three years after conversion would be reduced to such an extent as to make the conversion of little advantage to the Colony.

*J. Davis*  
CA: Finance Dept.  
17<sup>th</sup> April 1931

BC.  
17.4.31.

The present value of the annual charges on  
£100 Kenya 4% Stock 1946/56, as on 15th Sept. 1931.

£100 Kenya 4% Stock Interest 4% per annum  
Sinking Fund £1.60-- per annum

Present value of half-yearly payment of £3.65

for a period of 15 years

$3.65 \times 21.64532$  (@ 4% p.a.)

79.0054

Assume (1) that £5,000,000 loan now outstanding will be paid off on 15th Sept. 1946 (2) that the Sinking Fund on that date will have accumulated (see attached statement) to £2,400,000; that it will be necessary to have a fresh loan in order to raise the balance, viz. £2,600,000 i.e. for 52% of the original amount; that this new loan will bear interest at 4% per annum, will be repayable in 1971 (the same year as the 4% Stock) and will have a sinking fund at a rate sufficient to ensure its repayment in 1971. Then in respect of the £52 the annual charges would be—

Interest 2.34  
Sinking Fund (from 15th  
March 1950) 1.512

Value on 15th Sept. 1946 of a half-yearly  
payment of £1.17 for a period of say 25 years  
 $1.17 \times 29.8343 = 34.9061$   
Present value of 34.9061 due 15th Sept. 1946  
 $34.9061 \times .51298$

17.9061

Value on 15th March 1950 of a half-yearly  
payment of .756 for a period of say 21 years  
 $.756 \times 26.9879 = 20.4028$   
Present value of 20.4028 due on 15th March 1950  
 $20.4028 \times .4389$

8.9547

105.8662

The present value of the annual charges on

(a) £119 Kenya 4% Stock 1961/71

(b) £115 Kenya 4% Stock 1961/71 as on 15th Sept., 1931.

(a) £119 4% Stock Annual charges  $\times 5.355$  Interest  
1.314 Sinking Fd. from 1.7.34.

Present value of half-yearly payment of 2.6775  
for a period of  $2\frac{1}{2}$  years i.e. from 1st Jan. 1932  
to 1st July 1934.  
 $2.6775 \times 4.6794$

12.5290

Value on 1st July 1934 of a half-yearly payment  
of 3.3345 for a period of  $36\frac{1}{2}$  years  
 $3.3345 \times 35.6866 =$  118.9969

Present value of £118.9969 due on 1st  
July 1934 i.e. at end of say  $2\frac{1}{2}$  years  
( $2\frac{1}{2}$  years)  $118.9969 \times .8947 =$  106.4665

118.9955

(b) £115 4% Stock Annual charges  $\times 5.175$  Interest  
1.268 Sinking Fd. from 1.7.34.

Present value of half-yearly payment of 2.5875  
 $2.5875 \times 4.6794$

12.1979

Value on 1st July 1934 of a half-yearly payment  
of 3.2215 for a period of  $36\frac{1}{2}$  years  
 $3.2215 \times 35.6866 =$  114.9643

$114.9643 \times .8947 =$  102.8585

102.8585

114.9664

\*Sinking Fund contribution at a rate sufficient (on a  
4% p.a. basis) to redeem loan at its due date.

STATEMENT NO. 2.

The present value of the annual charges on  
£100 KENYA 6% STOCK 1946/56 as on 15th September, 1931

£100 Kenya 6% Stock Interest £6 per annum  
 Sinking Fund £1.6... per annum  
 Present value of half-yearly payment of £3.65  
 for a period of 15 years  
 $3.65 \times 22.3964$  (@ 4%)

81.7468

Assume that £5,000,000 Loan now outstanding will be paid off on 15th September 1946 and that the Sinking fund on that date will have accumulated (see statement attached) to £2,400,000. Then it will be necessary to have a fresh loan in order to raise the balance, viz:- £2,600,000 i.e. for 52% of the original amount. Assume that this new loan will bear interest at 4% per annum, will be repayable in 1971 (the same year as the 4% Stock) and will have a sinking fund at a rate sufficient to ensure its repayment in 1971. Then in respect of the £52 the annual charges would be:-

Interest	2.08
Sinking fund (from 15th March 1950)	1.602
(@ 4%)	<u>3.682</u>

Value on 15th September 1946 of a half-yearly payment of 1.04 for a period of say 25 years  
 $1.04 \times 31.4236$  (4%) = 32.6805  
 Present value of 32.6805 due 15th September 1946  
 $32.6805 \times .55207$  (4%) =

18.0419

Value on 15th March 1950 of a half-yearly payment of .801 for a period of (say) 21 years  
 $.801 \times 28.2347$  (4%) = 22.6159  
 Present value of 22.6159 due on 15th March 1950  
 $22.6159 \times .48061$  (4%) =

10.8694

110.6581

The present value of the annual charges on

(a) £119 Kenya 4½% Stock 1961/71  
 (b) £115 Kenya 4½% Stock 1961/71 as on 15th September 1931

(a) £119 4½% Stock Annual charges (5.355 Interest  
 (1.467 Sinking Fund from 1.7.34 \*.

Present value of half-yearly payment of 2.6775 for a period of 2½ years, i.e. from 1st January 1932 to 1st July 1934  
 $2.6775 \times 4.7134$  (4%) = 12.6201

Value on 1st July 1934 of a half-yearly payment of 3.411 for a period of 36½ years  
 $3.411 \times 38.2196$  (4%) = 130.3670

Present value of 130.3670 due on 1st January 1934 i.e. at end of say 2½ years  
 $130.3670 \times .9057$  (4%) = 118.0733

118.0733

130.6934

(b) £115 4½% Stock Annual charges (5.175 Interest  
 (1.417 Sinking fund from 1.7.34 \*.  
 Present value of half yearly payment of 2.5875 =  
 $2.5875 \times 4.7134$  (4%) = 12.1959

Value on 1st July 1934 of a half-yearly payment of 3.296 for a period of (say) 36½ years =  
 $3.296 \times 38.2196$  (4%) = 125.9718  
 $125.9718 \times 9057$  (4%) = 114.0926

114.0926

126.2885

\* Sinking fund contribution at a rate sufficient on a 4% basis to redeem loan at its due date.

KENYA - Sinking Fund 6% Stock  
as at 3rd. March, 1931.

<u>The C.A.'s</u>	<u>Nominal Amount.</u>	<u>Price</u>	<u>Value.</u>
Guiana 3% Stk. 1923/45	5936 5 2	79	4689 12 10
Fiji 5% Stk. 1946/53	36329 18 8	102	37056 10 7
G. Coast 6% Stk. 1945/70	27076 7 6	107	28971 14 5
Jamaica 3½% Stk. 1919/49	13632 16 6	85	11587 18 -
Kenya 6% Stk. 1946/56	81032 3 6	107	86704 8 6
Nigeria 6% Stk. 1949/79	88113 10 -	110	96924 17 -
do 5% Stk. 1947/57	45406 4 2	102	46314 6 8
do 5% Stk. 1950/60	1443 8 10	102	1472 6 2
S. Nigeria 3½% Stk. 1930/55	4214 7 -	79	3329 6 9
Straits 4½% Stk. 1935/45	1295 5 3	97	1256 8 1
N. Zealand 5% Stk. 1949	47106 18 -	94	44280 9 9
do 4½% Stk. 1947	1000 - -	90	900 - -
do 4½% Stk. 1945	26785 17 8	90	24107 5 11
Cape 3½% Stk. 1929/49	27942 - 7	82	22912 9 3
Natal 3½% Stk. 1934/44	3132 2 4	86	2693 12 4
do 3% Stk. 1929/49	12670 19 7	77	9756 13 1
Middlesex County Council 3½% Stk. 1927/47	23600 - -	85	20060 - -
<hr/>			<hr/>
£446,718 4 9			£443,017 19 4
<hr/>			<hr/>
On Deposit			3940 2 9
In A/c			900 17 -
<hr/>			<hr/>
			£447,858 19 1
<hr/>			<hr/>
£447,858.19.1d. accrued @ 4½% until 15.9.46 = 447858.954 x 1.993254			892696 13 -
Contribution £32,500 half yearly 32500 x 46.137912			1499482 2 10
<hr/>			<hr/>
			£2,392,178 15 10

40  
H

4, MILLBARK,  
WESTMINSTER,  
LONDON, S.W. 1.  
(VICTORIA 7750)

RECEIVED  
16 APR 1931  
E

14th April 1931

My dear Bottomley,

Your letter No.17020/31 of the 2nd of April concerning the question of converting Kenya 6%.

A conversion such as we have recently been considering was not contemplated when the model General Loan and Inscribed Stock Ordinance on the lines of which Kenya Ordinance No.17 of 1921 is based was drafted. I agree that there is nothing in Ordinance 17 of 1921 or in any other Ordinance which would permit the Governor to sanction a conversion of this kind; on the other hand, I can see nothing in that Ordinance to preclude the Governor from offering an arrangement with the holders of the 6% stock for the conversion of their holdings into some other stock which they are free to accept or reject. Whether the Governor should do this under his executive powers or whether he should obtain the necessary sanction in the form of fresh legislation seems to be a question of general constitutional usage.

I

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

No 2  
Proc. 27 MAY 1931  
Copy Sir J. Byrom. s.o. 24 JUN 1931 Conf  
B

84

I return the copies of the Ordinances and  
Circular Despatch which you enclosed in your letter.

Below.

Yours sincerely,

Henry Lambert

C. O.

Mr. Allen. 1/4  
 Mr. Bushell 1/4  
 Mr. Parsons 1/10/31  
 Mr. Tomlinson.  
 Sir C. Bottomley. 24-31 f.  
 Sir J. Shuckburgh.  
 Sir G. Grindle.  
 Permt. U.S. of S.  
 Parly. U.S. of S.  
 Secretary of State.

For Sir C. Bottomley's sig.

R  
 D - 2 APR  
 2

DOWNING STREET,

2 April, 1931.

Ans to No. 4

My dear Lambert,

**DRAFT.**

SIR HENRY LAMBERT, K.C.M.G., C.B.

You will no doubt know that Ezechiel wrote to me on the 20th February with regard to the question of the conversion of the <sup>1921</sup> ~~6 per cent~~ <sup>6 per cent</sup> Loan 1946/56, which has been discussed from time to time in recent years.

Apart from the financial aspects of the matter, which ~~have~~ <sup>are</sup> being looked into, there is a legal point which I should like to put to you. It is this - legislation is there any authority under existing to arrange such a conversion even if decided upon?

The 1921 Loan was authorised by the Specific Loan Ordinance No. 39 of (Chapter 4) Revised Laws 1921 and was issued under the provisions of the General Loan and

Copy Sir J. Byrnes. s.o. 24 JUN 1931 Conf.

Kenya Cab 46  
 --- Cab 47  
 Nigeria Cab 117  
 C.C. 3 Mar 1931

Inscribed Stock Ordinance No.17  
(Chapter 46)  
of 1921. The latter Ordinance

was based on the Nigerian

legislation then in force and

Sections 32 and 33 follow ver-

batim sections 31 and 32 of the

(Chapter 112)

Nigerian Ordinance No.24 of 1916

(Copy with 13625/20  
C.M.P.)

and also sections 31 and 32 of

the Model Ordinance sent out to

the Colonies in the Secretary of

State's circular despatch of the

3rd May, 1913.

Section 32 of the Kenya

Ordinance gives ~~to~~ the Governor,

subject to the limitations imposed

by Section 33, certain powers of

conversion; but, as at present

advised, Bushe thinks these powers *was*

only apply to loans outstanding

at the time the Ordinance was

passed, and do not confer on the

( of which there  
were none )

Governor any authority to convert

loans issued subsequently. On

that

that interpretation there is, at present no legislative authority under which the 1971 Loan could be converted and a special Ordinance would be necessary to give effect to the proposal if proceeded with. I should be much obliged if you would let me know how far you agree with the above arguments and conclusions.

*I enclose ~~copy~~ 2 the  
 Order Circular <sup>for</sup> ~~reference~~?  
 convenience reference. Perhaps  
 you will find them there  
 when you reply.*

*Yours sincerely.*

(Signed) W. C. BOTTOMLEY.

44  
12

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

20th February, 1931.

*CC*

Dear Bottomley,

I enclose a copy of a letter which I have received from H.M.M. Moore regarding the Resolution passed by the Railway Advisory Council with regard to the interest and sinking fund charges on the Kenya 6% Stock 1946/56.

I am writing to Moore to say that we have been making enquiries regarding the possibility of arranging an offer to holders of the 6% Stock to convert into some other issue on terms which would be advantageous to the Colony and the Railway Administration and will let him know the result.

We have consulted our Brokers as to the possibility of arranging such an offer, and as we have recently issued the Kenya 4½% Loan 1961/71 the first sinking fund contribution which will probably not be taken until the 1st July, 1934;

/we

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

*copy (w/out encl) to Sir J. Ryans s.o. 24 JUN 1931 Conf*

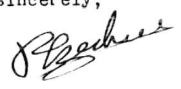
we have thought it advisable to make enquiries with a view to ascertaining what sort of terms would have to be offered in order to make conversion into that stock attractive to holders of the 6% Stock. From enquiries made by our Brokers of an Insurance Company which is the largest individual stockholder, it seems that the best terms (from the Kenya point of view) which that Company is likely to consider are a conversion on a basis of £119 of the 4 1/2% Stock 1961/71 for every £100 of the 6% Stock 1946/56. The enclosed memorandum shows what saving would be effected by a conversion on this basis.

It is impossible to say to what extent holders of the Stock, other than the Insurance Company referred to, would convert their holdings, but if a conversion scheme on the terms suggested is likely to be acceptable, I think we could arrange to convert at least £850,000 which we hold on behalf of various Colonial Governments' Funds. A conversion of this amount in addition to £150,000 held by the Insurance Company would mean a saving at the rate of £19,600 a year up to July 1934 and £7,800 afterwards and in addition a sum of £90,000 could be released from the sinking fund of the 6% Stock and transferred to revenue immediately after conversion. I

/presume

presume you will have to consult the Treasury before anything can be done, but perhaps you will let us know in due course, whether it is desired that we should proceed with the matter. If meanwhile you would like any further explanations, Davis here, would be able to give them to you.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "J. P. Roach".

GOVERNMENT HOUSE,

NAIROBI,

KENYA.

6th November, 1930.

Dear Mr. Ezechiel,

The following Resolution with regard to the Interest and Sinking Fund Charges on the 1921 Loan of Five Million pounds was passed by the Railway Advisory Council at its September meeting,

"AGREED to suggest that the question might be considered as to whether the present is a desirable time to try and redeem this loan and whether it would be to the advantage of the Railway Administration to do so."

and my attention has been drawn to your letter of the 15th February, 1924, to Sir Robert Coryndon and to his reply of the 26th March in that year.

I understand the question of loan conversion was discussed with you by the late Sir Christian Felling in June, 1924, and later by Sir Edward Grigg in April, 1927.

I do not wish to raise the matter in formal despatches to the Secretary of State at the present time, as Sir Edward Grigg has, I know, always held the view that should Closer Union in East Africa be effected, the loan issues of 1921, 1927 and 1928 would perforce be examined with a view to separating items of Colonial from Transport loan finance.

I should, however, be most grateful if the question could be borne in mind, and perhaps, if you get an opportunity of doing so, you would discuss the matter with Sir Edward who is now on leave in England.

Yours sincerely,

P.H. EZECHIEL, ESQ., C.M.G.,  
THE CROWN AGENTS FOR THE COLONIES,  
4, MILLBANK, Westminster,  
LONDON, S.W.1.

[sgd.] H.M.M. Moore.

It is suggested that an offer of conversion into Kenya 4½% Stock 1961/71 should be made to all holders of the Kenya 6% Stock 1946/56 on the next dividend date (15th March 1931) and perhaps also on later dividend dates until the 15th March 1934, and that the amount of Kenya 4½% Stock to be offered in exchange for each £100 of the Kenya 6% Stock should be such an amount of the 4½% Stock as it is estimated that a holder of the 6% Stock could acquire by the sale of his stock on the market and the re-investment of the proceeds, plus some attraction in the form of additional stock or dividend, or both. The total value of the attraction to be added would have to be considered on the occasion of each offer and it was thought that this offer need not be more than £2 or £3, partly in the form of additional stock, partly by offering a full six months dividend on the new stock on the interest date immediately after the date of conversion. For instance, suppose on the 15th March 1931 a holder of £100 Kenya 6% Stock could sell his holding and re-invest the proceeds in £111.5.0. Kenya 4½% stock 1961/71: then an offer might be made to convert £100 of Kenya 6% Stock into (say) £112.5.0. Kenya 4½% Stock 1961/71. This would involve giving an additional £1 stock, and the value of the accrued interest on the £112.5.0. 4½% Stock at the 15th March 1931 would be £1.1.0. But from enquiries made through the Crown Agents' brokers it appears that a certain Insurance Company which is the largest individual holder of Kenya 6% Stock would expect an offer of about £119 of the 4½% Stock 1961/71 for every £100 of the 6% Stock 1946/56. This Insurance Company is apparently not prepared to attach very much importance to the fact that if they converted they would

be acquiring a stock giving a substantial flat yield for 30 years in exchange for one bearing a higher rate for only 15½ years (assuming the 6% stock will be repaid in 1946) and they seem disposed to prefer to retain their present high yield of interest and to run the risk of having to re-invest on less favourable terms when the 6% loan is paid off. Their request for about £119 of the 4½% Stock for every £100 of the 6% Stock is based on securing the same redemption yield from the new stock as they receive from the present stock.

The present charges on £100 6% Stock 1946/56 each half year until 15th September 1934 will be:-

15th Sept. 1931	3.65	
15th March 1932	3.65	} 7.3
Sept. 1932	3.65	
March 1933	3.65	} 7.3
Sept. 1933	3.65	
March 1934	3.65	} 7.3
Sept. 1934	3.65	

The new charges on (1) £118 4½% Stk. 1961/72 and (2) £119 4½% Stock 1961/71 would be:-

(1) 1st July 1931	2.65	(2) 2.67
Jan. 1932	2.65	} 5.3
July 1932	2.65	
Jan. 1933	2.65	} 5.3
July 1933	2.65	
Jan. 1934	2.65	} 5.89
July 1934	3.24	
Jan. 1935	3.24	} 6.48
July 1935	3.24	
		2.67
		2.67
		2.67
		2.67
		2.67
		3.26
		3.26

The annual saving in respect of every £100 6% Stock converted into £119 4½% Stock 1961/71 would therefore be

at the rate of £1.96 per cent until the sinking fund begins and at the rate of £.78 per cent afterwards.

If any of the 6% Stock is converted there should be released to Revenue a proportionate amount of the accumulated sinking fund i.e. for every £100 converted there should be released  $1/50,000$  of the sinking fund, and as the total value of the sinking fund at the 15th March 1931 will be about £460,000 the amount which could be released to revenue in respect of each £100 converted would be about £9 on that date.

Mr. Parkinson.

Sir Edward Grigg came to see Sir S. Wilson and mentioned the following points, which Sir S. Wilson promised to look into:-

X X X

(4) Conversion of the 1921 Loan.

Sir Edward Grigg mentioned this to Sir S. Wilson, but I cannot say what particular point he wished to make.

Sir S. Wilson would be glad of observations on any of these points. I am afraid I have put some of them rather vaguely, but in some cases I am not aware of what Sir E. Grigg actually did say.

(sgd) C.A.L. Cliffe.  
18.12.30.

X X X X

(4) 1921 Loan.

This loan was floated in London in November, 1921 at 95%. The loan was for £5,000,000 with interest at 6%. The currency of the loan is 35 years with option of redemption at par by the Kenya Government at any time after 14th September 1946, on giving six months' notice.

Without knowing exactly what Sir E. Grigg said it is a little difficult to minute, but I suppose his idea is that that loan is an expensive one for the Kenya Government and he would like some conversion arrangement. Whether this is practicable seems, offhand, doubtful, but we are making semi-official enquiry from the Crown Agents and I hope to be able to send on a further note in a few days.

(sgd) A.C.C. Parkinson.  
20/12/30.

Mr. Allen X

Mr. Ezechiel mentioned it to me a fortnight ago and I understood that he would put forward a minute.

Mr.

*Mr. C. S. Stanley 1972*  
*Mr. P. Wilson*

A

Mr. Parkinson.

Sir Edward Grigg came to see Sir S. Wilson and mentioned the following points, which Sir S. Wilson promised to look into:-

- (1) Government House Vote.

Sir E. Grigg did not think it fair to Sir J. Byrne that there should be a reduction in this Vote, as he understood it was contemplated.

- (2) Despatches on Closer Union.

Sir E. Grigg thought that the despatches from the East African Governments containing their views on the Closer Union proposals should be published.

- (3) Allocation of Military expenditure.

I am not clear exactly what Sir E. Grigg's point was, but I gather that he made some complaint about the new allocation of military expenditure between Kenya and Uganda, under which apparently he maintained that Kenya was charged with £10,000 a year more.

- (4) Conversion of the 1961 Loan.

Sir Edward Grigg mentioned this to Sir S. Wilson, but I cannot say what particular point he wished to make.

B

Sir S. Wilson would be glad of observations on any of these points. I am afraid I have put some of them rather vaguely, but in some cases I am not aware of what Sir E. Grigg actually did say.

*Accaffer*  
18.11.70

x x x

P.T.O.

(1) Government House Vote.

The provision made in the draft Estimates under H.E. the Governor (Head ~~III~~) is £18,000: this is exactly the same sum as was provided in the sanctioned estimates for 1930. We have not had the Estimates for Kenya in the form in which they have passed the Legislative Council, but there is no reason to suppose that that vote has been altered so far as one can judge from the press reports. It is true that we asked the O.A.C. to pass legislation, before the arrival of Sir Joseph Byrne, to give the Governor of Kenya exemption from customs duty on goods imported for his own use so as to put the Governor of Kenya on a par with the Governors of Uganda and Tanganyika in the matter. But on personal representations from Mr. Moore this has not been proceeded with; Sir J. Byrne who was consulted fully agreed that it would be undesirable to attempt to introduce the legislation now. If a High Commissioner is appointed for East Africa then, as Sir J. Byrne knows, the emoluments of the Governor will be reduced and we have placed it on record in a confidential despatch to the O.A.C. that if such reduction takes place that will be a convenient occasion to arrange for the exemption from customs duty.

We know from Mr. Moore that unofficial opinion in the Legislative Council regards the emoluments of the Governor of Kenya (with the £1,000 received by him as High Commissioner for Transport)

as

as too generous. But that is immaterial as the post was offered to Sir J. Byrne with the same emoluments as Sir E. Grigg had, and the O.A.C. was told that no change would be allowed.

(2) Despatches on Closer Union.

It is clear that Sir E. Grigg wrote his despatches on this subject with a view to publication. The despatches from all the three Governors were obtained for the Joint Committee and it will be for the Joint Committee to decide whether or not they should be published, presumably as an appendix to the report ultimately presented by the Committee. Personally I think it would be a mistake to hold them up even though in certain respects they are very critical of the Government scheme, but I am not sure that the Secretary of State will agree. I think I heard him say on one occasion that they were not "fit for publication".

*Hope Sir J.  
Byrne & Mr.  
Perman will  
be consulted  
first  
Good*

(3) Allocation of Military Expenditure.

This must refer to the ~~question of the~~ allocation of the cost of the Northern Brigade, K.A.R. as between Kenya and Uganda. On the 7th November Mr. Moore sent a telegram explaining that the Estimates for the K.A.R. had been drawn up on the basis that expenditure as between Kenya and Uganda should be in proportions of 61% and 39% instead of 66% and 33% as laid down in a despatch from the Colonial Office. Mr. Moore was informed by telegram that there was no objection to his carrying on with his estimates on this basis. We shall receive detailed representations by mail and the matter can then be settled.

Sir

*Actually the amount  
of the report  
shows that the  
despatches have  
been prepared  
that Sir J. Byrne  
may see a need  
to allow steps to  
a reduction of the  
Govt. House Vote.  
as*

Sir E. Grigg knows this position because he was sent officially on the 17th November (at the request of Mr. Moore) copies of the telegraphic correspondence.

(4) 1921 Loan.

This loan was floated in London in November, 1921 at 95%. The loan was for £5,000,000 with interest at 6%. The currency of the loan is 35 years with option of redemption at par by the Kenya Government at any time after 14th September 1946, on giving six months' notice.

Without knowing exactly what Sir E. Grigg said it is a little difficult to minute, but I suppose his idea is that that loan is an expensive one for the Kenya Government and he would like some conversion arrangement. Whether this is practicable seems, offhand, doubtful, but we are making semi-official enquiry from the Crown Agents and I hope to be able to send on a further note in a few days.

*all Parkman*

\* Mr. Ezechiel mentioned it some 2 or 3 fortnights ago and I understood that he would put forward a minute, but Allen is verifying this.

The conversion would

- (a) reduce Kenya's present burden as the expense of the Kenya taxpayers, who would have won stock to redeem.
- (b) materially alter the debt position of Kenya, in some way.

*W.S. 20.12.30.*

*As regards I shall min. but I think Ezechiel's*

*Handwritten scribble*

*W.S. after*

*Mr. Parkman*

*Green, thanks*

*S.H.W. above*

*30.12.30*

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