

PO-CH/NL/0290
PART A

Part A

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Begins: 2/12/86.
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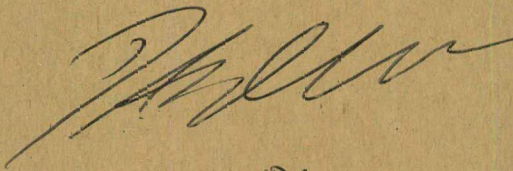
PART A

Chancellor's (Lawson) Papers:

THE NATIONAL SAVINGS
STOCK REGISTER

PO -CH /NL/0290
PART A

Disposal Directions: 25 Year



18 ^{Part} 10/95.

CONFIDENTIAL*Papers please.*

FROM: C W KELLY

DATE: 2 December 1986

CHANCELLOR

*Thanks. Grateful
vires of CST, WST & M-R-G.*cc Chief Secretary
Economic Secretary
Sir Peter Middleton
Sir Geoffrey Littler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Grice
Mr Rich
Mr Richardson
Mr Ross Goobey
Mr Patterson - DNS
Mr Ward - DNS**NATIONAL SAVINGS STOCK REGISTER**

Following your visit to the Bonds and Stocks Office on 12 September, you commented that you saw no case for continuing to run the National Savings Stock Register (NSSR) and asked for a note on the pros and cons of abolishing it. I thought it right to go into this question in some detail. Hence the delay in replying, for which I apologise. What follows has been agreed with the DNS and the Bank of England.

2. I am responding separately to your simultaneous request for a note on premium bonds.

Background

3. The NSSR dates back to 1880. Its function is to allow individuals who might be put off by the idea of going to a broker to buy and sell gilts in a relatively straightforward way. Purchases are made by post on forms available in post offices. Its other advantages are cost (commission charges are less than those of a broker for deals below £5-£10,000 because the NSSR aggregates deals into larger packages), the fact that interest on gilts held on the NSSR is paid gross of tax, and a number of special legislative provisions making it simpler for executors to deal with cases of death or legal disability.

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4. The disadvantages are that the range of gilts available, though it is supposed to be representative, is far from complete and that an investor does not know at the time of his application what price he will be paying (or receiving), since that will depend upon the time his application is received.

5. Current gilt holdings on the NSSR have a nominal value of around £850 million, of which £52 million is War Loan. There are 395,000 individual holdings including 100,000 of War Loan. The average holding is £2,138 nominal. For War Loan separately the average holding is £512 nominal. Purchases and sales for customers fluctuate a lot from year to year, but over the last five years there were on average 55,000 purchases and 37,000 sales a year. In 1985-86 the average purchase was around £2,500 and the average sale around £2,300.

Objectives

6. The case for retaining the NSSR is not primarily a funding one. The NSSR does make some contribution to expanding overall demand for gilts. But gross purchases, at around £100 million a year, are extremely small. Some of these purchases could be expected to have taken place anyway, had the NSSR not existed. Others might well be substituting for other National Savings products.

7. Its more important function, is that it make gilts available to a part of the savings market which they would not otherwise be reach, and increases gilt holdings of private individuals. Increasing the range of financial assets readily available to small savers has in the past been thought to be an important objective in its own right.

Cost

8. Endeavouring to meet this objective, however, carries a cost.

9. Total NSSR administrative costs in 1985-86 were £2.5 million. £0.5 million of this was recovered through commission payments for the brokerage service, which covers its own costs. The remainder represents the overhead costs of maintaining the register, dealing

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with correspondence, paying dividends and so on. If the NSSR were abolished, and if the gilts registered on it continued to be held, corresponding costs would fall to the Bank of England and hence to the Treasury as part of the annual fee we pay them for debt management.

10. Total staff employed in April 1986 were 146. This represents a considerable saving on a few years ago, achieved through computerisation following a Rayner review in 1982. The intention is to reduce numbers still further, to 133 by April 1987 and eventually to just below 100 by March 1992.

11. There are also some small revenue implications, payment of interest gross meaning some delay in the tax take.

Competition with the private sector

12. The registration side of the NSSR's activities would under present arrangements be performed in the public sector (by the Bank of England) even if the NSSR did not exist. But the brokerage function could in principle be provided by the private sector.

13. The DNS's feeling is, however, that they are not in competition with the brokers, since their customers are mainly individuals who would be put off by the idea of going to a broker, or would not know how to do so. The Bank think it likely that most brokers would not be interested anyway in the relatively small size of deal transacted on the NSSR. Certainly there have been no complaints about the NSSR that we know of from brokers.

14. More natural competitors might perhaps be the clearing banks (and in due course building societies) given their large branch networks and ease of access. It is, of course, already possible to buy gilts through banks (though more expensively for small lots). As far as we know, none of them market this service very seriously. But that could change, particularly if it were to be done alongside marketing of PEPs.

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Method of abolition

15. Abolition of the NSSR would not be possible without primary legislation, though this could be done in the Finance Bill.

16. We have not at this stage explored how we might do it in any detail. But there are three main alternatives.

17. The first would be simply to close the register for new purchases, but to continue to run it for existing holdings until these were sold or the owner died. This process could take some considerable time during which overhead costs would continue to be incurred. Nor would managing a declining service be very attractive to DNS.

18. The second alternative would be a compulsory transfer of holdings to the Bank of England register, and assimilation to that. A decision would then have to be taken about whether transferred holdings should continue to have reserved rights to payment of interest gross until they were disposed of. It would seem difficult in fairness to deny this and the Bank say that it would pose no great practical difficulty. It might also be necessary to find some way to help existing holders who wished to dispose of relatively small parcels of stock to do so at something approximating to the commission charges which they might have expected to have to pay at the time they bought their stock through the NSSR.

19. The third alternative would be a transfer to the Bank, but to allow them to continue to run it as a separate service for small private investors, retaining both the cheap brokerage service and payment of interest gross. The Bank would want to argue for this if abolition of the DNS register were on the cards, because of the importance they attract to encouraging this part of the gilts market.

20. A transfer to the Bank, with or without the brokerage service, would, of course, add to the Bank of England's costs - which are met by the Treasury. We would have to raise the Bank's cash limit and the Treasury's PES provision. The net effect on public expenditure would depend upon whether these additions were greater or less than the savings at the DNS.

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21. It is difficult to put a figure to this. On the face of it, it ought to be possible to secure some economies of scale from running one register rather than two.

22. On the other hand, it is much more expensive to employ non-civil service staff in Central London than civil servants in Blackpool. Much would probably depend upon whether the effect of the transfer was to discourage some of the smaller holders from continuing to hold gilts at all.

23. When something like this option was looked at in 1982 as part of the Rayner Scrutiny the conclusion was that any public expenditure savings would in practice be very uncertain. This conclusion probably still holds good. In the first instance there could well be additional transitional costs.

24. Bank of England staff do not count towards civil service manpower totals. Transfer of the registry function to the Bank of England would therefore eventually mean a reduction in civil service manpower numbers irrespective of what happened to public expenditure, though probably not before 1988-89. The initial effect could be to add to numbers to organise the transfer.

Other considerations

25. Abolition of the NSSR is, in itself, unlikely to receive that number of plaudits. Even the brokers and the clearers who might expect in a small way to benefit might in practice not welcome what they would probably see as uneconomic business.

26. Those who might be expected to object include:

- (i) The Post Office, including the sub-postmasters lobby. Though the service they perform in practice is little more than to stock the necessary leaflets etc, they are still likely to regard a run-down as a portent of a wider run-down of National Savings.

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- (ii) **The savings lobby.** Savers wishing to hold gilts would lose their ability to receive interest gross as well as their present ease of access to the register. They are also likely to face higher commission charges.
- (iii) **DNS staff.** The DNS are already committed to finding staff savings of a further 300. This would presumably come on top of that. There would be some negative effect on staff morale. Mr Patterson is concerned about the potential effect in enhancing the power base of the Militant Tendency. The unions know that after the Rayner review Treasury Ministers confirmed the fact that they saw a continued role for the NSSR as recently as 1982 and that in consequence a modernisation and computerisation programme was begun then which has already secured substantial staff savings. If staff totals were further reduced, Mr Patterson expects Militant Tendency to make emotional use of job losses at Blackpool and transfers to the City to build up their (now weak) influence at the Bonds Office.

27. In general, abolition of the register, whatever the reality, might well be seen as a signal of lack of concern for small savers and for the encouragement of personal sector holdings of gilts.

Conclusion

28. DNS agree with the Treasury that we would probably not want to invent the NSSR if it did not already exist. Its contribution to funding is indirect and very modest, it requires the employment of 133 staff and net expenditure of around £2 million a year and, although it undoubtedly helps to make gilts available to small investors and increase the range of financial assets held by private individuals, there may be other ways of achieving the same objective.

29. On the other hand, the public expenditure savings from abolition may prove to be illusory when account is taken of the potential increase in Bank of England registry expenditure on transferred

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holdings; abolition would give a very negative signal about your attitude towards small scale personal holders of gilts; we doubt whether banks or brokers could or would want to match the low brokerage fees, and there would be bound to be varying degrees of opposition from the savers lobby, from the unions and from the Post Office. There would also be some transitional costs.

30. The basic question is whether these disadvantages outweigh the potential advantages of abolition. It is a nicely balanced decision. But my personal view, and that of the Bank, is that they do. Mr Patterson takes the view that abolition would cause management difficulties for DNS out of all proportion to the savings which could be realised.

31. If you were to decide against abolition, it does not follow that the alternative is simply to carry on as before. First, the DNS have already made considerable efficiency savings, and more are in prospect. Second, at the request of the Economic Secretary, plans are now well advanced for making it possible to put new issues of gilts on the register. We can move ahead with this quickly, once a decision about the future of the NSSR is taken. Third, there is little point in offering a service like the NSSR if people are not aware of it. DNS have not in the past devoted much of their advertising budget to the register. If the register continues and moves into new issues, they plan to spend rather more of their advertising budget to promote it in future - but that would of course be at the expense of other advertising.

CWK

C W KELLY

c Mr Plenderleith - Bank of England

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pub

FROM: CATHY RYDING
DATE: 4 December 1986

PS/CHIEF SECRETARY

cc Economic Secretary
Sir P Middleton
Sir G Littler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Grice
Mr Rich *mr Kelly*
Mr Richardson
Mr Ross Goobey
Mr Patterson - DNS
Mr Ward - DNS

NATIONAL SAVINGS STOCK REGISTER

The Chancellor has seen and was grateful for Mr Kelly's minute of 2 December.

2. The Chancellor would be grateful for the Chief Secretary's views, and also those of the Economic Secretary and Mr Ross Goobey.

CR

CATHY RYDING

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BIF with
CSTB view
5/12

FROM: P D P BARNES
DATE: 4 December 1986

PS/CHANCELLOR

cc PS/Chief Secretary
Sir P Middleton
Sir G Littler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Grice
Mr Kelly
Mr Rich
Mr Richardson
Mr Ross Goobey

Mr Patterson - DNS
Mr Ward - DNS

NATIONAL SAVINGS STOCK REGISTER

The Economic Secretary has seen Mr Kelly's submission to you of 2 December.

2. The Economic Secretary thinks that following the introduction of CRT it is useful to be able to point non-taxpayers towards gilts as well as National Savings. The Economic Secretary would therefore favour keeping the NSSR.

fb

P D P BARNES
Private Secretary

CONFIDENTIAL

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FROM: A ROSS GOOBEY
DATE: 4 DECEMBER 1986CS
view
12/12
or 9/12

CHANCELLOR

cc Chief Secretary
Economic Secretary
Sir P Middleton
Sir G Littler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Grice
Mr C W Kelly
Mr Rich
Mr Richardson

pwp

Mr Patterson-DNS
Mr Ward-DNS

NATIONAL SAVINGS STOCK REGISTER

You asked for comments on Mr Kelly's minute of 2 December.

2. Showing my profound ignorance I was not aware that NSSR stock had coupons paid gross.
3. I also agree with Mr Kelly that it would be absurd to transfer the Register from Civil Service staff in low-cost Blackpool to staff in London.
4. These two facts make me stand the questions on their head.
5. Why not transfer the Bank of England stock register to a site outside London and merge it there with the NSSR? I presume the Bank register is computerised so that location is not important. I don't know whether such an operation should be Bank or DNS controlled but, either way, there should be savings.
6. Secondly, as the Economic Secretary has commented, why not promote the gross coupon payment facility more heavily? There must be many ignoramuses like me who, although reasonably aware of tax wrinkles, are not aware of this one.

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7. Although I see the problem that an individual will not know the exact purchase price of his stock, the computerisation of transfers and registration should make this a reasonably cheap option and we should certainly press for early notification of dealing and delivery of certificates. Unlike equities, the odd point move which may happen in the time delay between order and execution might not be crucial.

8. This would be a positive move for the sub-postmaster lobby.

9. The idea that, in addition to FOTRA stocks, we might have a quiverful of GOTBRITS is quite attractive; like other DNS products we might have to make limits on holdings.

10. If the above proves impossible I can see the balance of advantage does currently fall on the side of maintaining the NSSR at the moment.

ARG

A ROSS GOOBEY

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The main outcome of the House of Commons is that the Government is going to pay 25% Nat on NSSR gilts. I, too, had an opinion on this. It is pretty reasonable. What was the point of the letter? Why did we not do it?

FROM: M C FELSTEAD
DATE: 23 January 1987

PS/CHANCELLOR (Mrs Ryding)

c/ You asked (sometime ago, I'm afraid) for CST's, ARG's and EST's views on the NSSR. Those are attached. All three think the balance of advantage is for keeping the NSSR

- cc:
- PS/Economic Secretary
- Sir Peter Middleton
- Sir Geoffrey Littler
- Mr Cassell
- Mr Peretz
- Mr Scholar
- Mr Grice
- Mr Kelly
- Mr Rich
- Mr Richardson
- Mr Ross Goobey

CR 23,1

NATIONAL SAVINGS STOCK REGISTER

You asked for the Chief Secretary's comments on Mr Kelly's submission of 2 December on the National Savings Stock Register.

2 The Chief Secretary finds it difficult to comment on the Public Expenditure savings that might arise from the abolition of the Register as they are not quantified in Mr Kelly's submission, and may not even be there at the end of the day.

3 But on balance he is not inclined to close down the Register - for three reasons. First, because of the Economic Secretary's point regarding CRT (Mr Barnes's minute of 4 December) which is a very real one for National Savings and, though much less important in the case of gilts, still marginally applies. Second, because of the likely objections from the sub-postmasters lobby (recorded in paragraph 26 of Mr Kelly's submission) and third, because of the current North/South concern and the Prime Minister's renewed interest in this. These are comparatively small points but the Chief Secretary believes that they do add up on balance to a case for preservation.

M C FELSTEAD
Assistant Private Secretary

B1F
2/2

FROM: CATHY RYDING

DATE: 26 January 1987

PS/CHIEF SECRETARY

cc PS/Economic Secretary
Sir P Middleton
Sir G Littler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Grice
Mr Kelly
Mr Rich
Mr Richardson
Mr Ross Goobey**NATIONAL SAVINGS STOCK REGISTER**

The Chancellor was grateful for your minute of 23 January, Mr Ross Goobey's minute of 4 December, and Mr Barnes' minute of 4 December.

2. The Chancellor has commented that the most interesting point to emerge from all of this is that interest on NSSR gilts is paid gross. He, too, had not appreciated this. He thinks it is pretty rum. However, given that it is the position, he wonders why it is not promoted, and wonders what would happen if it were - perhaps Mr Kelly could advise.

A handwritten signature in cursive script, appearing to be "CR".

CATHY RYDING

FROM: C W KELLY

DATE: 27 January 1987

CHANCELLOR

*Refer to
Juller, we need an
IR view.*

cc Chief Secretary
Economic Secretary
Sir P Middleton
Sir G Littler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Grice
Mr Rich
Mr Richardson
Mr Ross Goobey
Mr Patterson - DNS

NATIONAL SAVINGS STOCK REGISTER

You asked what would happen if more were done to promote the fact that interest on gilts held on the NSSR is paid gross.

2. At present very little individual publicity is given to NSSR at all. It has its own leaflets in Post Offices, and is included in the guide to all DNS products given to professional advisers. But there has been no advertising campaign for the NSSR as such.

3. This is mainly because gilts have rather different characteristics from DNS' own capital-certain instruments. DNS have felt inhibited from promoting the two alongside one another in national advertising for fear of weakening the corporate image they are trying to promote.

4. But the difficulty - if in reality it exists at all - applies mainly to advertising in the national press. It ought not to apply to NSSR advertising in the specialist journals, which is arguably the right place for it anyway. It is DNS' intention to begin this in a fairly modest way this year, with the start of the campaign probably timed to coincide with the introduction of the facility of adding purchases of new issues of gilts to the register.

C O N F I D E N T I A L

5. The likely effects are difficult to judge in advance. The NSSR is unlikely to be very attractive to large holders of gilts, who can obtain cheaper dealing costs and greater certainty about prices elsewhere. Pension funds can receive their interest gross anyway through the Bank of England register, as can foreigners (through FOTRA stocks) and holders of War Loans.

6. But there could well be a (possibly fairly modest) untapped market of relatively well-off individuals who have sufficiently large portfolios to warrant the purchase of some fixed interest stock, who are not put off by a day or two's delay in discovering the price they are paying or receiving, who do not have easy access to a broker and/or who like the idea of receiving interest gross to defer their tax liability.

7. In my view this is something which is well worth exploring, at the cost of the modest expenditure on advertising what DNS are proposing.

CWK

C W KELLY

BIF 612



FROM: CATHY RYDING

DATE: 29 January 1987

MR C W KELLY

cc Chief Secretary
Economic Secretary
Sir P Middleton
Sir G Littler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Grice
Mr Rich
Mr Richardson
Mr Ross Goobey
Mr Patterson - DNS

NATIONAL SAVINGS STOCK REGISTER

The Chancellor was grateful for your minute of 27 January.

2. The Chancellor thinks that before going any further, we need a view from the Inland Revenue. I should be grateful if you would take this forward.

CR

CATHY RYDING

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put

FROM: P D P BARNES
DATE: 2 February 1987

PS/CHANCELLOR

cc PS/Chief Secretary
Sir P Middleton
Sir G Littler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Grice
Mr Kelly
Mr Rich
Mr Richardson
Mr Ross-Goobey

Mr Patterson - DNS

NATIONAL SAVINGS STOCK REGISTER

The Economic Secretary has seen Mr Kelly's submission to the Chancellor of 27 January.

2. The Economic Secretary thinks it is certainly worth experimenting as Mr Kelly suggests. He thinks it will be interesting to see the reaction.

PDP

P D P BARNES
Private Secretary

CONFIDENTIAL



Inland Revenue

9/4 you asked for views from the IR

Policy Division
Somerset House

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CR 9/7

FROM : A C GRAY
9 February 1987

- 1. Mr O'Connor *see note at end 9/2*
- 2. PS/Chancellor - Ms Ryding

*This wills
with
so go ahead with
Mr Kelly explanation*

NATIONAL SAVINGS STOCK REGISTER

1. The Chancellor (your note of 29 January to Mr Kelly) asked for the Revenue's views on the options of abolishing or alternatively of promoting the N SSR.

2. The implications for us would essentially be operational, ie. would there be more or less work for tax offices if this source of gross interest were removed or enlarged? It is very difficult to provide any clear answer here since no information is available about the relative proportions of the c.400,000 N SSR investors who are non-taxpayers (eg. elderly people or children with incomes below the tax threshold) compared with taxpayers. We would then need to know whether investors would move their investments to other gross instruments, eg. National Savings Investment Account or Income Bonds etc, or stay in gilts where deduction of tax would apply. To the extent that they continued in gross instruments the position would be as at present. If they changed to receiving their interest net, then the Revenue would be involved in further work in repaying non-taxpayers, though, correspondingly, this would be off-set by no longer having to assess taxpaying investors.

- cc. Chief Secretary
- Economic Secretary
- Sir P Middleton
- Sir G Littler
- Mr Cassell
- Mr Peretz
- Mr Scholar
- Mr Kelly
- Mr Grice
- Mr Rich
- Mr Richardson
- Mr Ross Goobey
- Mr Patterson - DNS

- Mr Pitts
- Mr Yard
- Mr Whitear
- Mr O'Connor
- Mr Gray
- Mr Streeter
- Mr Boyce
- Ms Dougharty
- PS/IR

3. Our hunch - and it is no more than that - is that a fair proportion of NSSR investors are likely to be non-taxpayers whose prime concern (and this probably applies to taxpaying investors as well) is to receive interest gross (rather than to invest in gilts as such). On this hypothesis investors would, over time, tend to gravitate towards the sole remaining gross opportunities, in the NSSR. If this is right the overall administrative effects for the Revenue would be quite small - and in any case phased over a considerable period if, as Mr Kelly's paper (paragraph 18) suggests, gross interest entitlement would be preserved for existing NSSR holders.

Expansion of NSSR

4. Similar considerations apply, conversely, to any significant expansion of NSSR holdings. To the extent that new investors would be non-taxpayers moving from other gross interest instruments, there would be no change. But if, as Mr Kelly and Mr Ross Goobey suggest, a sizeable number of taxpaying investors would be attracted (out of existing net of tax interest investments) then there would be further administrative costs in taxing this extra gross interest. We cannot predict what these might be. But, for illustrative purposes only, if 100,000 new such cases had to be dealt with a further 30 or 40 Revenue staff would be required.

Further loss of payment gross

5. Administrative considerations aside, there could be adverse comment on the abolition of NSSR on the grounds that it further restricts the gross payment savings opportunities available to non-taxpayers, following the general extension of composite rate arrangements for taxing interest at source to the domestic savings market (other than NSB).

6. The Economic Secretary has requested (Mr Ellis' note of 17 September 1985 attached) that replies on composite rate should, where appropriate, draw attention to the NSSR facility and a number of cases have been handled in this way.



A C GRAY

Composite rate tax is still a sensitive issue with non-taxpayers who are unable to obtain a refund of tax withheld. Closing one of the few remaining options for small savers including non-liable widows and pensioners is likely to be badly received.



B O'CONNOR

C Miss Coombe
Mr Ollson
Mr Street



FROM: A M ELLIS
DATE: 17 September 1985

MR BANYARD - IR

cc: Mr T Mathews
PS/IR
Mr Patterson - DNS

STANDARD LETTERS ON COMPOSITE RATE

The Economic Secretary would be grateful if you could add the following sentence to those draft replies on composite rate addressed to members of the public with a significant proportion of their income coming from investment:

"Given the proportion of his/her income coming from investment, Mr/Mrs Smith might therefore also wish to consider the purchase of gilts from the National Savings Stock Register, on which there is a guaranteed income (paid gross) regardless of changes in the rate of interest."

AE

A M ELLIS

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FROM: M C FELSTEAD
 DATE: 10 February 1987

PUP

PS/CHANCELLOR (Mrs Ryding)

9/Papers with you

CE 11/2

cc:
 Economic Secretary
 Sir Peter Middleton
 Sir Geoffrey Littler
 Mr Cassell
 Mr Peretz
 Mr Scholar
 Mr Kelly
 Mr Grice
 Mr Rich
 Mr Richardson
 Mr Ross Goobey

Mr O'Connor - IR
 Mr A C Gray - IR
 PS/IR

NATIONAL SAVINGS STOCK REGISTER

The Chief Secretary has seen Mr Gray's note to you of 9 February. He agrees with Mr O'Connor's typed comment that abolition of the National Savings Stock Register would further restrict the gross payment savings opportunities available to non-taxpayers and would be likely to be poorly received. He accepts, however, that we do not have any clear information of NSSR investors who are likely to be non-taxpayers and whose prime concern is to receive interest gross.

M C FELSTEAD
 Assistant Private Secretary

CONFIDENTIAL

Rup



FROM: CATHY RYDING
DATE: 11 February 1987

MR KELLY

cc: PS/CST
PS/EST
Sir P Middleton
Sir G Littler
Mr Cassell
Mr Peretz
Mr Scholar
Mr Grice
Mr Rich
Mr Richardson
Mr Ross Goobey
Mr Patterson - DNS
Mr Gray - IR
Mr O'Connor - IR

NATIONAL SAVINGS STOCK REGISTER

The Chancellor has seen Mr Gray's minute of 9 February, for which he was grateful, and is now content for you to go ahead with the experiment outlined in your minute of 27 January.

CR

CATHY RYDING

S E C R E T

FROM: C W KELLY

DATE: 20 February 1987

ECONOMIC SECRETARY

cc Chancellor ✓
 Sir P Middleton
 Sir G Littler
 Sir T Burns
 Mr Cassell
 Mr Peretz
 Mr Culpin
 Mr Grice
 Mr Rich
 Mr Richardson
 Mr Ross Goobey
 Mr Patterson - DNS

NATIONAL SAVINGS

We may need to be ready at short notice to take some selective action on National Savings.

2. There are a number of aspects to this:

- (i) An upsurge in National Savings inflows in recent weeks, particularly into income bonds, is making the management of the full fund of the PSBR that much more difficult. We are now expecting a contribution to funding of something like £3.4 billion in place of the £3 billion previously assumed.
- (ii) On cost of funding grounds, the size of the inflow into income bonds suggests that we are paying a bit too much for them. The fall in gilt yields has also left the 32nd Issue certificate looking a bit expensive.
- (iii) If we are going to asked the DNS to raise rather less for us next year than this (as suggested in the paper attached to Mr Peretz' submission of today about funding), the sooner we take account of the implications of this the better.

attached

I am sure it is right ✓
a) clear advice ✓
b) stand ready, done so, & withdraw the 32nd issue ✓
c) make no more on PSBR notes in future circs. ✓

On the other hand:

- (iv) Depending upon the precise circumstances, almost any move that we might make in the immediate future might look like a signal about our interest rate intentions.
3. We have already taken some action. DNS stopped advertising income bonds some weeks ago. The indications are that this is beginning to have an effect, though the momentum of the previous campaign has taken a while to dissipate.
4. An adjustment in rates - which would have to apply to all the gross products - might help to slow the inflow further. But we doubt that it would have a substantial effect this financial year, particularly since it would take six weeks to come into effect. It would, on the other hand, be interpreted as a fairly clear signal that we were expecting interest rates to come down after the Budget.
5. More immediately worrying at present is the prospect of a last minute surge into the 32nd Issue National Saving Certificate, if people convinced themselves that it was about to be replaced by a new certificate paying a lower rate. There are no signs of that happening at the moment. But the DNS are keeping a close watch on this.
6. The most prudent thing would be to suspend the certificate now. We can do this at two day's notice.
7. But that too would have a signalling risk unless it can be shown to have been done in response to a sudden surge of applications. There is a chance then that we could present it more as a technical response to the full fund requirement than as an expression of intent about interest rates.
8. The Bank of England's advice is that withdrawal of the certificate in these circumstances would not be unduly risky from the point of view of the effect on interest rate expectations.

At a pinch they think that we could even contemplate some reduction in rates as well, provided it was limited to half a per cent (on the grounds that this sort of movement is in the market already) and the timing was carefully chosen (eg to coincide with an announcement about 2:30 lending). But we would prefer to avoid it unless absolutely necessary.

9. In sum, our preference is to do nothing immediately, but to keep a close eye on events and be ready to move very quickly to suspend the 32nd Issue if there were any signs of a substantial inflow into it. We do not rule out asking you to consider some action on rates altogether. But we do not think that we have yet reached that position.

10. In the slightly longer term, we have been giving some thought, with DNS, to National Savings strategy next year in the light of the funding paper. I hope to submit to you about this shortly.

CWK

C W KELLY

SECRET



FROM: A C S ALLAN
DATE: 23February 1987

PS/ECONOMIC SECRETARY

cc Sir P Middleton
Sir G Littler
Sir T Burns
Mr Cassell
Mr Peretz
Mr Culpin
Mr Grice
Mr Kelly
Mr Rich
Mr Richardson
Mr Ross Goobey
Mr Patterson - DNS

NATIONAL SAVINGS

The Chancellor has seen Mr Kelly's minute to the Economic Secretary of 20 February. He is sure it is right to

- (i) do no more advertising of income bonds;
- (ii) stand ready, if need be, to withdraw the 32nd Issue;
- (iii) make no move on interest rates in present circumstances.

A handwritten signature in black ink, appearing to read 'A C S Allan', with a horizontal line underneath.

A C S ALLAN

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FROM: IAN RICH
 DATE: 4 September 1987

1. MR KELLY ^{cash} _{U.S.}
2. ECONOMIC SECRETARY

cc: Chancellor ✓
 Sir P Middleton
 Mr Cassell
 Mr Peretz
 Mr Grice
 Mr Richardson
 Mr Pickford
 Mr Dyer
 Miss Anderson
 Mr Patterson (DNS)
 Mr Ward (DNS)
 Mr Mikhailoff (B/E)
 Mr Ladd (NILO)

NATIONAL SAVINGS STOCK REGISTER

Background

1. The National Savings Stock Register (NSSR) dates back to 1880. It allows individuals to buy and sell gilts in a simple way. Purchases and sales are made by postal application to the DNS' Bonds and Stocks Office. Application forms and post-paid envelopes are available on request in post offices.

2. Up to £10,000 of stock may be purchased on any day. Commission on small bargains is low - much less than is charged by brokers - because each working day DNS aggregates all the purchase and sales applications it receives into composite deals. The buying and selling is undertaken by the Government broker. Brokerage costs are fully financed by the commission charged.

3. Perhaps the main attraction of the NSSR is that dividends on gilts purchased through this service are paid gross of tax. Taxpayers settle direct with Inland Revenue. However the range of gilts available, supposedly representative, is now seen as rather limited. Also, the investor cannot know at the time he applies to buy or sell the exact price he will pay or obtain.

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4. The service is designed mainly for the personal investor and is therefore small-scale. Current holdings have a nominal value of about £850 million. Last year total sales were £90 million, and the average transaction was about £2500. But transactions fluctuate quite a bit from year to year. Over the last six years, the annual average is about 90,000.

5. At present, the NSSR deals only in the secondary market, and in this sense has no direct funding role. However, it increases overall demand for gilts, by making them readily available to a part of the savings market which might otherwise not be reached. It promotes gilt holdings of private individuals.

Current Work

6. In 1986, your predecessor asked us to proceed in consultation with the DNS, the Bank, NILO and the Treasury Solicitor with the following:

- (a) Giving purchasers of new gilt issues the option of immediate registration on the NSSR.
- (b) Increasing the number of stocks on the NSSR.
- (c) Simplifying DNS gilt applications forms.

7. Work was put in abeyance for a time because the Chancellor asked us to review the need for the NSSR. He had wondered whether all purchases and sales of gilts should be left to the private sector. On balance, he and other Treasury Ministers concluded that the NSSR service should be continued, and expanded as in paragraph 6.

8. We have now completed the work requested, and the way is now clear to proceed with the new issues service. This submission accordingly seeks your agreement to the laying of the necessary Regulation and the terms of a DNS announcement on 6(a), and reports

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the action taken on 6(b) and (c). The thrust of the submission has been agreed with DNS, the Bank of England, NILO and the Treasury Solicitor.

New Issues of Gilts

9. We, the DNS and the Bank recommend that the widest feasible range of new stocks should be made available on the NSSR, in order to maximise potential sales to personal investors. We propose that all new stocks issued by tender or auction should be included, except for convertibles and "A" tranches (which could cause technical problems for DNS); and small issues of £400m or less (which might be too illiquid to deal with on the NSSR). The Bank of England prospectus would say that the particular stock may be held on the NSSR. An investor would indicate his choice of the NSSR on the registration form sent by the Bank. DNS and the Bank have agreed how the mechanics would then work. Initially, we recommend that the maximum purchase be set at £10,000 nominal. This is the same as the daily limit for purchases of secondary market stock under the existing NSSR service, (intended to discourage institutions, and which has so far proved more than sufficient for the NSSR's personal customers). We seek your agreement to these proposals.

10. This extension of the service will require a Statutory Instrument amending the National Savings Stock Register Regulations 1976. A draft prepared by the Treasury Solicitor and agreed by all consulting parties is attached at Annex A. Parliamentary Section have confirmed that this particular form of Statutory Instrument is not subject to affirmative or negative procedures; it has to lay before Parliament for 21 days, not necessarily while Parliament is actually in Session. We accordingly seek your agreement to the draft Statutory Instrument, after which we will arrange for it to be signed by two Lords Commissioners and formally laid before Parliament.

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11. After the Statutory Instrument is laid, DNS would like to issue a Press Notice announcing that the new issues service will be introduced in early October. Precise timing will depend on the availability of Lords Commissioners to sign the Instrument. A draft Press Notice for your approval is attached at Annex B. Plans for marketing and publicity for the NSSR service are described in paragraphs 15 and 16 below.

Adding Stocks to the NSSR

12. At present, there are some 50 secondary market stocks available on the NSSR. Practice has been to add to this list from time to time to keep it up to date and representative. Such additions are made by agreement at official level between DNS, the Bank, NILO and ourselves. However, no additions ^{have} been made since 1985, because we have been developing the new issues proposals and reviewing the need for the NSSR.

13. The NSSR strategy is to maximise sales of gilts to the personal investor. We are therefore taking the opportunity to add a further 21 conventional and index-linked stocks of varying maturities. A list of the stocks to be added is attached at Annex C. In particular, it makes available on the NSSR a wide range of index-linked gilts, and additional maturities in the first decade of the next century. The existing list already contains a few low coupon conventional stocks. These tend to appeal to high rate taxpayers, and can thus be rather expensive. There is not a great demand for them on the NSSR. Only one additional stock of this kind is proposed at this stage. The wider range to be made available should attract more gilts business from the personal sector.

Application and Registration

14. The DNS have recently updated, greatly improved and simplified forms for the purchase and sale of secondary market gilts through their service. For the new issues service, the Bank have adapted and agreed with us and the DNS their straightforward one-page registration form.

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Marketing and Publicity

15. Effective marketing will be crucial if we are to achieve this objective. Hitherto, the NSSR has not had a great deal of publicity beyond the descriptive leaflet available from post offices. However, this year the DNS have already undertaken some selective press advertising of the NSSR (eg in specialist financial magazines such as "Investors' Chronicle" and the heavier newspapers). This tended to stress the low commission charges and payment of interest gross.

16. DNS plan further marketing of the NSSR (including the new issues service) in the coming months, clearing their lines with us and the Bank of England. The general purpose would be to publicise the investment attractions of gilts for personal investors, whether or not they are taxpayers. The main effort would be in support of the new issues service. Such an approach could also help to redress the relative lack of appeal of National Savings to basic rate taxpayers - a weakness which DNS believe to be a feature of their present range of products. DNS have it in mind to devote about £250,000 to an NSSR campaign later in the year. This would not entail an increase in the cash limit; the money would be found by re-ordering priorities.

17. We think it important that both the existing and proposed new NSSR services should be supported in this way, and welcome the DNS' intentions.

Summary

18. We accordingly seek your approval for:

- (a) The framework of the new issues service (paragraph 9).
- (b) Laying the necessary Statutory Instrument before Parliament (paragraph 10).

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(c) The terms of the DNS press notice announcing the new issues service (paragraph 11 and Annex B).

19. We also draw to your attention the plans for adding further secondary market stocks to the NSSR (paragraphs 12 and 13) and for marketing and publicity (paragraphs 15-17).

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 STATUTORY INSTRUMENTS

1987 No.

NATIONAL DEBT

 The National Savings Stock Register (Amendment) Regulations
 1987

<u>Made</u>	1987
<u>Laid before Parliament</u>	1987
<u>Coming into force</u>	1987

The Treasury, in exercise of the powers conferred on them by section 3 of the National Debt Act 1972 (a) and of all other powers enabling them in that behalf, hereby make the following Regulations:-

1. These Regulations may be cited as the National Savings Stock Register (Amendment) Regulations 1987 and shall come into force on 1987.
2. The National Savings Stock Register Regulations 1976 (b) shall be amended as follows:-
 - (a) by inserting in regulation 5(2) after the word "shall" the words ", unless made in accordance with paragraph (3) of this Regulation,";
 - (b) by inserting after regulation 5(2) the following new paragraphs -
 - "(3) Application to subscribe for stock of any issue to which this paragraph applies may be made to the Bank of England in accordance with the terms of the prospectus for that issue.

(a) 1972 c.65.

(b) S.I. 1976/2012, to which there are amendments not relevant to these Regulations.

(4) Paragraph 3 of this Regulation shall apply to an issue of stock -

(i) which is of a description corresponding to stock and securities transferable in the books of the Bank of England, and

(ii) the prospectus for which contains a statement that the stock concerned may be registered in the register.

(5) The Director of Savings shall, following receipt by him of an application in writing in the approved form to register in the register stock subscribed for under paragraph (3) of this Regulation (not being stock which has been previously registered in the books of the Bank of England or the Bank of Ireland or in the register), and subject to Regulation 5A of these Regulations, cause entries relating to such stock to be made in the register in accordance with Regulation 4(1) of these Regulations.";

(c) by inserting after regulation 5 the following new regulation -

"Limit on amount of stock which may be registered under Regulation 5(5)

5A (1) No person shall be entitled to have registered in his name under Regulation 5(5) of these Regulations stock of any one description exceeding £10,000 in nominal value.

(2) The limitation imposed by paragraph (1) of this Regulation shall not apply where the stock is to be registered -

(a) in the name of a registered friendly society or a branch thereof within the meaning of the Friendly Societies Act 1974 (a);

(b) in the name of a society incorporated or deemed to be incorporated under the Building Societies Act 1986 (b);

(c) in the name of a society registered or deemed to be registered under the Industrial and Provident Societies Act 1965 (c);

- (d) with the approval of the Commissioners, and subject to such conditions as they may require, in the names of the trustees or treasurers of any charitable or provident institution or society or of any penny savings bank;
- (e) in the name of the Public Trustee;
- (f) with the approval of the Director of Savings, and subject to such conditions as he may require, by a responsible officer of any government department or office in his official capacity;
- (g) in the name of the registrar of a county court in England, a sheriff clerk in Scotland, or a Clerk of the Crown and Peace in Northern Ireland, by virtue of or in pursuance of any enactment in that behalf; or
- (h) in the name of the Accountant General of the Supreme Court.

(3) If application shall be made under Regulation 5(5) to have registered in the name of any person stock of any one description exceeding £10,000 in nominal value and paragraph (2) of this Regulation does not apply, the Director of Savings may arrange for the excess amount of the stock to be registered in that name in the books of the Bank of England or the Bank of Ireland.

(4) If notwithstanding paragraph (1) of this Regulation the Director of Savings registers in the name of any person under Regulation 5(5) of these Regulations stock of any one description exceeding £10,000 in nominal value and paragraph (2) of this Regulation does not apply -

- (a) Regulation 53(1) of these Regulations shall apply as if the registration of the excess amount of stock had been in accordance with these Regulations, and
- (b) the Director of Savings may arrange for the excess amount of the stock to be transferred from the register and registered in that name in the books of the Bank of England or the Bank of Ireland."; and
- (d) by deleting in regulation 8(1) the words "Regulation 7" and substituting the words "Regulations 5A and 7".

1987

Two of the Lords Commissioners
of Her Majesty's Treasury

EXPLANATORY NOTE

(This note is not part of the Regulations.)

These Regulations amend the National Savings Stock Register Regulations 1976 to enable persons who apply to the Bank of England to subscribe for certain issues of stock to have the stock registered in the National Savings Stock Register. The issues of stock to which the Regulations apply are those of stock which is transferable in the books of the Bank of England and the prospectus for which contains a statement that the stock may be registered in the National Savings Stock Register. The Regulations impose a limit of £10,000 in nominal value on the amount of stock ^{of any one issue} which a person is entitled to have registered in his name under the Regulations, subject to certain exceptions, and make provision in relation to holdings in excess of that amount.

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A NEW SERVICE FROM THE NATIONAL SAVINGS STOCK REGISTER

The National Savings Stock Register is expanding its service to personal investors by offering them the opportunity to register direct with National Savings new issues of Gilts purchased from the Bank of England.

Investors will be able to combine the benefits of a commission-free purchase and gross payment of dividends with modest commission levels when they come to sell their stock. Purchases will be limited to £10,000 on each occasion.

At present, only purchases of existing stock made through the Stock Exchange can be registered on the National Savings Stock Register.

The new National Savings service will be formally introduced on [1 October 1987]. The first opportunity to use the service will be when the first eligible issue of Gilts is offered for sale by the Bank of England. The prospectus/application forms published in newspapers by the Bank of England will indicate which new issues are eligible.

Successful applicants wishing to opt for registration on the National Savings Stock Register can specify this on the registration form which they will receive from the Bank of England.

Notes to Editors

1. The National Savings Stock Register offers a service for the purchase and sale of British Government Stocks - 'Gilts' - by post.
2. If stock is registered on the National Savings Stock Register, the interest (or dividend) is paid without deduction of tax and taxpayers pay any tax due direct to the Inland Revenue. For Government Stock held on the Bank of England Register, tax is normally deducted before dividends are paid.

3. The present service, whereby the National Savings Bonds and Stock Office will purchase ^{the} existing stocks through the Stock Exchange for registration on the National Savings Stock Register, will continue unchanged. For this service a modest commission is charged.

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SECONDARY MARKET STOCKS TO BE ADDED TO THE NSSR

2½% Exchequer 1990
11% Exchequer 1991
2% Index-linked Treasury 1992
10¼% Exchequer 1995
10½% Exchequer 1997
15% Exchequer 1997
9¾% Exchequer 1998
11½% Treasury 2001-2004
10% Treasury 2001
2½% Index-linked Treasury 2001
9¾% Treasury 2002
2½% Index-linked Treasury 2003
10% Treasury 2004
10½% Exchequer 2005
8½% Treasury 2007
8% Treasury 2009
2½% Index-linked Treasury 2009
2½% Index-linked Treasury 2013
12% Exchequer 2013-2017
2½% Index-linked Treasury 2020
2½% Index-linked Treasury 2024

R E S T R I C T E D

*pd*

FROM: P D P BARNES
DATE: 7 September 1987

MR RICH

cc PS/Chancellor
Sir P Middleton
Mr Cassell
Mr Peretz
Mr Kelly
Mr Grice
Mr Richardson
Mr Pickford
Mr Dyer
Miss Anderson

Mr Patterson - DNS
Mr Ward - DNS

Mr Mikhailoff - (BoE)

Mr Ladd - (NILO)

NATIONAL SAVINGS STOCK REGISTER

The Economic Secretary was grateful for your submission of 4 September.

2. The Economic Secretary is content with the framework of the new issues service, and also content that the necessary Statutory Instrument should be laid before Parliament.

3. The Economic Secretary wondered, however, whether the press release should not also mention the extra secondary market stocks.

pb

P D P BARNES
Private Secretary

R E S T R I C T E D