MT

Confidential Filing

Index-linked National Savings Securities
Correspondence from PJ Pennant-Jones of Tourry Law + Co Ltd

ECONOMIC POLICY

September 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~24.10.80~~							
~~27.11.80~~							
~~12.3.87~~							
~~13.8.87~~							
~~13.4.88~~							
~~7.7.88~~							
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~~8.12.88~~							
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~~14.10.91~~							
~~4.8.92~~							
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4.8.92							
CLOSED							

PREM 19/3676

Dd 533270 5M 2/78 8362633 JET

PART September 1980 ends:-

HMT to MF 4.8.92

PART ~~begins:-~~

chex.jp/jh/22

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cc PU

(2)

Treasury Chambers, Parliament Street, London, SW1P 3AG
071-270 3000

4 August 1992

Ms Mary Francis
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Prime Minister
The Chancellor has decided to reduce interest rates on other National Savings products. To be announced Wed. - 5.30pm. Draft press briefing also attached. Stresses high inflows to DNS.
MF 4/8

Dear Mary,

NATIONAL SAVINGS: INTEREST RATES

As you know, the Chancellor decided that National Savings should reduce the interest rate on its new FIRST Option Bond by 0.5 per cent last month, following larger than expected inflows during the first ten days the new product was on sale. The Chancellor has now reviewed the terms on other products, in the light of the latest evidence of total inflows to National Savings. As a result, he has decided to reduce the rates on most of the other products.

National Savings estimate that they have taken in around £650 million (net) in July, bringing the net contribution to funding in the first four months of the financial year to around £2,200 million. Around £300 million of the July figure is attributable to the FIRST Option Bond, but a number of the other products have also performed strongly. The striking rate achieved over the first four months is higher than we need over the year as a whole.

At the same time, the Chancellor remains anxious to reduce any risk that the building societies will put up their mortgage rates. Given the weakness of the housing market, the societies have a strong interest in avoiding higher rates. And competition from National Savings is, of course, only one among a number of factors affecting the societies' position. Nonetheless, reductions in National Savings rates should be helpful to them.

Details of the July figures will be published by National Savings in the middle of this month (16 August) in the usual way. However, the Chancellor is concerned to pre-empt, as far as possible, any adverse reactions, particularly from the building societies. He has therefore decided that the reductions should be announced tomorrow.

The details of the reductions are set out in the attached press release, which will be issued at 5.30pm tomorrow (Wednesday) by National Savings. The main changes are:

- replacement of the current issue of 5 year fixed interest saving certificates offering 8 per cent per annum with a new issue at 7.5 per cent;

- replacement of the current series of capital bonds offering 10.75 per cent per annum with a new series at 10 per cent;

- a reduction of 0.8 per cent in the return on children's bonus bonds;

- reductions of 0.25 per cent in the rates paid on the two variable rate products, income bonds and investment account.

In presenting the reductions, it will of course be important to avoid any impression that they are linked to the Government's stance on interest rates more generally or that they might be a sign that we were changing our funding policy (ie abandoning the "full fund" rule). The presentation will therefore focus on the strong funding performance of National Savings in the first part of the year.

Yours,

Jeremy

JEREMY HEYWOOD
Principal Private Secretary

NATIONAL SAVINGS PRESS RELEASE

Reductions in National Savings interest rates

Rates on National Savings products have been reviewed following a total net inflow of around £[650]* million in July. This brings the net contribution to funding in the first four months of the financial year to around £[2,200]* million, which is well ahead of the funding rate implied by the Government's expectations for National Savings in the year as a whole. National Savings announced on 20 July a reduction in the FIRST Option Bond rate of 0.5 per cent. National Savings now announce the following changes to their products.

New issue of saving certificates

The 37th Issue National Savings Certificate has been withdrawn from sale with effect from close of business today and will be replaced by the 38th Issue available for reinvestment from maturing certificates from Thursday, 6 August and for new sales on Monday, 24 August. The new Issue will offer a guaranteed and tax-free return of 7.5 per cent per annum compound when held for 5 years, compared with an overall return of 8 per cent per annum for the 37th Issue. The 38th Issue will be sold in units of £25 with a holding limit for new purchases of £5,000. An additional £10,000 may be reinvested from matured Certificates of earlier Issues.

The 5th Index-linked Issue National Savings Certificate, which offers a return of 4.5 per cent per annum on top of index-linking when held for 5 years, remains on sale.

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* Figures to be confirmed.

Yearly Plan

The overall return on 5 year Yearly Plan Agreements applying from Thursday, 6 August will be 7.5 per cent per annum, guaranteed and tax-free. The 5 year return on offer up to today was 8 per cent per annum. The maximum monthly contribution is unchanged at £400 a month.

Capital bonds

Series D Capital Bonds have been withdrawn from sale from close of business today and will be replaced by Series E on Monday, 24 August. The new Series will offer a gross return equal to 10 per cent per annum compound, guaranteed over 5 years, compared with 10.75 per cent per annum for Series D. The net return to a basic rate taxpayer at current rates will be 7.25 per cent per annum.

Children's bonus bonds

Issue B Children's Bonus Bonds have been withdrawn from sale from close of business today and will be replaced by Issue C on Monday, 24 August. The new Issue will offer a tax-free and guaranteed return equal to 10.1 per cent per annum over its first 5 years, compared with 10.9 per cent per annum for Issue B.

Income bonds

The variable rate on Income Bonds will be reduced from 9.25 per cent per annum to 9 per cent per annum on 18 September 1992. The net return to a basic rate taxpayer at current rates will be 6.75 per cent per annum.

Investment account

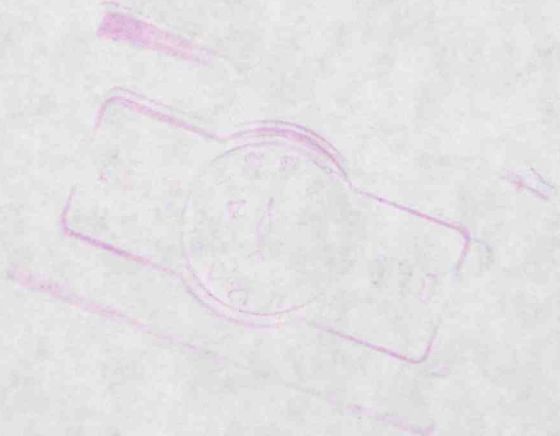
The variable rate on the investment account will be reduced from 8.5 per cent per annum to 8.25 per cent per annum on

19 August 1992. The net return to a basic rate taxpayer at current tax rates will be 6.19 per cent per annum.

Deposit bonds

(No longer on Sale.)

The variable rate on Deposit Bonds will be reduced from 9.25 per cent per annum gross to 9 per cent per annum on 18 September 1992.



Coulson

CONFIDENTIAL

HM Treasury

Parliament Street
London SWIP 3AG
Telephone 071-270

David Howard
Department for National Savings
Charles House
375 Kensington High Street
London
W14

4 August 1992

Dear David,

REDUCTIONS IN NATIONAL SAVINGS RATES: Q&A BRIEFING

David Butler sent me your draft briefing before going on leave at the end of last week. These are our comments.

We suggest adding two further questions to your list, both of which are perhaps more likely to come the way of the Treasury Press Office than yours.

These are:

> Reductions are a sign that Government is moving to underfunding
>
> Funding policy, based on the full fund rule, is unchanged. Reason for reductions is that sales of DNS products have been stronger than expected in first four months of financial year.
>
> Does this mean gilts will have to take greater burden of funding requirement?
>
> Point is that, in first four months, DNS has been taking in more than needed to play its part in meeting the funding requirement. Has always been envisaged that gilts would continue to be main source of funding.

I would like to suggest amending slightly your A2, as follows:

Target for National Savings?

> No published target. (If pressed: the Chancellor said in his Budget speech: "an increased amount [of the Government's borrowing requirement] will be funded through National Savings", compared with 1991-92 (in which DNS' contribution was £3.1 billion). As the press notice explains, DNS have taken in £2.2 billion in the first four months of the financial year, which is well ahead of the funding rate implied by the Government's expectations for the year as a whole.

On A3, I think we need to stick to the line that the reason why the Government has taken this decision is because of the strong inflows to National Savings during recent months. Can we therefore reformulate the answer on the following lines:

frightened into action by building societies?

> No. Ministers have looked at the evidence from the first four months of the financial year, during which inflows to National Savings have been stronger than expected. Right, therefore, to reduce rates. Always ready to listen to building societies and to take account of their concerns. Treasury Ministers took into account the effect that high levels of National Savings inflows could have on societies' deposits.

On A6, we would prefer the answer to avoid suggesting that we are likely to want to build up the Investment Account. I suggest therefore instead:

> Including accrued interest, funds invested in the Investment Account have been broadly stable in recent months.

On A18, I suggest the following revised version:

> We judge £5,000 to be the right limit, given the substantial inflow to National Savings' products already achieved so far this year. It is true that the 37th Issue had a limit of £7,500. But some earlier issues (eg the 35th issue, introduced on 18 June 1990) had a lower maximum holding limit, for new purchases, of £1,000.

Can I also suggest that in the Notes for Editors, you make the point that the £650 million inflow during July includes accrued interest and that you also provide an estimate before accrued interest (which I understand is around £505 million). The latter is the figure which is comparable with the figures highlighted by the building societies in their monthly announcements.

I also propose to give our press office a back run of figures comparing DNS with building societies' inflows for the first six months of the year. This is attached. Please let me know if any of the DNS figures are wrong.

Please let me know as soon as possible whether you have any difficulty with these changes or if you have any further amendments to suggest to the briefing yourselves. As usual, I am sure we should aim to have identical briefing for both our press offices.

Yours,

J P McINTYRE

NET FLOWS (excluding accrued interest on retained holdings)
(£million)

1992	DNS	Building Societies
Jan	175	285
Feb	236	133
Mar	386	- 219
Apr	~~326~~ 327	177
May	~~406~~ 407	220
June	~~216~~ 207	- 309

DRAFT. **Q&A BRIEF ON NATIONAL SAVINGS RATE CHANGES**

Q1. Why are you making these changes?

A1. We do not want the flow of funds into National Savings to become excessive. The reduction in FIRST Option Bond rate was made for that reason; these reductions have the same purpose. We think the new rates continue to allow us to make a satisfactory contribution to funding and still give our customers a fair return.

Q2. Do you have a target for National Savings funding?

A2. No published target. [If pressed. The annual rate implied by £2.2 billion in 4 months is too high (at £6.6 billion) but government have also said they want substantially more than 1991-92 (which was £3.1 billion).

Q3. Government frightened into action by building societies?

A3. No. Move intended to ensure that Government does not crowd out others in personal savings market. National Savings ambitions were never unlimited. Those who thought they represented a threat were over-reacting.

Q4. National Savings on back burner? withdrawn from field?

A4. Not at all. National Savings is a serious player in the personal savings market and investors are attracted by our ability to offer long term savings with solid security.

Q5. Why the small reduction in the variable rates (Income Bonds and Investment Account)? Building society rates haven't changed.

A5. Difficult to make direct comparisons because notice accounts with building societies are more liquid/easy of access than National Savings. Some building society rates have changed since May. This adjustment maintains the competitiveness of National Savings variable rate products

Q6. But you're losing money from Invac, so why lower the rate?

A6. We haven't been advertising Investment Accounts. We would expect demand to pick up when we do.

Q7. What about fair returns to the saver?

A7. We still believe that our products offer a very good deal for the investor. National Savings has never offered the highest rates, it has other benefits of security, real guarantees, simplicity and reliability to recommend it. In particular the range of guaranteed products mean that savers will have certainty of return in an uncertain world.

Q8. Is this a signal to the building societies to lower their rates again?

A8. Banks and building societies must take their own decisions.

Q9. Is there likely to be a base rate reduction?

A9. We never speculate on this. The reasons for the changes relate to the flow of funds into National Savings.

Q10. Why didn't you reduce these rates at the same time as the FIRST Option Bond on 21 July?

A10. All our rates are kept under review. FIRST Option Bond was a new product and we needed to react quickly to higher than expected demand.

Q11. Will you reduce FIRST Option Bond rate again?

A11. We never speculate about possible future changes.

Q12. Why a larger reduction in Children's Bonus Bond rate. Unfair to children?

A12. The Children's Bonus Bond rate retains its modest margin over the Capital Bond rate and remains a very attractive product for children's savings.

Q13. Any plans to change General Extension Rate?

A13. We never speculate.

Q14. Any plans to replace 5th Index-linked Issue Certificates?

A14. We never speculate.

Q15. If inflation rises, won't 5th Index-linked Issue be out of line?

A15. As with all our products, the terms are under constant review. We do not consider it necessary to withdraw the Issue at present and we cannot speculate about future changes.

Q16. As other rates fall, Ordinary Account and Premium Bonds become relatively more competitive - any plans to reduce these rates?

A16. We do not consider it necessary to make any changes to these schemes at present.

Q17. Why wait so long for certificates to come on sale?

A17. Part of means of regulating flow. There is normally a period between ending one Issue and starting another because of printing delays etc. We are only asking new investors to wait a little longer than usual. And those reinvesting from mature Certificates can do it from 6 August.

Q18. Why a lower limit than 37th Issue?

A18. We want to regulate the flow. We don't want too much of a rush from those who normally buy the maximum. But we shall be able to increase the holding limit if at a later stage we need to.

Q19. What will happen to applications in the post?

A19. We are not advertising any of these products in the press at the moment. But if customers have sent application forms direct to us we will contact those customers whose applications reach us after the Certificate (Durham) or Capital Bond/Children's Bonus Bond (Glasgow) which they applied for has been withdrawn. We will ask if they wish to purchase under the new terms.

Q20 Will you pay compensation to people who "miss the boat" and do not wish to buy at the new rates?

A20. No. Our leaflets say that an Issue of Certificates or Children's Bonus Bonds, or Series of Capital Bonds can be withdrawn without notice. We do not offer compensation when an application arrives after the product has been withdrawn.

Q21. Details of product breakdown contributing to £650m funding figure?

A21. Wait until normal results announcement on 16 August. [If pressed: the £650m is a very broad figure].

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KW

economic/Buckler

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 October 1991

NATIONAL SAVINGS: INTEREST RATES

Thank you for your letter of 7 October indicating that the Economic Secretary proposed to reduce interest rates on two of the National Savings variable rate products - Investment Account and Income Bonds.

The Prime Minister has now seen your letter and is content for the proposed reductions to be made. The changes should be announced in the usual low-key way whenever the Economic Secretary considers best.

BARRY H POTTER

Malcolm Buckler Esq
HM Treasury

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cc PM

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(2)

ECONOMIC SECRETARY TO THE TREASURY

Prime Minister
Better to make announcements at 'X' next week, rather than this?
BHP 8/10

Treasury Chambers, Parliament Street SW1P 3AG

B Potter Esq
Prime Minister's Office
10 Downing Street
LONDON SW1

7 October 1991

Yes.
13.10

Dear Barry

NATIONAL SAVINGS : INTEREST RATES

The Economic Secretary has been reviewing the interest rates on the main National Savings products in the light of the latest reductions in market rates following the September base rate cut. He thought the Prime Minister may like to be aware of the changes it is intended to announce shortly.

The Economic Secretary has concluded that the two variable rate products - Investment Account and Income Bonds - should have their present interest rates reduced by 0.75%. This will bring the Investment Account rate down to 9.5% and the Income Bond rate to 10.25%. The last reductions in these two products - also of 0.75% - were announced on 31 July. In both cases, the new rates would mean that the return to investors would remain very much at the top end of the market. And the presentation of this change is simplified by our being able to explain, if necessary, that the rates are merely following the market. After the change, these National Savings rates will have moved down in line with base rates since July (both will have fallen by 1.5%).

For the time being, the Economic Secretary has decided that the rates on National Savings' fixed rate products should be left unchanged. But they will be kept under review.

The Economic Secretary has consulted the Chancellor who is content with what is proposed. On timing, National Savings would announce X/ the changes in the usual low-key way later this week. The sooner the announcement, the closer the link with the last base rate cut and subsequent moves in the market. The changes will not actually come into effect for two weeks (Investment Account) and six weeks (Income Bonds).

Yours
Mark Buckler

M R BUCKLER
Private Secretary

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Tlp
SLH

cc PU

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

7 May 1991

Dear Malcolm,

**NATIONAL SAVINGS:
INTEREST RATES ON VARIABLE RATE PRODUCTS**

Thank you for your letter of 2 May, indicating that the Economic Secretary proposes to announce reductions in the interest rates paid for certain National Savings instruments, specifically the Income Bond and Investment Account.

I submitted your letter to the Prime Minister over the weekend. The Prime Minister is content for the Economic Secretary to make the announcements proposed in your letter today.

Yours,

Barry

BARRY H. POTTER

Malcolm Buckler, Esq.,
Economic Secretary's Office,
H. M. Treasury

EAM

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CCPU

Prime Minister

Content with 'X' below?

BHP 3/5

(2)

Treasury Chambers, Parliament Street SW1P 3AG

B Potter Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

2 May 1991

Dear Barry

NATIONAL SAVINGS: INTEREST RATES ON VARIABLE RATE PRODUCTS

The Economic Secretary has been reviewing the interest rates on National Savings products in the light of the further reductions in market rates since the Budget. He thought the Prime Minister may like to be aware of the changes it is intended to announce next Tuesday, 7 May.

A range of National Savings measures were announced in the Budget context as summarised in the Economic Secretary's minute to the Prime Minister of 11 March. In relation to interest rates it was decided to make small reductions of 0.5% for the 2 main variable rate products, Income Bonds and the Investment Account. It was expected that some further reduction would be necessary post-Budget when we could better assess the impact of developments on TESSAs and the abolition of CRT. For the fixed rate products - mainly Fixed Interest Certificates and Capital Bonds - rather larger reductions in interest rates were made in launching two new issues. The aim here was to avoid the need for another early re-launch, in the expectation that the new guaranteed rates should prove increasingly attractive if it proved possible to make some further reduction in market interest rates.

Market rates have now been reduced by 1% since the Budget. As a result the hoped for increase in the attraction of the guaranteed fixed rates has been realised. This should provide the basis for a good contribution from these products to this year's funding needs.

X But it is now necessary to look again at the variable rate products. The Economic Secretary has concluded that reductions of 1¼% should be announced on Tuesday bringing the Income Bond rate to 11¾% and the Investment Account rate to 11%. In both cases the rates remain very much at the upper end of competing private sector products. And the presentation of these latest changes will emphasise that the combined changes at Budget time and now of 1¾% are less than the general reductions in interest rates since the autumn.

Yours

Malcolm

MALCOLM BUCKLER
Private Secretary

ECON POL: 1991 Budget pt 20

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Prime Minister
To note.
BHP
4/6

②
cc PU

Treasury Chambers, Parliament Street, SW1P 3AG

Barry H Potter Esq
10 Downing Street
LONDON
SW1A 2AA

4th June 1990

Dear Barry,

NATIONAL SAVINGS

Thank you for your letter of 30 May, confirming the Prime Minister's agreement for the Chancellor to proceed with the proposed "reinvigoration" of National Savings.

I am now writing to let you know that the Economic Secretary shall be announcing tomorrow the following improvements to some key National Savings products:

- a new fixed interest savings certificate, offering a tax free guaranteed return of 9.5% a year if held for 5 years;
- a similar improvement in the associated regular monthly savings scheme, the Yearly Plan;
- a new index-linked savings certificate, revalued monthly by reference to the RPI, and offering tax free guaranteed extra interest of 4.5% a year, if held for 5 years;
- a new series Capital Bond, offering a guaranteed return of 13% a year (taxable, but credited without prior deduction of income tax), if held for 5 years.

These measures should provide more high quality funding - that is, savings which investors will leave untouched for 5 years in order to get the best return. In conjunction with the other National Savings changes announced in the Budget, they comprise an important contribution to the range of savings measures which the Chancellor then outlined. The changes will be introduced over the next 3-4 weeks.

Yours sincerely,
Gina Haskins

GINA HASKINS
Private Secretary

Econ 70c : Nationa Samna . Sep 80

CONFIDENTIAL

FILE KK

C/Economic/National

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 May 1990

Dear John,

NATIONAL SAVINGS

Thank you for your letter of 25 May which I submitted to the Prime Minister over the weekend.

The Prime Minister is content for the Chancellor to proceed with the proposed reinvigoration of national savings including as appropriate the new savings certificate; the new index-linked certificate; and the new capital bond.

Yours ever,

Barry

(BARRY H. POTTER)

John Gieve, Esq.,
H.M. Treasury.

HK

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1

PRIME MINISTER

NATIONAL SAVINGS

You may recall that at the discussion with the Chancellor and senior Treasury officials a few weeks ago, it was agreed that National Savings remain a useful tool in the armoury for encouraging personal savings.

The attached letter proposes new National Savings issues designed to attract long-term savings - a new savings certificate; a new index-linked certificate; and a new capital bond.

These seem sensible measures.

(i) To the extent that they encouraged savings and discouraged consumption, that would be very useful in the present economic circumstances.

(ii) To the extent that they diverted savings away from the building societies, that should not be too much of a worry: building societies at present have inflows that exceed their outflows on new lending.

(iii) To the extent that they attract savings away from commercial banks and may in principle reduce their scope of lending in the short term, that would be positively advantageous.

Are you content for the Treasury to go ahead as proposed in the attached letter?

Yes ms

BHP

BARRY H. POTTER

25 May 1990

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Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

25 May 1990

Barry Potter Esq
Private Secretary to the
 Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Dear Barry

NATIONAL SAVINGS

Your letter of 18 April to Tancred Tarkowski noted that National Savings had been discussed at the Prime Minister's seminar on 17 April and the Prime Minister had said that they remained a useful weapon in the Government's armoury for encouraging savings and discouraging consumer spending and that further issues should not be ruled out.

The Chancellor's minute of 17 May advocated a re-invigoration of National Savings and, in particular, a new savings certificate, and new index-linked certificate, and a new capital bond. For the reasons explained in that minute the Chancellor thinks this could make a useful contribution to policy in the coming months. He notes that, in the absence of such action, there is likely to be an increasing and excessive outflow from National Savings later this year with the advent of TESSAs and the prospect of abolition of the Composite Rate Tax.

Provided the Prime Minister is content he would like to move ahead with the National Savings changes immediately.

Yours

John

JOHN GIEVE
Principal Private Secretary

MRM

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 November 1989

NATIONAL SAVINGS CHANGES

Thank you for your letter of 2 November setting out the revised timetable for the announcement which the Prime Minister has noted.

PAUL GRAY

Gina Haskins,
HM Treasury

MRM

est.to/ghaskins/2.2.11

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Prime Minister[2]

RRCG 2/11

Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq
Private Secretary to Prime Minister
10 Downing Street
LONDON SW1

2 November 1989

Dear Paul,

NATIONAL SAVINGS CHANGES

Duncan Sparkes wrote to you on 26 October, informing you of some changes the Department for National Savings intended to announce to National Savings rates and product terms last Friday.

In the event, the announcement was deferred, given the unsettled state of the markets at the end of last week, but DNS now plan to make it at 10am on Friday of this week. The Investment Account increase will therefore take effect on 17 November and the rate on Income and Deposit Bonds will be raised from 17 December. The minor changes to some National Savings product terms will take effect from 1 January 1990, as originally planned.

Yours sincerely,

Gina Haskins

GINA HASKINS
Private Secretary

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ECON POL 'National Savings 4ff 80

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Note

Spoke Duncan Sparkes (Treasury) who told me it had been decided to postpone these announcements for a week in view of the position in the markets following the Ministerial changes.

CF - pe.

CCP

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

26 October 1989

PRCG 27/10

P R C Gray Esq
Private Secretary to
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister 2

PRCG 26/10

Dear Paul,

NATIONAL SAVINGS INTEREST RATES

I am writing to let you know that the Department for National Savings will be announcing at 10.00am on Friday 27 October increases of 1 per cent in the interest rates on National Savings Income and Deposit Bonds (from 11.5 per cent to 12.5 per cent) and the National Savings Bank Investment Account (from 10.75 per cent to 11.75 per cent). (Deposit Bonds are no longer on sale but we need to adjust the rate for existing holders.)

These changes are a response to the recent increase in bank base rates and the consequent rise in banks' and building societies' retail deposit rates. The Income and Deposit Bond increases will take effect on ~~8~~ 10 December, since six weeks notice of change is required by the prospectuses. The Investment Account increase will take effect on 10 November.

At the same time DNS will announce that new holdings of Income Bonds and new Investment and Ordinary Accounts will be restricted to personal savers and trustees for individuals and that in future the maximum holdings limit for Income Bonds and the Investment Account will be reduced to £25,000. These changes will take effect on 1 January 1990.

Yours,

Duncan.

DUNCAN SPARKES
Assistant Private Secretary

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary 16 January 1989

NATIONAL SAVINGS

Thank you for your letter of 12 January concerning the proposed withdrawal of two of the facilities currently available on the National Savings Ordinary Account, which the Prime Minister has seen and noted.

Paul Gray

Miss Sheila James,
Economic Secretary's Office,
H.M. Treasury.

est.ld/james/12 Jan/P Gray

CGPU

Prime Minister[2]

Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq
10 Downing Street
LONDON
SW1

12 January 1989

Dear Paul,

NATIONAL SAVINGS

This is to let you know that the Department for National Savings will announce at noon on Friday 13 January that they will be withdrawing two of the facilities currently available on the National Savings Ordinary Account.

Free standing orders and Paybill (a scheme whereby depositors can pay certain bills over Post Office counters) are to be discontinued from 1 March; existing standing orders will however continue in force. Neither service has been widely used. This action will help make the Ordinary Account less costly and more efficient to run, and release resources for administration of the Capital Bond which was put on sale on 4 January.

Yours,

Sheila

S M A JAMES

PRIVATE SECRETARY

File

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary 23 December 1988

The Prime Minister has seen and noted your letter of 22 December to Paul Gray about the launch of "The Capital Bond".

(P.A. BEARPARK)

Miss Sheila James,
H.M. Treasury.

010 est.ld/james/Gray 22.12

cc PU.

Prime Minister 2

CONFIDENTIAL

ECONOMIC SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq
10 Downing Street
LONDON
SW1

22 December 1988

Dear Paul,

NATIONAL SAVINGS

Treasury Ministers announced in October that at the beginning of next year a completely new National Savings product - the Capital Bond - would be launched to encourage savings further.

This is to let you know that the Department for National Savings will announce the terms of this product at a Press Conference at 11.30 am on Tuesday 3 January. It will go on sale the following day.

The Capital Bond will have a life of 5 years, with the interest rate set to rise each year to encourage savers to leave their holdings untouched for the full period. Bonds held until maturity will earn the equivalent of 12% a year compound. Treasury Ministers believe this is an attractive rate which will give a helpful stimulus to saving.

Yours,

Sheila

S M A JAMES

PRIVATE SECRETARY

SW

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 December 1988

NATIONAL SAVINGS

Thank you for your letter of 7 December about the terms for the Ordinary Account in 1989, which the Prime Minister has seen and noted.

(PAUL GRAY)

Miss Sheila James,
Office of the Economic Secretary,
HM Treasury.

est.ld/james/Gray 7.12

cc/P.U

ECONOMIC SECRETARY TO THE TREASURY

Treasury Chambers. Parliament Street. SW1P 3AG

Paul Gray Esq
10 Downing Street
LONDON
SW1

Prime Minister 2

Treasury tell me they will shortly be proposing increased interest rates on some other National Savings instruments.

PRG 7/12

7 December 1988

Dear Paul,

NATIONAL SAVINGS

This is to let you know that the Department for National Savings will announce at noon on Thursday 8 December the terms for the Ordinary Account in 1989.

It is usual to set these terms for a full calendar year. On this occasion, no change is being made in the interest rates which remain at 5% when the account balance is £500 or more, and 2 1/2% for accounts with lower balances. As hitherto, the first £70 of interest will be tax free. To secure some economies in the cost of administration, the minimum deposit is to be increased from £1 to £5.

Yours sincerely,

Sheila James

S M A JAMES
PRIVATE SECRETARY

010

cc P.U.

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER 2

PDB 11/10

NATIONAL SAVINGS: CAPITAL BOND

As I mentioned to you briefly earlier this week, I am planning to announce in my Party Conference speech that we shall be putting a completely new National Savings product, the Capital Bond, on sale from January. The Economic Secretary will be announcing the details on the same day.

The fact that we are now a large-scale net repayer of debt has given us an opportunity to consider how best we can reduce the cost of servicing debt and improve its quality. At the same time, we want to encourage genuine additional personal saving, as you yourself have made clear.

I believe the Capital Bond should help meet these objectives. Like the traditional savings certificate, it will offer a guaranteed return, and we shall set its interest rate to increase each year of its five-year life to encourage investors to hold it to maturity. The new feature is that interest will be paid gross but will be subject to tax.

Since savings certificates are free of tax, they provide disproportionate gains for higher rate taxpayers. There is therefore a £1,000 limit on the amount of money which can be invested in them. As interest on the Capital Bond will be taxable, there is no need for any limit. This should add significantly to the Bond's appeal. At the same time, since we shall be paying interest gross, we shall provide a further attractive home for the savings of the non-taxpayer, by offering a return free of all tax deductions.

As a result, I believe the Capital Bond will tap a new market, encourage additional long-term personal saving and help improve the quality of the Government's borrowing. The interest rate will, of course, have to be decided at the time of the launch.

NL

[N.L.]

10 October 1988

chex.ps/mw/39

CONFIDENTIAL

cc PU

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Prime Minister 2.

25 August 1988

Dominic Morris Esq
10 Downing Street
LONDON SW1

Dear Dominic

NATIONAL SAVINGS INTEREST RATES

I am writing to let you know that following today's base rate rise we shall be announcing tomorrow increases in the interest rates paid on National Savings Income and Deposit Bonds (from 9 per cent to 10¾ per cent), and on the National Savings Bank Investment Account (from 8½ per cent to 10 per cent). The Income and Deposit Bond increases will take effect by early October, since six weeks' notice of change is required in the Regulations. The Investment Account increase will be introduced in two weeks' time.

These investments have been looking unattractive since the building societies raised their deposit rates at the beginning of this month. Although it is well known we do not always move when other rates change, some investors had begun to accuse DNS of bad faith. The increases to be announced tomorrow should, once today's base rate move had fed through to retail interest rates, restore the level of competitiveness of the National Savings products to around that set at Budget time. Moving quickly in this way should also help cement in place the new pattern of interest rates following today's rise in base rates.

Yours,

Moira.

MOIRA WALLACE
Private Secretary

53/2/LPD/3756/052

CC: P/U.

NLPM
PRCG
7/7

Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq
No.10 Downing Street
LONDON.
SW1A 2AA

7 July 1988

Note
Discussed with P. Barnes, and clarified that "no further annual supplements" means only in relation to the first and second issues. This does not rule out the possibility of annual supplements for current issues. PRCG 7/7

Dear Paul

NATIONAL SAVINGS

This is to let you know that DNS will be announcing today the size of the supplement to be paid in 1989 to holders of the first and second issue index-linked savings certificates. They will also be announcing that no further annual supplements will be paid. We hope that the announcement will be made at noon, but it is possible it will be delayed until 3.30pm or 5.30pm.

The first and second issues have been replaced and are no longer on sale, but there is an outstanding stock of £2.8 billion, mainly purchased in the period 1980-82. Originally they offered protection against inflation by RPI linking. Since 1983 tax-free annual supplements have been paid in addition, in order to encourage holders to keep their certificates. On 1 August 1988 we will pay 3%. In addition, bonuses of 4% are payable 5 and 10 years after purchase. No change is being made to these.

Hitherto, policy has been to minimise outflows from this part of the stock. Annual supplements have given some incentives to stay in and it has been our practice to announce in advance that at least one further supplement will be paid.

Our current strategy is to improve the quality of funding - ie to prompt the more mobile investors to reinvest their funds in National Savings instruments from which they cannot leave without loss for several years. First and second issues are payable at about 8 days' notice and are poor quality funding. We therefore intend to shake out some of the remaining stock by encouraging repayment or

53/2/LPD/3756/052

CC. P/U.

ECONOMIC SECRETARY TO THE TREASURY

NBPM PRCG 7/7

Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq
No.10 Downing Street
LONDON.
SW1A 2AA

7 July 1988

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Our current strategy is to improve the quality of funding - ie to prompt the more mobile investors to reinvest their funds in National Savings instruments from which they cannot leave without loss for several years. First and second issues are payable at about 8 days' notice and are poor quality funding. We therefore intend to shake out some of the remaining stock by encouraging repayment or reinvestment into current issue index-linked certificates which offer the best return if held for 5 years.

We have therefore decided that a supplement of 1 $^{1}/_{2}$% will be paid on 1 August 1989 and that no further annual supplements will be paid thereafter. As already noted, the certificates will continue to earn 4% bonuses at the 5th and 10th anniversaries of purchase and this should help phase withdrawals and reinvestments over a reasonable period.

Yours sincerely,

Peter Barnes

P D P BARNES
Private Secretary

FILE
DA
BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 April 1988

NATIONAL SAVINGS: GENERAL EXTENSION RATE

Thank you for your letter of 12 April. The Prime Minister has noted the reduction in the interest rate to be paid to holders of matured savings certificates which will be announced today.

(PAUL GRAY)

G.R. Westhead, Esq.,
HM Treasury.

8RJ

53/2/LPD/3762/005

cc BG,

Prime Minister[2]

To note. The special factors affecting the GER apart, the PSDR and lower interest rates generally will inevitably lead to reductions in national savings rates.

— PRCG 12/4

ECONOMIC SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq
10 Downing Street
LONDON
SW1

12 April 1988

Dear Paul,

NATIONAL SAVINGS : GENERAL EXTENSION RATE

This is to let you know that it has been decided to reduce this interest rate, which is paid to holders of matured savings certificates, from 5.76% to 5.01% from 1 May. The Department for National Savings will be announcing this reduction at noon on Wednesday 13 April.

Matured certificates earning the GER can be repaid at about 8 days' notice. Unlike unmatured certificates, there is no disincentive to early repayment through a raked interest rate structure. In the light of this, and our much lower borrowing needs, we aim to reduce the total GER stock (at present about £7.3 billion) by some £2-3 billion by the end of 1988-89. We are therefore making a series of reductions in GER, to encourage repayments and to divert some of these into the current issue certificate which offers a guaranteed tax free return if held to maturity (5 years).

The last reduction in this rate was from 6.51% to 5.76% on 1 March 1988. We expect further reductions over the year will be necessary to bring our aim for the GER stock within reach.

Yours sincerely,

Guy Westhead.

G R WESTHEAD
Assistant Private Secretary

53/2/LPD/3743/045

0108

cc BG

ECONOMIC SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
10 Downing Street
LONDON
SW1

4 December 1987

Dear David

NBM

NATIONAL SAVINGS : ORDINARY ACCOUNT

This is to let you know that we have decided to reduce the rates of interest payable on Ordinary Account. It is customary to set the terms for a calendar year and the new rates will come into effect on 1 January 1988. The rates on the existing tiers will be reduced from 3% to 2.5% for balances below £500 and 6% to 5% for balances of £500 or more.

The Department for National Savings will be announcing this on Monday evening after the necessary Statutory Instrument has been laid before Parliament.

Yours sincerely

Peter Barnes

P D P BARNES
Private Secretary

3762/002

c.c.

CONFIDENTIAL

ECONOMIC SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SWIP 3AG

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A

13 August 1987

Dear David

PDD 13/8

NATIONAL SAVINGS - WITHDRAWAL FROM SALE OF INDEXED - INCOME BOND

This is to let you know that the Department for National Savings will be announcing tomorrow the withdrawal from sale of this product after close of business on 28 August.

The Bond was introduced in 1985, and was designed to provide an indexed-linked stream of income for 10 years. We hoped it would appeal to the newly retired. In the event there has been very little demand - hence the decision to take if off the market.

There is no question of withdrawing from the index linked market. Index linked savings certificates and a range of index linked gilts will continue on sale, offering investors guaranteed protection against inflation plus a real return.

Yours sincerely,

Peter Barnes

P D P BARNES
Private Secretary

CONFIDENTIAL

[illegible] AM 8 7

ECONOMIC SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

12th March 1987.

NBPM.

Dear David,

I attach, as promised, the Q and A briefing for the suspension of the 32nd Issue National Savings Certificate in case you would find this of use. There has been remarkably little press or other interest in this, so I think it unlikely that you will need to use any of this.

Yours sincerely,

Peter Barnes

(PDP BARNES)

David Norgrove Esq,
10 Downing St
SW1.

Confidential until 5.30pm today then unclassified

FROM: C WARD

DATE: 10 MARCH 1987

cc Mr Patterson o/r
Mr Hickman Robertson
Mrs Cullum
Mr Kellaway
Mr Muir o/r
self

MR BUSSEY

SUSPENSION OF 32ND ISSUE

I attach the final version of the Press Notice and revised Q&A briefing for this action. This has all been cleared with the Economic Secretary.

The Press Notice is for release at 5.30pm today.

C. Ward

C WARD

CONFIDENTIAL
until 5.30 pm today
then unclassified

10 March 1987

SUSPENSION OF 32nd ISSUE NATIONAL SAVINGS CERTIFICATE

National Savings announce that 32nd Issue National Savings Certificate was suspended from sale at 5.30 pm today, 10 March.

Note to Editors

32nd Issue went on sale on 12 November 1986 with an overall return of 8.75% pa guaranteed over five years.

PB 30/87

CONFIDENTIAL

until 5.30 pm today

then unclassified

Q AND A BRIEFING

Suspension of 32nd Issue

Q.1 Why are you suspending the 32nd Issue now?

A.1 We have moved quickly to suspend 32nd Issue because money market rates, and now, bank base rates, have come down. It is normal practice to take a certificate off sale when its rate is out of line

Q.2 But the building societies have not changed their rates yet.

A.2 Bank base rates are often taken as key markers of movements in personal financial investment rates. It is by no means unusual for a certificate to be suspended before other rates are adjusted, because its return is fixed for 5 years whilst the others are adjustable.

Q.3 Why so quick off the mark?

A.3 Rates have changed.

Q.4 Why act on 32nd Issue in isolation

A.4 Because, as a guaranteed rate, as soon as other rates are clearly on the way down there is a strong incentive to investors to try and take advantage of the 5 year guarantee.

Q.5 Yearly Plan?

A.5 No change for the present.

Q.65 When will you change your other rates?

A.6 We shall have to wait and see how the market settles down.

Q.7 Why suspend 32nd, why not just bring on 33rd at a lower return?

A.7 We had to move quickly when base rates came down. No decision has been taken about a replacement certificate.

Q.8 Suspended for how long? What will lead to its return?

A.8 No decision has been taken about a replacement certificate.

Q.9 Any change to the General Extension Rate?

A.9 This is unaffected by the suspension of 32nd Issue.

Q.10 Are you suspending 4th Index-linked?

A.10 No.

Q.11 Why not?

A.11 As an index-linked product its return is based on the rate of inflation and not derived from market interest rates.

Q.12 Are you using suspension as a means of avoiding interest rate decisions?

A.12 Not at all.

Interest rates in the wider economic context are a matter for the Treasury but it is perfectly reasonable for us to take such action when rates are plainly moving but the overall picture in the complex personal savings market is not clear.

Prime Minister Cen[2] PL

The clearers have so far not agreed to sell the new index linked saving certificate.

Treasury Chambers, Parliament Street, SW1P 3AG

27 November 1980

T P Lankester Esq
10 Downing Street
LONDON
SW1

MS.

TL.
28/11

Dear Tim,

SALES OF INDEX-LINKED NATIONAL SAVINGS BY THE BANKS

We have had a word on the telephone on this subject following your letter of 23 October, concerning the Prime Minister's correspondence with Mr P J Pennant Jones of Towry Law. I am writing now to let you know how things stand.

There has so far been no formal response by the clearing banks to the offer put to them in October by the Department for National Savings in respect of fees for handling certain types of National Savings business. As you know, in order to try and secure the participation of the banks in selling the 2nd index linked savings certificates the Chancellor wrote to the Governor of the Bank of England to seek his help. Unfortunately the Governor felt unable to intervene in what he regarded as a commercial negotiation.

The second index linked issue has thus been launched without the participation of the clearing banks. As with Retirement Issue (Granny Bonds) the principal outlets have been Post Offices and the Trustee Savings Banks. We have concluded that there is nothing to be gained at this stage by any special attempt to persuade the banks to take part. By the time the Department for National Savings have received the formal response from the banks we shall begin to have some idea how the new issue is going. We can then decide upon our next step. If the new issue sells well, our negotiating position will be rather enhanced and we can consider how best to persuade the banks to join the next phase of the programme.

We are therefore inclined at the moment to let matters take their course, although officials stand ready to take the matter up again if events show that the new issue is unlikely to succeed without the participation of the banks.

Yours ever,

Stephen

S A J LOCKE
Private Secretary

File

MPJ

cc: HMT
DOI

10 DOWNING STREET

THE PRIME MINISTER

24 October 1980

Dear Mr. Pennant-Jones.

Thank you for your letter of 17 September about marketing of National Savings.

As you will know, there is no question of the Government deliberately preserving a Post Office monopoly in this field. Joint stock banks and Trustee Savings Banks handle Save As You Earn contracts and sell Premium Bonds. The main joint stock banks chose not to handle Index-Linked National Savings Certificates Retirement Issue, but these are sold by Trustee Savings Banks and some smaller commercial banks.

Successive Governments have decided to limit these facilities to banks providing a full personal banking service, but there are now over 35,000 outlets for the sale of National Savings securities. The costs of supplying stocks and accounting for the business is already very substantial, and any increase in the number of agents would increase it considerably. I am satisfied that the present system makes National Savings readily available and I am sure that financial advisers like yourself will not fail to inform clients of the advantages of National Savings where this type of investment is appropriate as part of a client's portfolio.

Yours sincerely

Margaret Thatcher

P.J. Pennant-Jones, Esq.

088

vb

BF 7.11.80

23 October 1980

The Prime Minister was grateful for the Financial Secretary's minute of 14 October on how she might reply to Mr. Pennant-Jones of Towry Law. She has noted that the main clearers have decided not to sell Index-Linked National Savings Certificates Retirement Issue because they were not satisfied with the level of commission payable; and has asked whether the Treasury could not make a further effort to get them to take this issue on.

This does not of course affect the terms of the Prime Minister's reply to Mr. Pennant-Jones, which we will be sending shortly.

TPL

S.AJJ. Locke, Esq.,
H.M. Treasury.

DS

PRIME MINISTER

You suggested that we should have another go at the banks to see if they will sell the Index-Linked National Savings Certificate Retirement Issue. I have written to the Treasury accordingly.

But this does not affect the terms of your reply to Mr. Pennant-Jones; and I would be grateful if you would sign it.

T.

23 October 1980

PRIME MINISTER

You asked us to make enquiries of the Treasury in reply to this letter from an independent broker who wants brokers to be able to sell national savings instruments. Flag A is a note from Mr. Lawson explaining that the sale of national savings instruments is by no means a Post Office monopoly, although the banking system provides the private sector agents.

Would you like to reply to Mr. Pennant-Jones as in the attached draft?

MAP

17 October 1980

Can't we have another "go" at the Banks?

A

FINANCIAL SECRETARY TO THE TREASURY

PRIME MINISTER

You asked for comments from Treasury Ministers on a letter which you received from Mr P J Pennant-Jones of Towry Law & Co Ltd, dated 17 September.

Mr Pennant-Jones is mistaken in thinking that the Post Office has a monopoly of the marketing of index-linked national savings securities. Index-linked Save as You Earn contracts are also available through joint stock banks and Trustee Savings Banks. The Banks do not receive a commission as such but receive a payment for each contribution made under a contract by standing order. In addition, join stock banks and Trustee Savings Banks sell Premium Savings Bonds.

The main joint stock banks decided not to sell Index-Linked National Savings Certificates Retirement Issue, because they were not satisfied with the level of commission payable, although they did not discontinue the sale of fixed interest National Savings Certificates. The Index-linked Retirement issue of certificates is sold however by Trustee Savings Banks and some smaller commercial banks.

Over the years there has been a steady trickle of requests for agency status for the sale of National Savings securities from bodies in the finance world including stockbrokers, solicitors, accountants and investment advisors. The policy, however, has been to restrict agency facilities to reputable banks which provide a full personal banking service. The spread of agents for the sale of National Savings securities is already substantial, over 35,000 outlets. As all agents need to be supplied with stocks of securities and need to account for their business, any increase in the number of agents would increase the work of servicing them and thus costs.

In practice it is most unlikely that many financial advisors fail to inform clients of the advantages of National Savings where this form of investment is appropriate as a portion of a client's portfolio.

Extension of agency facilities to investment advisors could however withdraw from established agents the sale of larger blocks of securities leaving the established agents with a larger proportion of the smaller sales to deal with, since it is unlikely that investment advisors would be willing to handle, or be called upon to handle, small sales. This in turn could lead to the established agents requesting an increase in commission payable to compensate for the loss of commission on larger sales.

In short, Mr Pennant-Jones' suggestion that the marketing of National Savings should be done not only through the Post Office but also through 'approved and selected intermediaries' in the private sector is already the case; but for the reasons indicated above these selected intermediaries do not include companies such as Mr Pennant-Jones'.

NL.

NIGEL LAWSON
14 October 1980

File

DSG

P. Pennant JONES
National Savings
7/10

22 September 1980

Chase pls
ringing back 7/10
coming today 7/10
Again 15/10

The Prime Minister has received the enclosed letter from an insurance broker making the suggestion that the Post Office monopoly on National Savings should be broken.

Mrs. Thatcher would be interested in having Treasury Ministers reaction.

I am sending a copy of this letter to Peter Stredder (Department of Industry).

M. A. PATTISON

Peter Jenkins, Esq.,
H.M. Treasury.

File

DSG

18 September 1980

I am writing on behalf of the Prime Minister, who is at present on an official visit to France, to thank you for your letter of 17 September.

I am sure that the Prime Minister will be interested in your suggestion.

M. A. PATTISON

P. J. Pennant-Jones, Esq.

1.

10 DOWNING STREET

PRIME MINISTER

A financial consultant suggests that the Post Office monopoly on the marketing of National Savings should be broken.

Would you like us to pursue this question with the Treasury?

MAP

Yes please

MT.

18 September 1980

Towry Law

Scotland Division
7 North St. David Street
Edinburgh EH2 1AW

Towry Law & Co. Limited
Members of The British Insurance Brokers' Association
Licensed Dealers in Securities

Telephone: 031-557 2100

PJPJ/AW

17th September 1980

The Rt. Hon. Margaret Thatcher, M.P.,
10 Downing Street,
LONDON, WC2.

Dear Prime Minister,

Following the recent announcement of increases to the levels of investment to index-linked Save As You Earn schemes and Retirement Issue Savings Certificates, I feel it may be relevant to make a suggestion.

As you will no doubt be aware, we are the largest independent company advising clients on financial planning. In making recommendations to clients, we obviously advise, where appropriate, National Savings. As you will realise, direct marketing of any product is essential and it is only logical that Consultants such as myself should market all savings media including those sponsored by the government.

However, as I am aware, the Post Office has the monopoly for marketing such investments. Surely it would be more logical for marketing to be widened to include approved and selected intermediaries?

I trust you find my suggestion of relevance and I look forward to hearing from you.

Yours faithfully,

P. J. Pennant-Jones
Senior Consultant

TIMES

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O SOLVE CONFLICT

IRANIAN fighter-bombers struck oil installations again yesterday. They attacked Basra, Mosul and Kirkuk, where pipelines and pumping stations were the main target.

y oil cuts ports

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spot market

prices rose sharply. The value of a barrel of average light Middle East crude was said to have risen by $2 (83p) to $34.

Government and the International Energy Agency (IEA) remained calm, saying that the record level of stocks in the world—the equivalent of over 100 days of consumption—provided sufficient insurance against an early shortage or significant price increase.

There are, as yet, no plans to call off a two-month exercise among member governments, of the IEA, starting next week. It will be a major operation aimed at simulating emergency arrangements in the light of a notional cut back in oil supplies.

Only two of Iraq's major customers are members of the IEA: Japan, which relies on Iraq for about 8 per cent of its total oil imports, and the UK which, in the first half of this year, was buying some 120,00 b/d of Iraqi crude, about 6.6 per cent of its total oil requirement. Energy Department officials said they were not alarmed given the large oil stocks—last month they were the equivalent of 107 days of supply—and the ability to increase output from some North Sea fields.

The other major importers of

Continued on Back Page

Editorial Comment, Page 16

Details and map, Page 2

Howell scales down plan for BNOC sale

BY ELINOR GOODMAN

THE GOVERNMENT has scaled down its plans to open up the British National Oil Corporation to the private investor.

Mr. David Howell, the Energy Secretary, is expected to announce at the Conservative Party conference, which starts on October 7, that there will be no sale of equity stakes in BNOC. Instead, the Government is likely to restrict itself to the public sale of bonds, the return on which will be linked to BNOC's revenues on its profits.

The door may be left open for an equity sale at some later date but it will be clear from the announcement that the Government has had to accept that there are considerable obstacles to such a major restructuring of the corporation.

The decision not to go for an equity sale at present will come as a major disappointment to the Conservative Party, which has seen the injection of private-sector capital into BNOC as a bench mark of the Government's determination to implement the party's manifesto commitment to sweeping back the frontiers of nationalisation.

It also represents a dilution of Mr. Howell's own earlier hopes. He had originally argued that a sale of equity should provide the main vehicle for privatisation, and brought forward several proposals to that effect.

But all met with opposition, both from BNOC itself and from other Government departments. Some of the objections were practical and some more fundamental. There was considerable worry, for example, about how the Government could retain control over such a valuable asset if it sold off equity. The Treasury was also concerned about the possible loss of profits —and valuable revenue—to the Government.

It had been hoped within the Conservative Party that the announcement of a full-scale equity sale in BNOC might form one of the few pieces of good, hard news at this year's party conference to reward the rank and file for their loyalty.

To hearten Tory delegates, Mr. Howell may emphasise the opportunity the revenue bonds will give ordinary investors to benefit from Britain's oil wealth.

Government allows Meriden new start

BY JOHN GRIFFITHS

THE GOVERNMENT is prepared to write off nearly £8m in loans, interest and credits to allow the Meriden motor-cycle co-operative a fresh start. No new, outside partner is involved in the agreement announced yesterday.

The offer is conditional on the co-operative repaying to the Export Credits Guarantee Department half of the £4m that [illegible]

real chance to prosper," said Mr. Geoffrey Robinson, the Labour MP for Coventry North-west, who has been acting as Meriden's unpaid chief executive. There are more than 2,000 bikes, worth £4.4m, in the U.S.

Ministers are understood to have decided to allow the write-off for the principal reason that if the co-operative were to be closed down there, would be little prospect of recovering any [illegible]

e mission

mise the effects
on international
that they denied

ance of co-operation with Washington.

White House officials denied [illegible]

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