

The Bank's accounts

On this, the occasion of the publication for the first time by the Bank of annual accounts, it may be useful to refer briefly to certain statutory and other provisions which govern the operations of the Bank of England.

The constitution of the Bank is laid down in a number of Acts and Charters but rests principally on the Bank of England Act 1946 and the Charter granted in the same year, when the Bank came into public ownership. The capital, represented by £14,553,000 Bank Stock, was then transferred to the Treasury Solicitor who holds it on behalf of Her Majesty's Treasury. The Bank of England Act 1946 Section 1(4) provides that, in lieu of dividends on Bank Stock, the Bank shall pay to H.M. Treasury on every 5th April and 5th October £873,180 (the amount of the half-yearly dividend paid for many years to former stockholders and also the amount of the half-yearly interest on the compensation stock issued to those stockholders) or such less or greater sum as may be agreed. Up to the present time the amount of the payment has remained unchanged.

The development of the capital of the Bank and the government debt to the Bank since it was founded in 1694 is shown on pages 56-57. The government debt formed part of the securities transferred to the Issue Department under the Bank Charter Act 1844, by which the Bank are required to keep separate the business of the Banking and Issue Departments.

In accordance with Section 3 of the Currency and Bank Notes Act 1928, the assets of the Issue Department comprise securities of an amount in value sufficient to cover the fiduciary note issue, the total of which is determined periodically in response to public demand for notes. Section 6 of the same Act provides that the profits of the Issue Department shall be paid to H.M. Treasury; Section 9(1) of the National Loans Act 1968 prescribes more specifically that they be paid into the National Loans Fund.

Banking Department

Profit and loss account

For the year ended 28th February 1971

			£000
Operating profit	Note 1		6,344
Payment to H.M. Treasury under Section 1 (4) of the Bank of England Act 1946			
Paid 5th October 1970		873	
Payable 5th April 1971	Note 2	<u>873</u>	<u>1,746</u>
			4,598
Taxation	Note 3		<u>1,912</u>
Profit retained	Note 2		<u>2,686</u>

The notes on pages 50–53 form part of these accounts.

Banking Department

Balance sheet: 28th February 1971

			£000
Capital		14,553	
Reserves	Note 2	101,152	115,705
Provision for retirement benefits	Note 4		16,461
Current liabilities			
Public deposits	Note 5	18,271	
Special deposits		398,200	
Bankers' deposits		195,343	
Other accounts		113,475	
Payable to H.M. Treasury	Note 2	873	726,162
			<u>858,328</u>

The notes on pages 50–53 form part of these accounts.

£000

Liquid assets

Notes and coin		39,528	
Treasury and other bills	Note 6	539,671	579,199

Investments

Note 7

Securities of, or guaranteed by, the British Government		160,879	
Other securities		12,274	173,153

**Advances and other accounts,
less provisions**

74,370

Premises and equipment

Note 8

31,606

858,328

L. K. O'BRIEN Governor

J. Q. HOLLLOM Deputy Governor

W. J. KESWICK Director

P. A. S. TAYLOR Secretary

Notes on the Banking Department accounts

Accounting policies

- (a) **Form of presentation of accounts.** Although the Bank's constitution is not governed by the Companies Acts 1948 and 1967, the accounts have been prepared so as to comply with the requirements of those Acts in so far as they are material and appropriate.

Comparative figures for the previous year have not been published this year but will be furnished in future.

- (b) **Investments.** Securities of, or guaranteed by, the British Government and other securities are stated in the balance sheet at cost less provision for losses; quoted securities are valued at mid-market prices, unquoted at Directors' valuation.

Profits and losses on realisation are taken to profit and loss account in the year in which they arise.

- (c) **Premises and equipment.** These are stated at cost less accumulated depreciation. Equipment fully depreciated at 28th February 1971 has been eliminated.

Depreciation, on a straight line basis, is charged as follows:

Freehold land	nil
Freehold buildings	1%
Leasehold premises	1% or over the period of the lease whichever is the greater; Printing Works 2%
Equipment (other than computers)	over estimated useful life
Computers	20%

The Directors do not consider that a valuation of the interests in land would be appropriate in the circumstances of the Bank.

- (d) **Doubtful debts.** Appropriate provision is made for doubtful debts when they arise.

- (e) **Commitments on behalf of H.M. Treasury.** Commitments in foreign currencies and gold, or on a gold basis, undertaken in the name of the Bank for account of H.M. Treasury in the course of operating the Exchange Equalisation Account are not included in these accounts as the Bank are concerned in such transactions only as an agent.

1 Operating profit

The operating profit is arrived at after taking account of the following:

	£ thousands
Income	
Interest:	
Treasury and other bills	11,972
Securities of, or guaranteed by, the British Government	10,421
Other securities:	
Quoted	493
Unquoted	658
Charges for services to H.M. Government – see page 24 in this Report	3,651
Rents	266
Charges	
Interest paid to depositors	5,053
Directors' emoluments (see Note 9)	216
Auditors' remuneration	10
Depreciation of premises and equipment	1,142

2 Reserves

	£ thousands
"Rest" at 28th February 1971 (a)	3,055
Inner reserves transferred	95,411
Profit of the year retained	2,686
	101,152

(a) "Rest" (the term traditionally used for unallocated profit) is now merged with the reserves. The figure in the Bank Return dated 3rd March 1971 included the amount of £873,180 due to H.M. Treasury on 5th April 1971, and shown separately in these accounts.

3 Taxation

Corporation tax has been charged on the profits of the year at 42½% for one month and 40% for eleven months.

4 Retirement benefits

The profits of the year have borne the cost of providing pensions to staff in respect of current services and a provision of £1,789,000 for past services. The provision of £16,461,000 shown in the balance sheet represents the full amount estimated to be required, after taking account of anticipated tax relief, to cover unfunded retirement benefits relating to past services.

5 Public deposits

Public deposits are the balances on government accounts, including Exchequer, National Loans Fund, National Debt Commissioners and dividend accounts.

6 Treasury and other bills

	£ thousands
British Government Treasury bills	523,412
Other bills	16,259
	539,671

7 Investments (at cost less provisions)

£ thousands	Book value	Market value
Securities of, or guaranteed by, the British Government	160,879	171,841
Other securities:		
Quoted	7,024	8,467
		Directors' valuation
Unquoted	5,250	5,250
	173,153	185,558

The principal holdings of equity share capital of other companies included in "Other securities" are as follows:

	Percentage held
Agricultural Mortgage Corporation Ltd. shares of £1	24
Commonwealth Development Finance Company Ltd. "B" ordinary shares of £1 (50p paid)	93
Commonwealth Development Finance Company Ltd. "A" ordinary shares of £1 (10p paid)	nil
Finance Corporation for Industry Ltd. shares of £10 (£1 paid)	30
Portals Holdings Ltd. ordinary stock	32

All the above companies are incorporated in Great Britain. The Bank as a matter of policy do not seek to influence their commercial or financial decisions.

Also included in "Other securities" is a subsidiary company, incorporated in Great Britain and wholly owned by the Bank -

Securities Management Trust Ltd.	
1,000 ordinary shares of £1 at cost	£1,000

Consolidated accounts have not been prepared, as in the opinion of the Directors the amounts involved are not material.

8 Premises and equipment

£ thousands	Freehold premises	Leasehold premises (all over 50 years)	Equipment	Total
Cost at 1st March 1970	12,096	14,616	7,222	33,934
Acquisitions	2,062	2,062	1,308	5,432
Disposals	67	—	74	141
Cost at 28th February 1971	14,091	16,678	8,456	39,225
Accumulated depreciation	2,080	1,776	3,763	7,619
Net book value	12,011	14,902	4,693	31,606

Contracts for capital expenditure authorised by the Directors and outstanding at 28th February 1971 totalled £1,960,000. Further capital expenditure authorised at that date, but not contracted for, is estimated at £605,000.

9 Directors' remuneration

The aggregate emoluments of the Governors and Directors were:

Fees	£11,500
Other emoluments including remuneration of Governors and Executive Directors and payments to Directors' Pension Funds	£204,857

The emoluments of the Governor were £27,182.

The number of Directors other than the Governor receiving emoluments in each of the following ranges was:

Up to £2,500	12	(all at £500)
£12,501 to £15,000	1	
£15,001 to £17,500	3	
£17,501 to £20,000	—	
£20,001 to £22,500	1	

10 Employees' remuneration

The number of employees receiving emoluments in each of the following ranges was:

£10,001 to £12,500	5
£12,501 to £15,000	6
£15,001 to £17,500	—
£17,501 to £20,000	1

11 Charitable donations

Charitable donations during the year amounted to £54,986; no political contributions were made.

12 Contingent liabilities

Outstanding exchange contracts for customers, together with irrevocable credits, amounted to £19,915,000: these were covered by compensating contracts for corresponding amounts.

There were further contingent liabilities, mainly on account of uncalled capital on investments, of £19,580,000.

Issue Department

Account for the year ended 28th February 1971

		£000
Income and profits:		
Securities of, or guaranteed by, the British Government	147,889	
Other securities	4,559	152,448
Expenses:		
Cost of production of Bank notes	4,171	
Cost of issue, custody and payment of Bank notes	2,707	
Other expenses	230	7,108
Payable to H.M. Treasury		145,340

Statement of balances: 28th February 1971

	£000		£000
Notes issued:		Government debt	11,015
In circulation	3,662,154	Other securities of, or guaranteed by, the British Government	3,449,673
In Banking Department	37,846	Other securities	239,052
	3,700,000	Coin	260
	<u>3,700,000</u>		<u>3,700,000</u>

Note The income and profits and value of securities shown above include the effects of the quarterly revaluation of marketable securities in accordance with the requirements of the National Loans Act 1968. The last such valuation was made at 25th February 1971.

L. K. O'BRIEN *Governor*

J. Q. HOLLOM *Deputy Governor*

W. J. KESWICK *Director*

P. A. S. TAYLOR *Secretary*

Report of the Auditors

To the Governor and Company of the Bank of England

We have examined the accounts of the Banking Department on pages 47–53, which in our opinion give a true and fair view of the state of affairs of the Banking Department at 28th February 1971, and of the profit for the year ended on that date.

We have also examined the statements of account of the Issue Department on page 54, which in our opinion present fairly the outcome of the transactions of the Department for the year ended 28th February 1971, and its balances at that date.

DELOITTE & CO.

Chartered Accountants

London
14th July 1971

Development of the capital of the Bank of England and the government debt to the Bank

(Figures are shown to the nearest £)

Year	Statutory authority etc.
1694	The capital loaned to the Government in return for an annuity of £100,000 made up of interest at 6% plus a management charge of £4,000 [Bank of England Act 1694]
1697	An issue of stock following the re-coinage of 1696 when Bank notes and government promises to pay were at a discount. Subscriptions were accepted in Bank bills and notes (20%) and Exchequer tallies (80%) [Bank of England Act 1696]
1698-1707	Repayment in instalments of the additional stock issued in 1697 [Bank of England Act 1696]
1707-8	Increase of 50% on the 1697 level of capital by means of a call on stockholders [Taxation Act 1707 and Bank of England Act 1708]
1707-8	Distribution of capital to stockholders
1709	Capital doubled [Bank of England Act 1708]
1709	Another call on stockholders, equivalent to 15% of their holdings; this was not fully subscribed. Further loan to the Government without an increase in the original annuity, reducing the effective rate of interest to 6% [Bank of England Acts 1708 and 1709]
1710	A further issue of stock by means of a 10% call which was also not fully met. Exchequer bills tendered by the Bank were cancelled, a sum equivalent to their value being funded, i.e. added to the debt in return for a 6% annuity [Bank of England Acts 1708 and 1709]
1717-18	Further funding of Exchequer bills and an increase in the annuity; interest on the increase and on the 1710 annuity now fixed at 5% [Bank of England Act 1716]
1722	Issue of stock, enabling the Bank to assist the South Sea Company by the purchase of £4 million of the debt owed to the Company by the Government [South Sea Company Act 1722]
1728	(a) Loan in return for a 4% Annuity. (b) Repayment of part of the funded debt created in 1717 [Bank of England Act 1727]
1729	(a) Loan in return for a 4% Annuity. (b) Repayment of the balance of the 1710 funded debt and part of that created in 1717 [Bank of England Act 1728]
1738	Repayment of a further part of the 1717 funded debt [National Debt Act 1737]
1742	Further issue of stock. Increase in loan to the Government without an increase in the original annuity of £100,000, having the effect of reducing the rate of interest to 3% [Bank of England Act 1741]
1746	Increase in the debt by the funding of Exchequer bills in return for an annuity of 4%. Issue of stock by means of a call on stockholders for a subscription equal to 10% of their holdings [Bank of England Act 1745]
1781	Issue of stock by means of a further call of 8%. The purpose of this was to increase the capital to an amount nearer the debt [Advance by the Bank of England Act 1781]
1816	Additional loan to the Government at 3% interest. Nominal capital increased by a bonus issue of 5/- for each £1 stock held [Bank of England (Advance) Act 1816]
1834	A quarter of the debt cancelled in return for the transfer to the Bank of £4,080,000 Reduced Annuities [Bank of England Act 1833 and National Debt Act 1834]
1892	Rate of interest on the total debt reduced to 2½% until 1903 and thereafter to 2¼% [Bank Act 1892]

Bank capital

Inception and changes	Cumulative total
£	£
1,200,000	1,200,000
1,001,172	2,201,172
1,001,172	1,200,000
1,100,586	2,201,172
99,414	
2,201,171	4,402,343
656,204	5,058,547
501,449	5,559,996
—	—
3,400,000	8,959,996
—	—
—	—
—	—
840,004	9,800,000
980,000	10,780,000
862,400	11,642,400
2,910,600	14,553,000
—	—
—	—
Total outstanding	14,553,000

Government debt

Inception and changes	Cumulative total
£	£
1,200,000	1,200,000
1,001,172	2,201,172
1,001,172	1,200,000
—	—
—	—
—	—
400,000	1,600,000
1,775,028	3,375,028
2,000,000	5,375,028
4,000,000	9,375,028
{ (a) 1,750,000 (b) 1,000,000	10,125,028
{ (a) 1,250,000 (b) 1,275,028	10,100,000
1,000,000	9,100,000
1,600,000	10,700,000
986,800	11,686,800
—	—
3,000,000	14,686,800
3,671,700	11,015,100
—	—
Total outstanding	11,015,100

