

The Bank's accounts

The accounts which follow for the year ended 28th February 1975 comply with the requirements of the Companies Acts 1948 and 1967 and the Statements of Standard Accounting Practice (SSAPs) in so far as they are material and appropriate. The presentation of the profit and loss account has been changed following the requirements of SSAP 6. The main change is that, whereas in previous years certain provisions for losses were charged directly to reserves, this year they have been dealt with as exceptional items in the profit and loss account. The additional provision for retirement benefits has also been treated as an exceptional item and charged before operating profit.

The Bank's operating profit of £13·0 million (compared with £12·8 million last year) is therefore arrived at after charging two substantial provisions:

- a £9·8 million has been transferred to provision for losses. This is in respect of specific and general provisions for bad debts connected with the Bank's share of the support operations, mentioned on page 6, offset to some extent by a reduction in the provision required for British government securities.
- b A further £12·1 million has been transferred to the provision for retirement benefits. This reflects the impact of the present high rate of inflation on the pension fund. Salary and pension awards in excess of previous actuarial assumptions create a liability in respect of past services and this transfer is necessary in order to maintain a fully funded position.

After an unchanged payment in lieu of dividend of £6·0 million and a tax charge of £3·6 million, the profit transferred to reserves amounts to £3·4 million.

The Bank's accounts adjusted for inflation, on the basis recommended in Provisional Statement of Standard Accounting Practice No. 7, are set out on pages 40 and 41. These show an operating loss of £4·3 million compared with the operating profit of £13·0 million in the conventional accounts. The decrease arises principally from the reduction in purchasing power of the Bank's net holding of monetary assets.

The Issue Department accounts are shown on page 42 and include, in 'Other securities', the holding of British Petroleum ordinary stock acquired from the Burmah Oil Company (see page 8).

Report of the Auditors

To the Governor and Company of the Bank of England

We have examined the accounts of the Banking Department set out on pages 33 to 39 and the statements of account of the Issue Department set out on page 42. In our opinion

- 1 The accounts of the Banking Department give a true and fair view of the state of affairs of the Banking Department at 28th February 1975 and of the profit for the year ended on that date.
- 2 The statements of account of the Issue Department present fairly the outcome of the transactions of the Department for the year ended 28th February 1975 and its balances at that date.

We have also examined the inflation adjusted accounts together with the explanatory notes set out on pages 40 to 41 which have been prepared in accordance with the Provisional Statement of Standard Accounting Practice No. 7. In our opinion, they fairly restate, in summarised form, the results for the period and the financial position of the Banking Department expressed in terms of the general purchasing power of money at 28th February 1975.

DELOITTE & CO.

Chartered Accountants

London
3rd July 1975

Banking Department

Profit and loss account

For the year ended 28th February 1975

				1974	
		£000	£000	£000	£000
Operating profit	<i>Note 1</i>		13,040		12,832
after charging:					
Additional provision for retirement benefits	<i>Note 2</i>	[12,120]		[11,915]	
Provision for losses	<i>Note 3</i>	[9,780]		[—]	
Payment to HM Treasury under Section 1 (4) of the Bank of England Act 1946	<i>Note 4</i>		<u>6,000</u>		<u>6,000</u>
			7,040		6,832
Taxation	<i>Note 5</i>		<u>3,595</u>		<u>3,887</u>
Profit transferred to reserves	<i>Note 6</i>		<u>3,445</u>		<u>2,945</u>

The notes on pages 36 to 39 form part of these accounts.

Banking Department

Balance sheet: 28th February 1975

			1974
		£000	£000
Capital		14,553	14,553
Reserves	<i>Note 6</i>	<u>103,582</u>	100,137
Provision for retirement benefits	<i>Note 2</i>		24,138
			26,816
Current liabilities			
Public deposits	<i>Note 7</i>	63,750	81,681
Special deposits		935,430	1,367,765
Bankers' deposits		217,229	249,895
Other accounts		253,262	170,941
Payable to HM Treasury	<i>Note 4</i>	<u>6,000</u>	<u>6,000</u>
			<u>1,620,622</u>
			<u>2,015,110</u>

The notes on pages 36 to 39 form part of these accounts.

			1974
		£000	£000
Liquid assets			
Notes and coin		19,852	26,845
Cheques in course of collection	<i>Note 8</i>	57,878	66,004
Treasury and other bills	<i>Note 9</i>	<u>887,618</u>	1,520,228
		965,348	
Investments	<i>Note 10</i>		
Securities of, or guaranteed by, the British Government		128,643	124,995
Local authority bonds		3,284	57,180
Other securities		<u>34,441</u>	26,952
		166,368	
Advances and other accounts, less provisions		451,683	154,972
Premises and equipment	<i>Note 11</i>	<u>37,223</u>	<u>37,934</u>
		<u>1,620,622</u>	<u>2,015,110</u>

GORDON RICHARDSON *Governor*

J. Q. HOLLOM *Deputy Governor*

NELSON OF STAFFORD *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 and the Statements of Standard Accounting Practice in so far as they are material and appropriate.

In accordance with the requirements of Statement of Standard Accounting Practice No. 6 the profit and loss account reflects all profits and losses recognised in the accounts of the year. In previous years certain provisions for losses were charged directly to reserves and it is not considered appropriate to make adjustments in respect thereof. The additional provision for retirement benefits has this year been dealt with as an exceptional item and the comparative figures restated accordingly.

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 1975 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 Bad and doubtful debts

Appropriate provision is made for bad and doubtful debts.

e Commitments on behalf of HM Treasury

Commitments in foreign currencies and gold, or on a gold basis, undertaken in the name of the Bank for account of HM 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 agents.

f Deferred tax

Deferred tax calculated under the deferral method has been accounted for on material timing differences.

1 Operating profit

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

	£ thousands	1974 £ thousands
Income		
Interest:		
Treasury and other bills	22,401	26,434
Securities of, or guaranteed by, the British Government	14,723	13,275
Local authority bonds	1,588	3,412
Other securities:		
Quoted	634	498
Unquoted	1,136	619
Advances	26,503	5,884
Charges for services to HM Government (including in 1975 a recovery in respect of the additional cost of pensions – see <i>Note 2</i>)	24,067	15,865
Rents	572	548
Charges		
Interest paid to depositors	19,993	12,382
Directors' emoluments (see <i>Note 12</i>)	271	262
Auditors' remuneration	15	12
Depreciation of premises and equipment	2,549	2,031

2 Retirement benefits

The profits of the year have borne the cost of providing pensions to staff in respect of current services. Salary and pension awards in excess of previous actuarial assumptions have created a liability in respect of past services and a transfer to the provision for retirement benefits is necessary in order to maintain a fully funded position.

During the year an amount of £3,139,000 (net of tax) for past services has been charged to the provision for retirement benefits and £5,817,000 (£12,120,000 less deferred tax) has been transferred to the provision to provide a balance of £26,816,000, the full amount estimated to be required, after taking account of anticipated tax relief, to cover unfunded retirement benefits relating to past services.

3 Provision for losses

£9,780,000 has been transferred to provision for losses. This is in respect of specific and general provisions for bad debts arising from the Bank's share of the support operations mentioned on page 7, offset by a reduction in the provision required against British government securities. Last year provision for losses was charged to reserves.

4 Payment to HM Treasury

	£ thousands		1974 £ thousands
Payable 4th April 1975	3,000	Paid 5th April 1974	3,000
Payable 3rd October 1975	3,000	Paid 4th October 1974	3,000
	<u>6,000</u>		<u>6,000</u>

5 Taxation

The charge for taxation, which is based on the profits of the year, comprises:

	£ thousands	1974 £ thousands
UK corporation tax	7,624	6,916
Deferred tax	(4,029)	(3,029)
	<u>3,595</u>	<u>3,887</u>

6 Reserves

	£ thousands
Balance at 1st March 1974	100,137
Profit of the year retained	3,445
	<u>103,582</u>

7 Public deposits

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

8 Cheques in course of collection

These uncleared effects are mostly in respect of public deposits.

9 Treasury and other bills

	£ thousands	1974 £ thousands
British government Treasury bills	886,339	1,492,527
Other bills	1,279	27,701
	<u>887,618</u>	<u>1,520,228</u>

10 Investments (at cost less provisions)

£ thousands

	Book value	Market value	1974	
			Book value	Market value
Securities of, or guaranteed by, the British Government	128,643	135,422	124,995	131,582
Local authority bonds	3,284	3,534	57,180	57,845
Other securities:				
Quoted	12,833	13,512	6,044	6,370
		Directors' valuation		Directors' valuation
Unquoted	21,608	21,608	20,908	20,908
	<u>166,368</u>	<u>174,076</u>	<u>209,127</u>	<u>216,705</u>

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

	Percentage held	1974 Percentage held
Agricultural Mortgage Corporation Ltd shares of £1	27	27
Commonwealth Development Finance Company Ltd 'B' ordinary shares of £1 (50p paid)	93	93
Commonwealth Development Finance Company Ltd 'A' ordinary shares of £1 (10p paid) (Percentage of total CDFC Ltd equity held 41)	nil	nil
Finance for Industry Ltd shares of £1	15	15
Portals Holdings Ltd ordinary stock	32	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.

b In addition, on 26th February 1974 the Bank acquired for a nominal consideration 50% of the equity share capital of:

London and County Securities Ltd
Overseas Financial Trust (Holdings) Ltd

The Directors consider that it would not be appropriate to incorporate the results of these associated companies in the Bank's accounts.

c Also included in 'Other securities' is a subsidiary company 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.

11 Premises and equipment

£ thousands	Freehold premises	Leasehold premises (all over 50 years)	Equipment	Total
Cost at 1st March 1974	14,183	17,344	15,441	46,968
Acquisitions	199	488	1,477	2,164
Disposals and transfers	(220)	(303)	(883)	(1,406)
Cost at 28th February 1975	14,162	17,529	16,035	47,726
Accumulated depreciation	(2,459)	(2,621)	(5,423)	(10,503)
Net book value	11,703	14,908	10,612	37,223
Net book value 1974	11,846	14,950	11,138	37,934

Contracts for capital expenditure authorised by the Directors and outstanding at 28th February 1975 totalled £1,786,000. Further capital expenditure authorised at that date, but not contracted for, is estimated at £2,048,000.

12 Directors' remuneration

The aggregate emoluments of the Governors and Directors were:

		1974
Fees	£11,579	£11,250
Other emoluments including remuneration of Governors and Executive Directors and payments to Directors' Pension Funds	£259,821	£250,515
The emoluments of the Governor were	£32,000	£32,234

Remuneration amounting to £4,000 (nil) was waived by the Governor; in addition, two other members of the Court of Directors waived remuneration amounting in aggregate to £6,406 (nil).

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

		1974
Up to £2,500	12 (all at £500)	12
£15,001 to £17,500	—	3
£17,501 to £20,000	1	1
£20,001 to £22,500	3	—
£22,501 to £25,000	1	1

13 Employees' remuneration

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

		1974
£10,001 to £12,500	43	29
£12,501 to £15,000	22	9
£15,001 to £17,500	8	4
£17,501 to £20,000	4	1
£20,001 to £22,500	1	1
£25,001 to £27,500	1	—

14 Charitable donations

Charitable donations during the year amounted to £54,300 (£63,300); no political contributions were made.

15 Contingent liabilities

Outstanding exchange contracts for customers, together with irrevocable credits, amounted to £49,823,000 (£25,713,000): these were covered by compensating contracts for corresponding amounts.

There were further contingent liabilities, including uncalled capital on investments, of £43,628,000 (£31,801,000).

In addition there is a contingent liability for guarantees in respect of loans to the Burmah Oil Company Ltd. of £248,263,000.

Banking Department

Accounting for inflation

Summary of operating profit and financial position for the year ended 28th February 1975
adjusted for the effects of inflation

Operating profit

Historical basis			Current purchasing power basis	
1974 £000	1975 £000		1975 £000	1974 £000
12,832	13,040	Operating profit/(loss) <i>Note 3</i>	(4,320)	6,534
<u>6,000</u>	<u>6,000</u>	Payment to HM Treasury under Section 1 (4) of the Bank of England Act 1946	<u>6,000</u>	<u>7,200</u>
6,832	7,040	Profit/(loss) before taxation	(10,320)	(666)
<u>3,887</u>	<u>3,595</u>	Taxation <i>Note 2</i>	<u>3,595</u>	<u>4,664</u>
<u>2,945</u>	<u>3,445</u>	Retained profit/(loss)	<u>(13,915)</u>	<u>(5,330)</u>

Financial position

100,894	107,728	Net current assets	107,949	121,883
<u>37,934</u>	<u>37,223</u>	Premises and equipment <i>less</i> depreciation	<u>76,553</u>	<u>78,624</u>
138,828	144,951		184,502	200,507
		<i>less</i>		
<u>24,138</u>	<u>26,816</u>	Provision for retirement benefits	<u>26,816</u>	<u>28,906</u>
<u>114,690</u>	<u>118,135</u>	Capital and reserves	<u>157,686</u>	<u>171,601</u>

Notes on the Banking Department accounts adjusted for inflation

1 Basis

This statement has been prepared on the basis recommended in Provisional Statement of Standard Accounting Practice No. 7. The figures in the current purchasing power basis columns were arrived at by converting the corresponding figures in the historical basis columns by reference to the changes in the UK retail price index between the dates of the original transactions and 28th February 1975. The current purchasing power basis figures for both this and last year are measured in pounds of purchasing power at 28th February 1975. The retail price index used at 28th February 1975 was 121.9 and at 28th February 1974 was 101.7; both figures are based on 15th January 1974 = 100.

2 Taxation

The taxation liability is calculated by reference to the profit on the historical basis and no adjustment therefore has been made to the tax charge in the current purchasing power basis column.

3 Operating profit

The difference between the operating profit stated on a historical basis and on a current purchasing power basis is made up as follows:

	1975 £ thousands	1974 £ thousands
Operating profit – historical basis	13,040	12,832
Adjustments to convert to CPP basis:		
a Depreciation Additional charge based on cost of premises and equipment measured in pounds of current purchasing power.	(1,438)	(1,119)
b Other securities Additional provision to reduce cost of other securities measured in pounds of current purchasing power to valuation.	(5,090)	(2,178)
c Remainder of income and expenses included in operating profit before taxation. These are increased by the change in the index on average over the year. The adjustment increases profits as income exceeds expenses.	2,792	1,862
d Monetary items Net loss in purchasing power on net monetary assets.	(13,624)	(5,952)
	(4,320)	5,445
Adjustment required to update 1974 profit to 1975 £'s	–	1,089
Operating profit/(loss) – CPP basis	<u>(4,320)</u>	<u>6,534</u>

Issue Department

Account for the year ended 28th February 1975

		1974		1974
	£000		£000	
Income and profits:				
Securities of, or guaranteed by, the British Government	537,285		314,666	
Other securities	<u>177,478</u>	714,763	<u>67,689</u>	
Expenses:				
Cost of production of Bank notes	9,083		7,265	
Cost of issue, custody and payment of Bank notes	5,518		3,789	
Other expenses	<u>111</u>	<u>14,712</u>	<u>172</u>	
Payable to HM Treasury		<u>700,051</u>	<u>371,129</u>	

Statement of balances: 28th February 1975

		1974		1974
	£000	£000	£000	£000
Notes issued:				
In circulation	5,355,343	4,573,444	11,015	11,015
In Banking Department	19,657	26,556	4,624,853	3,512,587
	<u>5,375,000</u>	<u>4,600,000</u>	<u>739,132</u>	<u>1,076,398</u>
			<u>5,375,000</u>	<u>4,600,000</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 27th February 1975.

GORDON RICHARDSON *Governor*

J. Q. HOLLOM *Deputy Governor*

NELSON OF STAFFORD *Director*

P. A. S. TAYLOR *Secretary*

