Bank of England

Report and accounts for the year ended 29 February 1976

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Court of Directors

29th February 1976

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The Rt Hon. Lord Robens of Woldingham, PC
Sir Eric Roll, KCMG, CB
The Rt Hon. Viscount Weir

The term of office of Mr J. G. W. Davies expired on 29th February 1976 and Mr George Blunden was appointed in his place for a period of four years.

The terms of office of Sir Maurice Laing, Lord Weir and Sir Alastair Pilkington also expired on 29th February 1976 and they were reappointed for a period of four years.

Sir Robert Clark, DSC, has been appointed until 28th February 1977 to fill the vacancy caused by the death of Sir Val Duncan.

Senior officials

29th February 1976

Departmental		Advisers to the Governors
Chief Cashier	J. B. Page	W. P. Cooke[1]
Chief Accountant	G. J. Costello	J. A. Kirbyshire
Chief of the Overseas Department	S. W. Payton, CMG	Sir Henry Benson, GBE
Chief of the Economic Intelligence Department	M. J. Thornton, MC	
Head of Economic Section	L. A. Dicks-Mireaux	
Chief of Exchange Control	E. B. Bennett, DSC	
Banking Supervision[1]	George Blunden	
Secretary[2]	P. A. S. Taylor	
Chief of Establishments	K. J. S. Andrews, MBE	
General Manager of the Printing Works	M. J. S. Cubbage, MBE	
Chief of Management Services[2]	G. L. L. de Moubray	

[1] Mr George Blunden was appointed to the Court of Directors from 1st March 1976. His responsibility for Banking Supervision was assumed by Mr W. P. Cooke.

[2] On the formation of the Administration Department (see page 20), the following appointments were made with effect from 1st March 1976:

Mr Taylor – Chief of Administration
Mr de Moubray – Head of Computer Services
Mr G. C. Gough – a Deputy Chief of Administration and Secretary of the Bank

The work of the Bank

This *Report* covers the year ended 29th February 1976. The opening sections describe developments in credit control and the Bank's operations in various financial markets; these are followed by a survey of other aspects of the Bank's work, and a final section deals with staffing and other internal affairs. The Bank's accounts are shown at the end of the *Report*. The text does not generally comment in detail on the more complex issues related to monetary policy, which are discussed more fully in the *Quarterly Bulletin*.

In the domestic markets, issues of Treasury bills were unusually large, and in the year to end-March 1976 the authorities sold £4,140 millions net of gilt-edged stocks, nearly twice as much as in any previous year. In January the Bank temporarily released one third of special deposits – the first occasion on which this instrument had been used flexibly in this way.

Among new developments in the Bank's other domestic activities, the revised system of statistical reporting by banks (referred to in last year's *Report*) was introduced during 1975, providing the authorities with better information and improving the range and quality of published statistics. On the external side, the Bank remained in regular contact with a wide range of international and other overseas institutions, including the several EEC bodies concerned with economic and financial affairs.

The Bank have given evidence to a sub-committee of the Select Committee on Nationalised Industries, which has conducted a short inquiry into the affairs of the Bank to bring up to date the Committee's previous report published in 1970.

The Bank gratefully acknowledge once again the ready assistance and co-operation which they have received during the year from banks and other institutions.

Monetary policy

Throughout the year under review, the containment of inflation remained the prime aim of monetary policy. In spite of a very large public sector borrowing requirement, the main monetary aggregates grew significantly less than the gross domestic product in money terms. One important reason for this was the weakness of demand by the private sector for bank credit; another was the unprecedented scale of official sales of gilt-edged stocks to the private sector other than banks. During the summer and autumn of 1975, interest rates had been raised, partly to keep London rates competitive with those in other centres, and partly to help maintain control over the money stock. Towards the end of the period, as evidence accumulated that the rate of inflation was falling and gilt-edged stocks were heavily bought, it became possible to allow interest rates to decline to their lowest point for more than two years.

The main developments in credit control during the year were as follows.

Special deposits On 15th January the Bank announced that one third of special deposits would be temporarily released on the 19th of that month and that, unless notice was given to the contrary, the funds were to be redeposited on 10th February. The reason was that a heavy concentration of tax payments was expected to cause sizable but temporary shortages in the money markets, which might have caused interest rates to rise undesirably. The deposits were, in fact, recalled on 10th February, thus restoring the total called to 3% of eligible liabilities. This was the first occasion on which the special deposit instrument had been used flexibly in this way, although the possibility of such use was envisaged when the present arrangements were introduced in 1971. No other general calls or repayments of special deposits were made during the year.

Supplementary deposits

The operation of this scheme was suspended on 28th February 1975 (see last year's *Report*); it has remained in abeyance but is available to be reactivated at any time.

Interest-rate ceilings

There have been no interest-rate ceilings on bank deposits during the year.

Directional guidance

The Governor's requests to banks and finance houses of 11th September 1973, 12th November 1974 and 28th February 1975 remained in force until 17th December 1975. On that date, the Chancellor of the Exchequer announced an easing of hire-purchase terms control, and the Governor made a new request to banks and finance houses, which reflected the new hire-purchase terms and restated existing guidance. Thus, banks and finance houses were asked to continue to restrain lending to persons (other than for house purchase), lending for purely financial transactions, and lending to property companies providing this did not aggravate the difficulties of such companies. They were also asked to ensure that, within the bounds of banking prudence, the needs of manufacturing industry for finance or facilities for working capital were fully met; and to direct any expansion of their lending mainly to providing finance for the expansion of exports, for the saving of imports, and for domestic industrial investment.

Treasury bill and money-market management

There was an exceptionally large increase in the total amount of Treasury bills offered at the weekly tenders during the year, mainly because of the Government's very large domestic borrowing requirement. At the beginning of the year, the amounts offered each week were running at £150 million or less; but by the last quarter of 1975 there were eight consecutive offers of £400 million or more, and an issue of £500 million bills was made in February 1976. Competition for bills at the tender became increasingly keen as the year progressed, partly because of expectations of lower interest rates, but also because of a growing demand for bills from outside the banking system. In order to facilitate the handling of these larger issues, and subsequent market operations, Treasury bills with a denomination of £1 million were made available for the first time on 14th November. Hitherto, the largest denomination available had been for £250,000.

Except during a short period at the beginning of the year, the volume of Treasury bills in issue made it unnecessary for the Bank to buy commercial bills when relieving shortages of funds in the market: operations were conducted entirely in Treasury bills and, to a much lesser extent, in local authority bills, or by lending to the discount houses. The number of occasions on which the Bank lent to the market at minimum lending rate was much the same as in recent years, but the scale of such lending was appreciably larger – as were all the Bank's market operations: the total of sales and purchases of bills (at £13,100 million) was about 55% higher than in 1974/75. On one particular day (17th July), the Bank provided a record amount of assistance (just over £700 million) to relieve an exceptional shortage mainly caused by very heavy subscriptions to a new issue of government stock.

Short-term interest rates moved in three distinct phases during the year. In the spring and early summer, rates continued the decline which had begun in January, with the Bank's minimum lending rate falling from 10½% at the end of February to 10% in mid-March, where it remained until the middle of July (except for two weeks just after the Budget, when it was ¼% lower). By that time a rise in US rates, which had begun in June, was leaving UK rates increasingly out of line. The Bank acted to stimulate a rise in interest rates by lending to the discount market for a week at minimum lending rate, and the average rate of discount for Treasury bills at the tender on 25th July rose sharply, taking minimum lending rate up by 1% to 11%. Another sharp increase in the average rate of discount occurred at the first tender in October, raising minimum lending rate by a further 1% to 12%. On that occasion, the increase reflected both external (the weakness of sterling, together with a further rise in US rates) and domestic considerations (the dullness of the gilt-edged market and faster growth in the money supply). The third phase – of falling interest rates – began towards the end of October and gathered momentum in the following months, bringing minimum lending rate down by six steps of ¼% each to 10½% towards the end of January, and by two further steps of ½% each to 9½% early in February. The rate fell again, by ¼%, later in that month and ended the year at 9¼%, with the average discount rate for Treasury bills at the tender only a little over 8½%.

This fall in UK short-term rates followed closely on a decline in rates in the United States and other centres. Although US rates stopped falling at the end of January, in this country the continued lack of demand for bank advances and increasing optimism about the prospects for reducing inflation led to exceptionally keen competition for Treasury bills, despite the large amounts on offer. During November to February the fall in the UK Treasury bill tender rate (from around 11½% to 8½%) was consequently more prolonged and steeper than that in the United States (from about 5¾% to just under 5%).

The fall in UK rates was generally acceptable to the authorities. Indeed, the temporary release of one third of special deposits for about three weeks over the end of January was designed to avoid an upward twist to short-term rates (see page 5).

Management of the gilt-edged market

The gilt-edged market began the financial year 1975/76 in a phase of consolidation. The authorities had sold an unprecedented amount of stock in the March quarter of 1975, and there had also been a record decline in yields, to which the authorities had contributed by allowing six weeks to elapse between the exhaustion of the long-dated tap stock in January and the introduction of another in March. The announcement on 7th March of the issue of £500 million 12½% Treasury Loan 1993, and also of a further tranche of £500 million 9% Treasury Stock 1978, closely coincided with a slackening of demand, and yields on all maturities began to rise. At the long end, for example, they rose from 13¼% in mid-March to just below 15% at end-April.

The main influences on the market were similar to those of the previous year. The size of the public sector borrowing requirement implied a continuing need for heavy official sales of gilt-edged in order to avoid excessive growth in the money stock; and this led to a general apprehension of upward pressure on yields whenever the borrowing requirement seemed likely to be larger than originally estimated. There was similar concern about the course of domestic inflation and the efforts to control it; and external factors (both the balance of payments deficit and interest rate developments abroad) also continued to exercise a marked influence.

Once the Budget was past, however, the dominant short-term influence was the approaching referendum on UK membership of the European Economic Community. While uncertainty over the likely outcome prevailed, the market continued to drift, but towards the end of May, when the decision to remain in the Community seemed assured, demand for stock revived. Greater interest was shown initially in the short-dated March issue, which was sold out before the referendum was completed, and replaced immediately by £600 million 9½% Treasury Stock 1980. Thereafter, attention switched to the longer end, and the 1993 stock issued in March was also exhausted before the end of June. In the quarter as a whole net official sales amounted to some £400 million.

Towards the end of June, long-dated stock came into very heavy demand, prompted by growing optimism over the Government's new counter-inflation policy and its endorsement by the trade unions. Yields on long-dated stock accordingly seemed distinctly attractive. The successor to the March issue of 1993 stock was an additional tranche of £500 million 12¾% Treasury Loan 1995, announced on 27th June, and issued at £88·50 per £100 stock, with a redemption yield of 14·52%: it was sold out on 9th July within four working days of its issue. On 11th July an issue of £750 million 13¼% Treasury Loan 1997 was announced, at a redemption yield of 14·06%: applications were so heavy that too little remained for it to be used as a tap stock. On 1st August, a further long-dated issue was announced – £600 million of 12¾% Treasury Loan 1992, with a redemption yield of 13·59%.

Meanwhile, developments at the shorter end had been less favourable, entirely for external reasons. The weakness of sterling in April and early May was resumed in June, and later in that month US interest rates began to rise sharply. Following the Bank's clear signal to the discount market on 22nd July, minimum lending rate rose by 1% to 11% in line with the rise in the average rate of discount at the Treasury bill tender on 25th July, and yields on shorter-dated gilt-edged adjusted accordingly. The Bank let it be known that their action on short rates did not imply any desire to bring about an increase in yields on longer maturities: this was reflected in the terms (in particular, a life of only seventeen years to maturity) of the issue announced on 1st August. However, demand had by then abated, and applications were fairly small.

In August and September turnover in the market was sharply reduced, and the main feature was the redemption on 15th August of 3% Savings Bonds 1965/75, the last of the widely-held wartime issues of Savings Bonds. Some £1,070 million was then in issue, of which £530 million remained in the hands of the public – an unusually large amount to be outstanding at redemption. However, most of the proceeds appear to have been reinvested in other short and medium-dated issues, including two low-coupon stocks (3% Treasury 1977 and 3% Treasury 1979), of which additional tranches – each of £250 million – had been issued in June for this purpose.

With the gap between short and long yields narrowing in July, the yield curve flattened appreciably, particularly at the very short end, where yields on stocks of up to about two years were only slightly higher than those on Treasury bills. Very short-dated gilt-edged were therefore unattractive to the banks as an outlet for surplus liquidity, while the shortest available tap stock (9½% Treasury Stock 1980, with just over five years to maturity) was rather too long for them. Accordingly, the gap was filled by the issue, announced on 19th September, of a further £400 million of 9% Treasury Stock 1978.

Net official sales amounted to £810 million in the September quarter, but these were concentrated in the earlier part of July. Towards the end of the quarter, the absence of any significant further sales to investors other than banks, and the associated acceleration in the growth of the money stock, began to make it uncertain whether existing yields could produce sufficient sales to avoid excessive monetary growth. At the end of the quarter, with sterling again coming under pressure, both short and long-term yields began to rise, culminating in another increase of 1% in minimum lending rate after the Treasury bill tender on 3rd October. On that occasion, in contrast to July, the Bank acknowledged that the rise was justified on domestic as well as external grounds, and yields on longer maturities responded fairly quickly.

Almost simultaneously, US interest rates fell back quite sharply after rising steadily since the middle of the year, and demand for gilt-edged was quick to revive, particularly for short-dated stocks. By the end of November, all the tap stocks in existence at the beginning of the quarter had been exhausted, and so too had the £600 million of 11½% Treasury Stock 1981 announced on 10th October. On 21st November the authorities announced a second tranche of £600 million 10½% Treasury Stock 1979, followed a week later by a second tranche of £750 million 13¼% Treasury Loan 1997, yielding 15·05% to redemption. Both were heavily bought in the latter part of December and ran out early in January. Initially, movements in yields were small and concentrated at the short end, with two reductions of ¼% in minimum lending rate during November, followed by a steady decline in short yields from early December. Long yields did not turn down until well into December, having reached 15¼%, but thereafter the decline accelerated. Net official sales in the December quarter amounted to some £2,160 million, not far short of the previous record for a full year. Within the total, some £430 million was bought by the banking sector, including over £160 million by the discount market.

To replace the two stocks which ran out early in the New Year, two more were announced on 9th January. One was short-dated — a second tranche of £500 million 9½% Treasury Stock 1980 — and was almost entirely taken up at issue, so that it never operated as a tap stock. To replace the exhausted long tap, however, a medium-dated stock was issued, £600 million of 13% Treasury Stock 1990, with a redemption yield of 13·64%. The choice of a medium was intended to allow continued freedom for long yields to fall, if that were to be the natural result of market forces. For similar reasons, it was decided not to issue immediate replacements either for the 1980 stock (which never became a tap), or for the 1990 stock which ran out just over a week after issue.

The latter was replaced after two weeks, with the announcement on 6th February of a further £600 million of 12½% Treasury Loan 1993, giving a redemption yield of 13·21%. A new short-dated issue — £800 million of 9¾% Treasury Stock 1981 — was not announced until 26th March. By February, demand had once more fallen away and yields began to drift upwards again, influenced by expectations of a rise in US rates, the renewed weakness of sterling, and some doubts whether domestic inflation was still declining. Net official sales in the March quarter amounted to some £770 million, mostly in January. But within the total rise in market holdings, the banking sector sold some £315 million of stock, largely reversing their heavy purchases in the previous quarter.

The surges of buying interest, interspersed with periods of relative inactivity, which were such a marked feature of the year under review, are characteristic of contemporary conditions and make it impossible for both the flow of net official sales and the pattern of yields to follow a smooth course. Typically – and especially with a public sector borrowing requirement on the scale experienced in 1975/76 – the authorities endeavour to take advantage of opportunities to sell when they occur, even if this means dampening the reduction in yields that would otherwise have taken place. Similarly, their interpretation of periods when sales are lower, and the growth in the money stock correspondingly higher, allows for the spasmodic nature of demand for gilt-edged stocks.

In the table which follows, official transactions are analysed by type of holder and by maturity.

£ millions

Net purchases by the public +/sales –

	Financial years 1 April – 31 March				
	1971/72	1972/73	1973/74	1974/75	1975/76
By type of holder[a]					
Overseas holders	+ 152	+ 51	+ 167	– 38	– 65
UK banking sector	+ 819	–976	+ 11	– 52	+ 375
Other UK holders	+1,229	+515	+1,473	+2,267	+3,830
Total	+2,200	–410	+1,651	+2,177	+4,140
By maturity					
Redemptions/conversions	– 294	–401	– 267	– 420	– 735
Up to 1 year	–1,113	–973	– 344	– 913	–1,121
Over 1 and up to 5 years	+1,503	+376	+ 850	+2,601	+2,182
Over 5 and up to 15 years	+ 319	–238	+1,064	+ 423	+1,004
Over 15 years and undated	+1,785	+826	+ 348	+ 486	+2,810
Total	+2,200	–410	+1,651	+2,177	+4,140

[a] Further details may be found in Table 3 (1) of the 1970 and 1975 issues of the Bank's *Statistical Abstract* or in the comparable table which appears in the statistical annex to the *Quarterly Bulletin*. Changes in the holdings of the UK banking sector are shown mainly at book value, other changes at cash value. Any differences between book and cash values in the banking sector are reflected in the residual figures for 'other UK holders'. Overseas holdings are partly estimated, and any errors are again reflected in the residual item. The banking sector here excludes the Banking Department of the Bank of England.

Foreign exchange markets

Sterling continued to float independently in the foreign exchange markets. In a period of wide fluctuations in nominal exchange rates, the best guide to sterling's overall performance remained its 'effective depreciation', i.e. the trade-weighted measurement of the pound's position against the currencies of the United Kingdom's main trading partners, based on the exchange rates agreed at the Smithsonian settlement in December 1971. The effective depreciation widened during the year from 22% to 30%, with the sharpest fall occurring during the summer months (details are given in the *Quarterly Bulletin*).

The pound continued to be affected at intervals by flows of oil funds, with periods of heavy demand by oil companies for royalty payments alternating with bouts of selling as producing countries diversified part of their receipts. Official intervention on behalf of the Exchange Equalisation Account was frequently used to moderate the effect of these and other strong influences on sterling's exchange rate.

The authorities in other countries also intervened from time to time, supporting the dollar in the earlier part of the year and moderating its rapid improvement during the summer. In November the summit meeting at Rambouillet agreed that intervention policies should be more closely co-ordinated; and the United States, Canada and Japan became associated with the pooling of exchange market information between the authorities in countries in the 'snake' and in other EEC countries, a network which Switzerland had also joined earlier in 1975.

Turnover in the foreign exchange market in London remained heavy, with more than fifty banks regularly active in the market and twelve broking houses operating in foreign exchange. The rules governing the conduct of the foreign exchange and currency deposit markets in London were revised during 1975: much of the preliminary work was undertaken in the joint standing committee of representatives of the banks and brokers, chaired by the Bank, which continued to meet regularly during the year. The new rules, together with a guide to market practice, were circulated to all authorised banks in July by the President of the British Bankers' Association.

The Bank's foreign exchange operations included the usual volume of business on behalf of customers — mainly government departments and overseas central banks — and also the management of the \$2·5 billion euro-dollar loan to the Government (described in last year's *Report*).

A minting order for sovereigns dated 1974 was completed at Tower Hill during the year. Demand was sufficient to warrant a further order to the Royal Mint; and sovereigns dated 1976 are to be produced for the first time at Llantrisant. Demand for sovereigns increased sharply after the lira crisis and the Bank raised the premium on several occasions in order to conserve stocks until new supplies arrived.

Banking supervision and related developments

Support operations

The special committee of the Bank and the London and Scottish clearing banks, set up in December 1973 under the chairmanship of the Deputy Governor, has continued to meet regularly and to monitor the progress of those deposit-taking institutions receiving support. At the beginning of the year there were rather more than twenty such companies, of which sixteen were still trading, and the total amount of support was about £1,140 million. During the year all the surviving companies significantly reduced their dependence on the support group, some dispensing with it altogether: total support lending (including loans to companies in receivership or liquidation) declined by more than 20%.

In the accounts of the Banking Department (see page 27) provision has been made against possible losses from the Bank's share in these support operations.

Banking supervision

The Bank have continued to receive detailed information for supervisory purposes from all UK-registered banks except the London and Scottish clearing banks, those banks whose main activities are overseas, and a few small domestic banks. The details of appropriate arrangements for these latter groups are being devised in consultation with the banks concerned. Certain other UK deposit-taking institutions are also covered by the Bank's arrangements. In most cases, the returns are supplied quarterly, and are followed by discussion with senior management of the institutions concerned.

This aspect of the Bank's work was widely reported in the *Quarterly Bulletin* during the year. The June 1975 issue included a description of the Bank's supervisory role, and the methods employed. The September issue published the text of a paper, agreed between the Bank and the London and Scottish clearing banks, which set out broad principles for the assessment of banks' balance sheets. The December issue contained the text of a speech by the Governor discussing the nature and extent of banking supervision and the appropriate role of the supervisory authority.

Overseas banks

Nearly 300 overseas banks are represented in London through branches, subsidiaries, representative offices or consortia. Some 150 operate through branches, of which four were opened and six were closed during the year. The number of banks operating wholly-owned subsidiaries in London was unchanged during the year, at thirty-seven. Four representative offices were opened and eleven closed, making a total of seventy-five overseas banks represented in this way. There are also about thirty consortium banks in London. One was established during the year and two amalgamated with existing banks.

The note issue

The fiduciary issue was £6,050 million at the end of February 1976, £675 million (12½%) larger than a year earlier. As usual, the peak for the year was reached during the Christmas period when the fiduciary issue was £6,600 million.

Value of notes in circulation by denominations

£ millions

End-February	1972	1973	1974	1975	1976
10*s* [a]	14	13	13	13	13
£1	920	908	906	884	831
£5	2,094	2,400	2,513	3,014	3,261
£10	386	487	644	815	1,157
£20	145	224	324	397	500
Other notes [b]	139	155	173	232	280
Total	3,698	4,187	4,573	5,355	6,042

[a] The 10*s* note ceased to be legal tender in November 1970; but notes still in the hands of the public can be cashed at the Bank.

[b] The issue of denominations higher than £20 was discontinued in 1943, but such notes are still used internally in the Bank, e.g. on behalf of banks of issue in Scotland and Northern Ireland as cover for their note issues in excess of their permitted fiduciary issues.

The increase in the value of the circulation was wholly in the form of higher denomination notes. After the introduction of the new £10 note in February 1975, the use of this denomination increased sharply and by the end of February 1976 it accounted for some 19% of the circulation compared with about 15% a year earlier. Among other sizable changes, the proportion represented by £5 notes fell back from over 56% to 54% while that of £1 notes continued to decline steadily, and by February 1976 had dropped to less than 14% – well below the share of £10 notes.

Proportion of notes in circulation by denominations

Per cent by value of total circulation

End-February	1972	1973	1974	1975	1976
10*s*	0·4	0·3	0·3	0·2	0·2
£1	24·9	21·7	19·8	16·5	13·8
£5	56·6	57·3	54·9	56·3	54·0
£10	10·5	11·6	14·1	15·2	19·1
£20	3·9	5·4	7·1	7·4	8·3
Other notes	3·7	3·7	3·8	4·4	4·6

Management of stock registers

There were fifteen issues of British government stocks during the year, almost twice as many as in the previous year. The redemption of 3% Savings Bonds 1965/75 was the largest operation of its kind since 1970, involving over 103,000 accounts.

The nominal value of stocks managed by the Bank increased by nearly 20%, compared with 10% in the previous year.

	Nominal value of stocks in issue (£ millions)				Number of accounts (thousands)			
End-February	1973	1974	1975	1976	1973	1974	1975	1976
British government securities:								
Stock [a]	23,078	25,221	27,769	33,491	1,709	1,766	1,859	1,878
Bearer bonds	24	29	35	40	[b]	[b]	[b]	[b]
	23,102	25,250	27,804	33,531				
Other securities:								
Government guaranteed	1,259	908	908	908	168	113	114	116
Common-wealth etc.	196	167	164	161	60	51	49	47
Local authorities	702	687	663	753	168	160	145	145
Companies [c]	192	222	331	339	36	37	39	41
Miscel-laneous [d]	55	55	53	51	9	9	8	7
	2,404	2,039	2,119	2,212	441	370	355	356
Total	25,506	27,289	29,923	35,743	2,150	2,136	2,214	2,234

[a] The figures for British government stock do not include amounts on the registers of the Bank of Ireland, the Department for National Savings, and the trustee savings banks.

[b] The number of separate bonds in these years was 1973: 40,000; 1974: 43,000; 1975: 45,000; 1976: 47,000.

[c] Comprising stocks of the Agricultural Mortgage Corporation Limited and, from 1975, Finance for Industry Limited.

[d] Includes securities issued by public boards.

Transfers

The number of transfers registered increased sharply, particularly in the last three months of the period, reflecting the higher activity in the gilt-edged market. The total of 873,000 was only slightly below the previous peak of 885,000 in 1972. Figures for the last four years are:

Thousands

Year to end-February	1973	1974	1975	1976
	740	668	768	873

Operations

Operations undertaken during the year included:

£ millions nominal

Repayments at par

1975 16 March	Ceylon Government 4% Stock 1973/75	2·0
1 May	Hull Corporation 2½% Redeemable Stock 1970/75	0·6
15 May	8% Treasury Stock 1975	446·2
1 July	Hull Corporation 3¾% Redeemable Stock 1973/75	1·5
15 July	City of Westminster 7¼% Stock 1975	12·0
15 August	3% Savings Bonds 1965/75	1,071·0
15 September	Liverpool Corporation 5½% Redeemable Stock 1971/75	15·0

Issues for cash

1975 13 March	@ £96·50	9% Treasury Stock 1978 (second tranche)	500·0
13 March	@ £97·25	12½% Treasury Loan 1993	500·0
10 April	@ £97·75	Greater London Council 12½% Stock 1982	75·0
12 June	@ £95·00	9½% Treasury Stock 1980	600·0
12 June	@ £87·50	3% Treasury Stock 1977 (second tranche)	250·0
12 June	@ £78·25	3% Treasury Stock 1979 (second tranche)	250·0
3 July	@ £88·50	12¾% Treasury Loan 1995 (second tranche)	500·0
17 July	@ £94·50	13¼% Treasury Loan 1997	750·0
7 August	@ £94·50	12¾% Treasury Loan 1992	600·0
21 August	@ £98·50	City of Liverpool 13½% Stock 1981	30·0
25 September	@ £95·00	9% Treasury Stock 1978 (third tranche)	400·0
16 October	@ £96·00	11½% Treasury Stock 1981	600·0
27 November	@ £95·50	10½% Treasury Stock 1979 (second tranche)	600·0
4 December	@ £88·50	13¼% Treasury Loan 1997 (second tranche)	750·0
1976 15 January	@ £93·25	9½% Treasury Stock 1980 (second tranche)	500·0
15 January	@ £96·00	13% Treasury Stock 1990	600·0
12 February	@ £95·25	12½% Treasury Loan 1993 (second tranche)	600·0

Fifteen issues of short-term bonds (with a value of £18·5 million) were redeemed during the year, and there were twenty-three new issues (with a total value of £31 million).

Southern Rhodesia stocks

No funds have been received since November 1965 to service Government of Southern Rhodesia Stocks for which the Bank act as paying agents. At the end of February 1976 the approximate amounts due but unpaid were:

Gross interest	£21,030,000
Redemption moneys[1]	£33,914,000

[1] Relating to Government of Southern Rhodesia 3½% Stock 1961/66, 3½% Stock 1967/69, 2½% Stock 1965/70, 3% Stock 1971/73, and 4% Stock 1972/74. The registers for these stocks remain open.

At the same date, contributions due but unpaid to sinking funds managed by the Bank totalled some £3,387,000. [1]

The legal proceedings instituted by the Bank in 1973, with the aim of obtaining a declaration that certain assets held by them did not constitute moneys of the Government of Southern Rhodesia, have been discontinued. The defendant, a holder of Government of Southern Rhodesia Stock, withdrew his defence after being advised that he could not by further defending the action obtain any result of benefit to UK holders of Southern Rhodesia Stock. The Bank were advised that, in the absence of an active defendant, they could not expect to secure the determination they sought, and the action was therefore discontinued.

Tax reserve certificates

Company certificates have not been available for purchase since December 1971 and personal certificates not since June 1973. At the end of February 1976 there were some 19,000 certificates still outstanding with a nominal value of about £9 million. These may still be used in payment of specified taxes, or they may be repaid in cash.

Company certificates earned interest for no more than thirty-six months. Personal certificates dated up to 31st December 1971 earned interest for up to twenty-four months if used to pay tax; those bought on or after 3rd January 1972 could not earn interest beyond 1st January 1974.

Local authority markets

In the year under review, the Bank arranged seven issues of 91-day bills for the Greater London Council and three issues for the City of Liverpool.

The number of local authority bill issues outstanding declined steadily during the period, with some Treasurers able to finance their short-term requirements more cheaply by borrowing in the money market. However, the total nominal value of bills rose from £396 million to £421 million, largely because an increase in rate incomes allowed the authorities to borrow more by way of bills.

Foreign currency borrowing by the public sector

Foreign currency borrowing by nationalised industries and local authorities under the exchange cover scheme continued during the year. Among particular developments, the British Gas Corporation made a public bond issue of $60 million in January – the first issue of this kind by a public sector institution for nearly two years. In February it was announced that another public bond issue, of $50 million, was to be made in the following month by the Electricity Council. Also in February, arrangements were made for the National Water Council to draw – in two tranches – the second loan of $400 million from the Iranian Government under the $1·2 billion line of credit announced in July 1974: the first tranche ($200 million) of the second loan was to be drawn in June 1976 and the balance in September. In the year to end-February 1976, public sector bodies borrowed $1·3 billion under the scheme, making a total of $6·5 billion since the current scheme was introduced in March 1973.

[1] Including some £240,000 in respect of Government of Southern Rhodesia 3½% Stock 1967/69 and some £417,000 in respect of Government of Southern Rhodesia 4% Stock 1972/74. The sinking funds for 3½% Stock 1961/66, 2½% Stock 1965/70, and 3% Stock 1971/73 are not managed by the Bank.

City liaison

As part of their wider responsibilities, the Bank have continued to maintain close contact with other City institutions and to provide secretarial facilities for various specialist City committees established by the Governor in 1973 and 1974. These committees have continued to meet throughout the year to co-ordinate – and, on appropriate occasions, to publicise – the views of the financial community.

The City Liaison Committee, where the heads of the major City organisations meet at regular intervals under the chairmanship of the Governor, has kept under review matters of common interest, including the activities of the various specialist committees.

The City EEC Committee (formerly the City/EEC Liaison Group) has continued to monitor developments in the European Economic Community, to maintain contacts with Community institutions and the appropriate government departments, and to provide reports from time to time on matters of relevance to its members.

Among the specialist committees, the Capital Markets Committee has published papers entitled *The City as Provider of Funds for Industrial Development*, and *The Banker in Investment Decision Making*. Following the publication of the Sandilands Report on inflation accounting, it also issued a memorandum supporting the early implementation of an agreed standard for dealing with the impact of inflation on financial accounts.

The Company Law Committee followed up its earlier report entitled *Employee Participation* with a further study related particularly to companies in the financial sector. In this, it worked closely with other interested City associations. The results of both studies were submitted as evidence to the Committee of Inquiry into Industrial Democracy. The Company Law Committee has also re-examined the ways in which insider dealing might be constrained by the law. Its preliminary findings were widely circulated within the City and have been submitted to the Department of Trade. Finally, the Committee has maintained a watching brief over the EEC company law harmonisation programme.

The Taxation Committee followed up its written submission to the Select Committee on the Wealth Tax with the presentation of oral evidence. It also submitted a paper to the Inland Revenue recommending a Royal Commission on taxation. Close contacts have been maintained with the Board of Inland Revenue on other tax questions affecting the City.

The Telecommunications Committee has continued its work with the Post Office and with users of Post Office services to identify and respond to problems in this area.

The Bank and industry

The Bank have for many years kept in close contact with industry, so as to inform themselves at first hand about the views of industrialists and their financial problems. In order to develop and strengthen this side of the Bank's work, Sir Henry Benson, GBE, recently senior partner of Coopers and Lybrand, was appointed an Adviser to the Governors in May 1975, with special responsibility for questions of industrial finance. The Bank are members of the Committee on Finance for Investment set up under the auspices of the National Economic Development Council and provide the secretariat jointly with the National Economic Development Office.

The Bank supported the City initiative which led to the formation in May 1976 of Equity Capital for Industry Limited; and Sir Henry Benson was co-opted as a member of the working party which recommended the setting up of the company. The working party's report and the prospectus for the new company were published on 13th May 1976.

Finance for Industry Limited

As mentioned in last year's *Report*, Finance for Industry made an issue of £75 million loan stock in February 1975, followed in March by an issue of £25 million of ordinary shares to existing shareholders. Subsequently, standby arrangements with the shareholding banks have been revised to provide two facilities: the first (£300 million) is designed to support short-term borrowings or, if these are insufficient, to provide funds direct for medium-term lending; the other (£100 million) is to provide bridging finance pending the raising of longer-term loans.

It was announced in November 1974 that up to £1,000 million would be made available in medium-term loans over a period of two to three years should the demand for it appear. By the end of March 1976, Finance for Industry had lent or committed some £200 million under these arrangements, and applications for a further £140 million were under consideration.

The Burmah Oil Company Limited

Under the terms of the agreement of 23rd January 1975 between the Bank and the Burmah Oil Company, the Bank undertook to provide financial support to Burmah pending the realisation of certain major assets, and to guarantee dollar borrowings which were due for repayment on or before 31st December 1975. On 18th December 1975, in order to give the company further time in which to realise its North American assets, the Bank extended the guarantees of outstanding dollar borrowings for a further nine months, to 30th September 1976.

During the year the Issue Department of the Bank continued to hold the 77,817,507 British Petroleum ordinary stock units purchased from Burmah in January 1975.

The Bank and the building societies

The Bank continued to handle the day-to-day administration of the £500 million loans made by the Bank and the Government to the building societies between May and December 1974. At 1st March 1975 the outstanding balance was just under £200 million; the final repayment took place in February 1976.

Exchange control

As mentioned in last year's *Report*, the Budget of April 1975 imposed restrictions on purchases abroad by UK residents of certain gold coins. Otherwise, there were no significant changes in exchange control during the year. Steps were taken to reduce further the extent to which authorised banks are required to refer applications to the Bank, and in April 1976 minor changes were made to simplify administration and to reduce costs.

Commodity markets

Conditions were quieter than in the previous year. As well as maintaining regular close contact – both formal and informal – with the markets, the Bank carried out a number of surveys into trade and other activities on terminal markets. The positions revealed did not give cause for concern.

External affairs

The problems of adjustment to dearer oil were again the main feature of international finance during the year; and the Bank, with the Treasury and other government departments, remained in close contact with international and other overseas institutions, and actively participated in conferences and discussions. These included meetings in the International Monetary Fund and its associated body, the Interim Committee, on international monetary arrangements.

The Bank were also closely involved in the work of the several EEC bodies concerned with economic and financial affairs. Thus, the Governor (or his representative) attended the meetings of the Council of Ministers (Finance), the Committee of Central Bank Governors, and the Board of Governors of the European Monetary Co-operation Fund. Bank representatives also served on the Monetary Committee, the Economic Policy Committee, the Council working group dealing with harmonisation of banking legislation, and various other specialist working groups reporting either to the EEC committees mentioned above or to the Commission. As in previous years, the Bank provided an alternate director of the European Investment Bank, and a member of staff continued to be seconded to the Office of the UK Permanent Representative to the European Communities in Brussels. The committee on banking and foreign exchange regulation and supervision, which was established in February 1975 by the Governors of the Group of Ten countries and Switzerland, has continued to meet regularly, under the chairmanship of Mr George Blunden.

The Bank received some 1,400 overseas visitors during the year, mainly from other central banks, and eighteen members of the staff were working abroad in various capacities at 29th February 1976.

Economic and statistical information and research

The major statistical development during the year was the introduction of the new system of reporting by banks and discount houses referred to in last year's *Report*, and described in detail in the June 1975 issue of the *Quarterly Bulletin*. This has provided the authorities with better information, and has also improved the range and quality of published banking and monetary statistics.

During the year, the Bank took over responsibility for collecting quarterly unit trust statistics from the Association of Unit Trust Managers (subsequently renamed the Unit Trust Association). Work on historical balance sheets for various sectors of the economy was increased following the recommendation of the Royal Commission on the Distribution of Income and Wealth that such work should 'be given special priority'. Balance sheets for investment trusts were given in an article in the June 1975 *Bulletin*.

Research work by the Economic Section included two studies published in the March 1976 *Bulletin*, the first on trends in company profitability and the other on the personal saving ratio.

Select Committee on Nationalised Industries

A sub-committee of the Select Committee on Nationalised Industries has conducted a short inquiry into the affairs of the

Bank to update the Committee's previous report, which was published in 1970.

The Bank have given written and oral evidence to the sub-committee, whose report is awaited.

Staffing and other internal matters

Numbers of staff

The weekly average number of staff employed during the year to end-February 1976, including those working part time, was just over 7,900, a temporary increase of 3% on the previous year. Their aggregate annual remuneration amounted to £29,364,000. As at 29th February, those in full-time employment numbered just over 7,000, and were allocated broadly as follows:

Banking staff		
Cashier's Department (including 325 at branches)	1,200	
Accountant's Department	1,075	
Exchange Control Department	750	
Overseas Department	250	
Economic Intelligence Department	275	
Others (mainly in Establishment, Management Services, Secretary's and Audit Departments, and at the Printing Works)	1,075	4,625
Technical and services staff		1,050
Printing Works staff		1,350
		7,025

Part-time staff numbered about 1,000, including nearly 700 at the Printing Works.

By the end of February there were 100 fewer banking staff than a year earlier (and a further decline is likely in the current year), but this reduction was outweighed by increases in technical and services, and Printing Works staff.

Staff wastage and recruitment

Because of poor employment prospects in the economy generally, wastage remained exceptionally low throughout the year, particularly of junior staff. With nearly all departments also reducing requirements for staff, the Bank's recruitment targets for all but honours graduates were accordingly much lower than in previous years. The targets were easily met early in the period.

Secondments

The Bank have continued to provide staff on secondment to other organisations at home and abroad (see page 18). At the end of the year six members of the staff were working in government departments (three at the Cabinet Office, two at the Treasury, and one at the Department of Industry). In the City, six staff were attached to the Panel on Takeovers and Mergers, and one to the Inter-Bank Research Organisation.

Staff representation

In October 1975 the Bank of England Staff Organisation, which is recognised by the Bank as the sole bargaining agent for the banking staff (other than the most senior), introduced membership subscriptions as a step towards independent status within the meaning of the Employment Protection Act 1975. Subsequently, the Organisation registered as a trade union within the terms of the Trade Union and Labour Relations Act 1974. Other structural changes were also put in hand in order to meet the likely criteria for obtaining a certificate of independence, and to make all staff and pensioners eligible for membership of the Organisation.

Developments in the use of computers

As mentioned in last year's *Report*, a new direct input system was implemented in the Accountant's Department in March 1975, using ICL 1904S computers and related equipment.

At Head Office, two large on-line systems for dealing with statistical work from the Economic Intelligence Department have been implemented during the year and the sub-system for foreign exchange accounting mentioned in last year's *Report* has been further developed, using IBM 370 computers.

At the Printing Works, an ICL 2903 computer has been installed for data processing work and, since the end of the Bank's year, a new payroll system has been introduced.

The Bank's branches

The branch at the Law Courts in London was closed on 12th December 1975, and the building will be sold. This branch was first established in 1881, primarily to serve the special needs of the Law Courts and the legal profession. The volume of business ceased to justify separate premises and, with the new Supreme Court Fund Rules coming into effect on 15th December 1975 (under which all cash lodgments into Court are to be made at the Court Funds Office), the provision of banking facilities immediately adjacent to the Courts was no longer necessary. Almost all the customers of the branch transferred their banking business to Head Office.

The Bank also have a representative office in Glasgow dealing with exchange control and industrial liaison. An earlier decision to build a note centre which would also house the representative office began to be implemented by the acquisition of a site for a new building. This will in due course provide the Scottish clearing banks with facilities for drawing and paying in Bank of England notes similar to those available to the London clearing banks in the provincial cities in England where the Bank have branches.

The processing of applications for the payment of mutilated notes has been transferred from the Bank's Head Office to the branch at Newcastle; about 150,000 of these applications are received each year.

Administration Department

With effect from 1st March 1976, a new department – the Administration Department – was formed, incorporating virtually the whole of the former Secretary's, Management Services and Audit Departments, together with that part of the Establishment Department previously responsible for the planning and use of the Bank's properties. This reorganisation thus brings together the management of the Bank's support services and material resources.

Overseas Department

The Overseas Department was reorganised in the spring of 1976. In recent years the department has extended its coverage on broad international issues which cut across geographical areas, and as a result the work of the department has been regrouped. Instead of three broad geographical areas, the department will consist of two divisions, one international and the other territorial.

Economic Intelligence Department

The Economic Intelligence Department (including the Economic Section) was also reorganised in 1976 after a reassessment of its role and structure. The department has been regrouped into two main divisions with a view to making a clearer organisational distinction between analytical work (covering economic analysis, forecasting, research, and advice on policy) and statistical work (relating to the compilation, processing and interpretation of those domestic and external statistics which it is the Bank's responsibility to collect).