

The Bank's accounts

The operating profit of the Banking Department for the year ended 29th February 1976 is £15.9 million, compared with £13.0 million last year. The payment to the Treasury in lieu of dividend is unchanged at £6.0 million and after deduction of tax of £6.7 million, retained profit carried to reserves is £3.2 million.

The figures again include substantial provision for losses in connection with the Bank's involvement in support operations, offset to some extent by a reduction in the provisions required for British government and other securities.

During the year, following the formal approval of the Pension Fund by the Inland Revenue, it has been possible to transfer £25.6 million (£53.4 million gross) from the provision for retirement benefits to the Fund. A recent actuarial revaluation of the Fund has shown that additional provision for retirement benefits is not required in the current year.

The Bank have noted the recommendations of the Sandilands Report and the comments of the Consultative Committee of Accountancy Bodies, and are developing records to meet the requirements of current cost accounting (CCA). For the present, and until the publication of a definitive accounting standard by the accountancy bodies, the effect of inflation on the Bank's accounts is shown in current purchasing power terms on pages 30 and 31. This statement shows an operating loss of £3.1 million, compared with the operating profit of £15.9 million in the conventional accounts.

The Issue Department accounts are shown on page 32. The profits of the note issue payable to the Treasury are £582.7 million compared with £700.1 million in the preceding year.

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 23 to 29 and the statements of account of the Issue Department set out on page 32. 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 29th February 1976 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 29th February 1976 and its balances at that date.

We have also examined the inflation adjusted accounts together with the explanatory notes set out on pages 30 and 31 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 29th February 1976.

DELOITTE & CO.

Chartered Accountants

London
8th July 1976.

Banking Department

Profit and loss account

For the year ended 29th February 1976

1975				1976	
£000	£000			£000	£000
	13,040	Operating profit	Note 1		15,912
		after charging:			
		Additional provision for retirement benefits	Note 2		
[12,120]		Provision for losses	Note 3	[14,278]	
		Payment to the Treasury under Section 1(4) of the Bank of England Act 1946	Note 4		
	<u>6,000</u>				<u>6,000</u>
	7,040				9,912
	<u>3,595</u>	Taxation	Note 5		<u>6,721</u>
	<u>3,445</u>	Profit transferred to reserves	Note 6		<u>3,191</u>

The notes on pages 26 to 29 form part of these accounts.

Banking Department

Balance sheet: 29th February 1976

1975			1976	
£000			£000	£000
14,553	Capital		14,553	
103,582	Reserves	Note 6	<u>106,773</u>	121,326
26,816	Provision for retirement benefits	Note 2		1,184
	Current liabilities			
63,750	Public deposits	Note 7	84,855	
935,430	Special deposits		979,525	
217,229	Bankers' deposits		227,533	
253,262	Other accounts		261,725	
<u>6,000</u>	Payable to the Treasury	Note 4	<u>6,000</u>	<u>1,559,638</u>
<u>1,620,622</u>				<u>1,682,148</u>

The notes on pages 26 to 29 form part of these accounts.

1975			1976	
£000			£000	£000
	Liquid assets			
19,852	Notes and coin		8,024	
57,878	Cheques in course of collection	<i>Note 8</i>	75,064	
887,618	Treasury and other bills	<i>Note 9</i>	<u>1,106,109</u>	1,189,197
	Investments	<i>Note 10</i>		
128,643	Securities of, or guaranteed by, the British Government		136,632	
3,284	Local authority bonds		1,093	
34,441	Other securities		<u>43,978</u>	181,703
451,683	Advances and other accounts, less provisions			274,020
<u>37,223</u>	Premises and equipment	<i>Note 11</i>		<u>37,228</u>
<u>1,620,622</u>				<u>1,682,148</u>

GORDON RICHARDSON *Governor*

J. Q. HOLLOM *Deputy Governor*

NELSON OF STAFFORD *Director*

P. A. S. TAYLOR *Chief of Administration*

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.

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 29th February 1976 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%

d Bad and doubtful debts

Appropriate provision is made for bad and doubtful debts.

e Commitments on behalf of the Treasury

Commitments in foreign currencies and gold, or on a gold basis, undertaken in the name of the Bank for account of the 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 has been accounted for in respect of certain material timing differences and has been calculated using the deferral method.

1 Operating profit

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

1975 £ thousands		1976 £ thousands
	Income	
	Interest:	
22,401	Treasury and other bills	18,502
14,723	Securities of, or guaranteed by, the British Government	16,419
1,588	Local authority bonds	150
	Other securities:	
634	Quoted	2,233
1,136	Unquoted	812
26,503	Advances	26,414
24,067	Charges for services to the Government	33,193
507	Rents	625
	Charges	
19,993	Interest paid to depositors	20,256
271	Directors' remuneration (see Note 12)	271
19	Auditors' remuneration	23
345	Hire of computers and other equipment	477
2,549	Depreciation of premises and equipment	2,346

In 1976 the method of charging for services to the Government was changed from a cash to an accruals basis. The charge for 1975 included a recovery in respect of the additional cost of pensions in that year.

2 Retirement benefits

Following the formal approval of the Bank of England Pension Fund by the Inland Revenue, the sum of £25,600,000 (£53,400,000 gross) has been transferred from the provision for retirement benefits to the Fund, being the full amount required to cover unfunded retirement benefits relating to past services. A recent actuarial revaluation of the Fund has shown that additional provision for retirement benefits is not required in the current year. The balance of the provision is being retained against any future deficiency.

The profits of the year have borne the cost of providing pensions to staff in respect of current services.

3 Provision for losses

£14,278,000 has been transferred to provision for losses in respect of provisions against advances made and guarantees entered into in connection with the Bank's involvement in support operations, offset by a reduction in the provisions required for British government and other securities.

4 Payment to the Treasury

1975		1976
£ thousands		£ thousands
3,000	Payable 5th April 1976	3,000
3,000	Payable 5th October 1976	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:

1975		1976
£ thousands		£ thousands
4,223	UK corporation tax at 52%	(5,173)
(628)	Deferred tax	11,894
<u>3,595</u>		<u>6,721</u>

The difference in timing in the recognition for tax and book purposes of certain income and expenditure of the Bank has resulted in the Bank having an assessable loss for tax purposes this year as compared with a book profit. A claim has been made in accordance with the relevant legislation for repayment of tax paid in previous years (£5,173,000), and the balance of the loss has been carried forward against future profits.

The overall tax charge, after accounting for deferred taxation, is high in relation to the operating profit after dividend because of the restriction of the amount of the repayment which can immediately be claimed in respect of this tax loss.

In previous years it has been the Bank's practice to include within the current tax charge the taxation in respect of transfers from the provision for retirement benefits to the Pension Fund. As the transfer referred to in *Note 2* is to be allowed for tax purposes over a period of years, the deferred taxation effect has been taken into account and the elements of the taxation charge for the year ended 28th February 1975 have been reclassified accordingly.

6 Reserves

	£ thousands
Balance at 1st March 1975	103,582
Profit of the year retained	3,191
	<u>106,773</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

1975			1976	
£ thousands			£ thousands	
886,339		British government Treasury bills	1,103,374	
1,279		Other bills	2,735	
<u>887,618</u>			<u>1,106,109</u>	

10 Investments (at cost less provisions)

1975			1976	
£ thousands			£ thousands	
Book value	Market value		Book value	Market value
128,643	135,422	Securities of, or guaranteed by, the British Government	136,632	143,831
3,284	3,534	Local authority bonds	1,093	1,243
		Other securities:		
12,833	13,512	Quoted	17,961	20,041
	Directors' valuation			Directors' valuation
21,608	21,608	Unquoted	26,017	26,017
<u>166,368</u>	<u>174,076</u>		<u>181,703</u>	<u>191,132</u>

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

1975		1976
Percentage held		Percentage held
27	Agricultural Mortgage Corporation Ltd shares of £1	27
93	Commonwealth Development Finance Company Ltd 'B' ordinary shares of £1 (50p paid)	93
nil	Commonwealth Development Finance Company Ltd 'A' ordinary shares of £1 (10p paid) (Percentage of total CDFC Ltd equity held 41)	nil
15	Finance for Industry Ltd shares of £1	15
32	Portals Holdings Ltd ordinary stock	32

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

b The Bank also hold 50% of the equity share capital of:

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

These shares were acquired for a nominal consideration, and the Directors consider that it is not 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 1975	14,118	17,289	16,319	47,726
Acquisitions	303	675	1,511	2,489
Disposals	(132)	—	(1,926)	(2,058)
Cost at 29th February 1976	14,289	17,964	15,904	48,157
Accumulated depreciation	(2,570)	(2,855)	(5,504)	(10,929)
Net book value	11,719	15,109	10,400	37,228
Net book value 1975	11,703	14,908	10,612	37,223

During the year there have been transfers between premises and equipment arising from reclassification. The appropriate adjustments have been made to the opening balances and to the accumulated depreciation. The resultant increase in the depreciation provision of £89,000 has been charged to the profit and loss account.

Contracts for capital expenditure authorised by the Directors and outstanding at 29th February 1976 totalled £2,136,000 (1975 £1,786,000). Further capital expenditure authorised at that date, but not contracted for, is estimated at £1,491,000 (1975 £2,048,000).

12 Directors' remuneration

The aggregate emoluments of the Governors and Directors were:

1975		1976
£11,579	Fees	£11,401
	Other emoluments, including remuneration of Governors and Executive Directors and payments to Directors' Pension Funds	
£259,821		£259,557
£32,000	The emoluments of the Governor were	£32,000

Remuneration amounting to £6,000 (1975 £4,000) was waived by the Governor; two other members of the Court of Directors also waived remuneration amounting in aggregate to £9,610 (1975 £6,406).

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

1975		1976
12	Up to £2,500	12 (all at £500)
1	£17,501 to £20,000	1
3	£20,001 to £22,500	—
1	£22,501 to £25,000	4

13 Employees' remuneration

The following table shows the number of employees receiving emoluments in excess of £10,000 for the year within the bands stated. The table also shows the total amount of income tax applicable for 1975/76 at the higher end of each band and the corresponding take-home pay; it has been assumed for this purpose that the recipient was a married man without dependent children and with no other source of income.

1975		Tax	Take-home pay	1976
		£	£	
43	£10,001 to £12,500	5,475	7,025	113
22	£12,501 to £15,000	7,200	7,800	50
8	£15,001 to £17,500	9,025	8,475	32
4	£17,501 to £20,000	10,900	9,100	8
1	£20,001 to £22,500	12,900	9,600	3
1	£25,001 to £27,500	17,050	10,450	1

14 Charitable donations

Charitable donations during the year amounted to £126,100 (1975 £54,300); no political contributions were made.

15 Contingent liabilities

Outstanding exchange contracts for customers, together with irrevocable credits, amounted to £21,529,000 (1975 £49,823,000): these were covered by compensating contracts for corresponding amounts.

There were further contingent liabilities, including uncalled capital on investments, of £38,776,000 (1975 £43,628,000).

There is also a contingent liability for guarantees in respect of loans to the Burmah Oil Company Ltd of £277,150,000 (1975 £248,263,000).

16 Accounting for inflation

The Bank have noted the recommendations of the Sandilands Report and the comments of the Consultative Committee of Accountancy Bodies (CCAB), and are developing records to meet the requirements of current cost accounting (CCA).

For the present, and until the publication of a definitive accounting standard by the accountancy bodies, the effect of inflation on the Bank's accounts is shown in current purchasing power terms on the following pages.

Banking Department

Accounting for inflation

Summary of operating profit for the year ended 29th February 1976
and financial position at that date adjusted for the effects of inflation

Operating profit

Historical basis			Current purchasing power basis	
1975	1976		1976	1975
£000	£000		£000	£000
13,040	15,912	Operating profit/(loss) <i>Note 3</i>	(3,140)	(5,314)
		Payment to the Treasury under Section 1 (4) of the Bank of England Act 1946	6,000	7,380
<u>6,000</u>	<u>6,000</u>			
7,040	9,912	Profit/(loss) before taxation	(9,140)	(12,694)
<u>3,595</u>	<u>6,721</u>	Taxation <i>Note 2</i>	<u>6,721</u>	<u>4,422</u>
<u>3,445</u>	<u>3,191</u>	Retained profit/(loss)	<u>(15,861)</u>	<u>(17,116)</u>

Financial position

107,728	85,282	Net current assets	87,653	132,777
		Premises and equipment <i>less</i> depreciation	91,624	94,161
<u>37,223</u>	<u>37,228</u>			
144,951	122,510		179,277	226,938
		<i>less</i>		
<u>26,816</u>	<u>1,184</u>	Provision for retirement benefits	<u>1,184</u>	<u>32,984</u>
<u>118,135</u>	<u>121,326</u>	Capital and reserves	<u>178,093</u>	<u>193,954</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 29th February 1976. The current purchasing power basis figures for both this and last year are measured in pounds of purchasing power at 29th February 1976. The retail price index used at 29th February 1976 was 149.8 and at 28th February 1975 was 121.9; both figures are based on 15th January 1974 = 100.

2 Taxation

The tax charge 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		1976
£ thousands		£ thousands
13,040	Operating profit – historical basis	15,912
	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)		(2,284)
	b Other securities	
	Additional provision to reduce cost of other securities measured in pounds of current purchasing power to valuation.	
(5,090)		(3,780)
	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		1,854
	d Monetary items	
	Net loss in purchasing power on net monetary assets.	
(13,624)		(14,842)
(4,320)		(3,140)
	Adjustment required to update 1975 profit to 1976 £'s	
(994)		
(5,314)	Operating loss – CPP basis	(3,140)

Issue Department

Account for the year ended 29th February 1976

1975		1976	
£000		£000	£000
	Income and profits:		
539,618	Securities of, or guaranteed by, the British Government	443,279	
175,145	Other securities	<u>156,005</u>	599,284
	Expenses:		
9,083	Cost of production of Bank notes	10,648	
5,518	Cost of issue, custody and payment of Bank notes	5,948	
<u>111</u>	Other expenses	<u>13</u>	<u>16,609</u>
<u>700,051</u>	Payable to the Treasury		<u>582,675</u>

Statement of balances: 29th February 1976

1975		1976		1975		1976
£000		£000		£000		£000
	Notes issued:			11,015	Government debt	11,015
5,355,343	In circulation	6,042,259			Other securities of, or guaranteed by, the	
19,657	In Banking Department	7,741		4,624,853	British Government	5,233,632
				<u>739,132</u>	Other securities	<u>805,353</u>
<u>5,375,000</u>		<u>6,050,000</u>		<u>5,375,000</u>		<u>6,050,000</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 26th February 1976.

GORDON RICHARDSON *Governor*

J. Q. HOLLOM *Deputy Governor*

NELSON OF STAFFORD *Director*

P. A. S. TAYLOR *Chief of Administration*

