

Part 3 The Bank's accounts

The Banking Department accounts for the year ended 28th February 1977 show an operating profit of £13.0 million, compared with £15.9 million last year. The figures reflect substantial provision for losses arising from the Bank's involvement in support operations, either solely or in association with the clearing banks, offset to some extent by a reduction in the provisions required for British government and Other securities.

During the year, the Select Committee on Nationalised Industries conducted a further review of the Bank and, in its report, commented in particular on the low level of appropriations to reserves in the five years 1971-75. Discussions with the Treasury on this and other matters referred to in the Select Committee's report are still continuing: meanwhile, it has been agreed that the total payment for the year by the Bank in lieu of dividend should be £3.0 million, compared with £6.0 million in 1976. No interim payment having been made, this amount will be paid to the Treasury on 5th October 1977. After this payment and deduction of tax of £3.7 million, the transfer to reserves is £6.3 million.

The accounts this year include a source and application of funds statement and a current cost accounting (CCA) statement; they also reflect the result of a professional valuation of Bank premises. The source and application of funds statement follows the recommendations of Statement of Standard Accounting Practice No. 10 and is shown on page 32. The CCA statement, which is supplementary to the conventional accounts, is included on page 33 on the lines set out in Exposure Draft No. 18. The effect of the professional valuation of the Bank's freehold and leasehold premises on an open market value for existing use basis as at 28th February 1977 is shown in notes 6 and 12.

The usual statements of account relating to the Issue Department are shown on page 36. The profits of the note issue payable to the Treasury are £914.1 million, compared with £582.7 million last 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 25 to 32, which have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets, and the statements of account of the Issue Department set out on page 36. In our opinion

- 1 The accounts of the Banking Department, read in conjunction with the notes and in particular with note 3, give a true and fair view of the state of affairs of the Banking Department at 28th February 1977 and of the profit and source and application of funds 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 1977 and its balances at that date.

We have also examined the supplementary statement to the Banking Department's accounts prepared on a current cost basis of accounting, together with the notes thereto, set out on pages 33 to 35. In our opinion, the statement has been prepared in accordance with that basis.

DELOITTE & CO.

Chartered Accountants

London
8th June 1977.

Banking Department

Profit and loss account

For the year ended 28th February 1977

1976				1977	
£000	£000			£000	£000
	15,912	Operating profit	Note 1		13,023
		after charging:			
[14,278]		Provision for losses	Note 3	[16,159]	
		Payment to the Treasury under Section 1(4) of the Bank of England Act 1946	Note 4		3,000
	6,000				
	9,912				10,023
	6,721	Taxation	Note 5		3,714
	3,191	Profit transferred to reserves	Note 6		6,309

The notes on pages 28 to 31 form part of these accounts.

Banking Department

Balance sheet: 28th February 1977

1976			1977	
£000			£000	£000
14,553	Capital		14,553	
106,773	Reserves	<i>Note 6</i>	<u>172,837</u>	187,390
	Current liabilities			
84,855	Public deposits	<i>Note 7</i>	111,820	
979,525	Special deposits		711,575	
227,533	Bankers' deposits		372,293	
262,909	Other accounts	<i>Note 2</i>	361,647	
<u>6,000</u>	Payable to the Treasury	<i>Note 4</i>	<u>3,000</u>	<u>1,560,335</u>
<u>1,682,148</u>				<u>1,747,725</u>

The notes on pages 28 to 31 form part of these accounts.

1976			1977	
£000			£000	£000
	Liquid assets			
8,024	Notes and coin		16,970	
75,064	Cheques in course of collection	Note 8	106,796	
1,106,109	Treasury and other bills	Note 9	<u>695,963</u>	819,729
	Investments	Note 10		
136,632	Securities of, or guaranteed by, the British Government		137,127	
1,093	Local authority bonds		169	
43,978	Other securities		<u>52,194</u>	189,490
274,020	Advances and other accounts, less provisions	Note 11		640,792
37,228	Premises and equipment	Note 12		<u>97,714</u>
<u>1,682,148</u>				<u>1,747,725</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

Freehold and leasehold land and buildings are stated at a professional valuation on an open market value for existing use basis as at 28th February 1977.

Surpluses or deficits on revaluation are taken direct to reserves; no account is taken of the liability to taxation which could arise if the properties were disposed of at their revalued amounts.

Equipment is stated at cost less accumulated depreciation. Fully depreciated items at 28th February 1977 have been written out of the accounts.

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

Freehold land	nil
Freehold buildings	over estimated future life
Leasehold premises	over the period of the lease or estimated future life
Equipment (other than computers)	over estimated useful life
Computers	over five years

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, principally 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.

g Retirement benefits

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

1 Operating profit

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

1976 £ thousands		1977 £ thousands
	Income	
	Interest:	
18,502	Treasury and other bills	23,921
16,419	Securities of, or guaranteed by, the British Government	17,108
150	Local authority bonds	45
	Other securities:	
2,233	Quoted	1,968
812	Unquoted	1,603
26,414	Advances	28,668
33,193	Charges for services to the Government	32,846
625	Rents	806
	Charges	
20,256	Interest paid to depositors	25,741
271	Directors' emoluments (<i>Note 13</i>)	280
23	Auditors' remuneration	30
477	Hire of computers and other equipment	486
2,346	Depreciation of premises and equipment	2,154

2 Other accounts

A balance of £1,184,000 in respect of provision for retirement benefits is now included under this heading (1976 £1,184,000).

3 Provision for losses

After making allowance for a reduction in the provisions required for British government and Other securities, £16,159,000 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, either solely or in association with the clearing banks. In some cases, the security supporting the advances or guarantees will only be realisable over a period of years. The evaluation of the appropriate provisions has been made on the basis of the best information presently available.

4 Payment to the Treasury

1976		1977
£ thousands		£ thousands
3,000	Payable 5th April 1977	—
3,000	Payable 5th October 1977	3,000
<u>6,000</u>		<u>3,000</u>

5 Taxation

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

1976		1977
£ thousands		£ thousands
(5,173)	UK corporation tax at 52%	(1,319)
<u>11,894</u>	Deferred tax	<u>5,033</u>
<u>6,721</u>		<u>3,714</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 (£1,319,000), and the balance of the loss has been carried forward against future profits.

The charge for taxation is low in relation to the operating profit after dividend because provisions no longer required have been credited to profit and loss account without attracting a tax charge. These provisions were not allowed for tax purposes when originally set up, which was prior to the recognition of deferred tax in the Bank's accounts.

6 Reserves

		Revaluation surplus Bank's freehold and leasehold properties (Note 12)	£ thousands
	General reserve		Total
Balance at 1st March 1976	106,773	—	106,773
Profit of the year retained	6,309	—	6,309
Surplus on revaluation of fixed assets, including provision for depreciation no longer required	7,316	52,439	59,755
	<u>120,398</u>	<u>52,439</u>	<u>172,837</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

1976		1977
£ thousands		£ thousands
1,103,374	British government Treasury bills	693,724
2,735	Other bills	2,239
<u>1,106,109</u>		<u>695,963</u>

10 Investments (at cost less provisions)

1976 £ thousands			1977 £ thousands	
Book value	Market value		Book value	Market value
136,632	143,831	Securities of, or guaranteed by, the British Government	137,127	144,348
1,093	1,243	Local authority bonds	169	200
		Other securities:		
17,961	20,041	Quoted	18,564	22,203
	Directors' valuation			Directors' valuation
26,017	26,017	Unquoted	33,630	35,889
181,703	191,132		189,490	202,640

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

1976 Percentage held		1977 Percentage held
27	Agricultural Mortgage Corporation Ltd shares of £1	27
	Commonwealth Development Finance Company Ltd:	
nil	'A' ordinary shares of £1 (10p paid)	nil
93	'B' ordinary shares of £1 (50p paid)	93
41	Percentage of total nominal equity held	41
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 Advances and other accounts

Included under this heading is a deferred tax balance of £17,564,000 (1976 £22,597,000).

12 Premises and equipment

	£ thousands			
	Freehold premises	Leasehold premises (all over 50 years)	Equipment	Total
Cost at 1st March 1976	14,289	17,964	15,904	48,157
Acquisitions	50	591	2,259	2,900
Disposals	—	—	(459)	(459)
Revaluation adjustment and other transfers	39,775	15,220	(2,556)	52,439
Cost or valuation at 28th February 1977	54,114	33,775	15,148	103,037
Accumulated depreciation	—	—	(5,323)	(5,323)
Net book value	54,114	33,775	9,825	97,714
Net book value 1976	11,719	15,109	10,400	37,228

The figures relating to property interests reflect a professional valuation of Bank freehold and leasehold premises on an open market value for existing use basis as at 28th February 1977 by St Quintin Son & Stanley, Chartered Surveyors. Consequent upon this valuation, certain items of equipment have been reclassified. No account is taken of the liability to taxation which could arise if the properties were disposed of at their revalued amounts.

Contracts for capital expenditure authorised by the Directors and outstanding at 28th February 1977 totalled £5,148,000 (1976 £2,136,000). Further capital expenditure authorised at that date, but not contracted for, is estimated at £2,258,000 (1976 £1,491,000).

13 Directors' emoluments

The aggregate emoluments of the Governors and Directors were:

1976		1977
£11,401	Fees	£11,410
£259,557	Other emoluments, including remuneration of Governors and Executive Directors and payments to Directors' Pension Funds	£268,944
£32,000	The emoluments of the Governor were	£32,000

Remuneration amounting to £6,000 (1976 £6,000) was waived by the Governor; one other member of the Court of Directors waived remuneration amounting to £5,360 (1976 2 members £9,610).

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

1976		1977
12	Up to £2,500	12 (all at £500)
1	£17,501 to £20,000	—
—	£20,001 to £22,500	1
4	£22,501 to £25,000	4

14 Employees' emoluments

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 1976/77 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.

1976		Tax	Take-home pay	1977
		£	£	
113	£10,001 to £12,500	5,275	7,225	118
50	£12,501 to £15,000	7,000	8,000	54
32	£15,001 to £17,500	8,800	8,700	36
8	£17,501 to £20,000	10,675	9,325	15
3	£20,001 to £22,500	12,675	9,825	3
1	£25,001 to £27,500	16,825	10,675	1

15 Charitable donations

Charitable donations during the year amounted to £65,800 (1976 £126,100); no political contributions were made.

16 Contingent liabilities

Outstanding exchange contracts for customers, together with irrevocable credits, amount to £52,214,000 (1976 £21,529,000); these are covered by compensating contracts for corresponding amounts.

There are further contingent liabilities, including uncalled capital on investments, of £55,098,000 (1976 £38,776,000).

There is also a contingent liability for guarantees in respect of loans to The Burmah Oil Company Ltd of £58,394,000 (1976 £277,150,000), against which the Bank hold security.

Banking Department

Statement of source and application of funds for the year ended 28th February 1977

1976		1977
£000		£000
	Source of funds	
15,912	Operating profit	13,023
	Adjustment for items not involving the movement of funds:	
2,346	Depreciation	2,154
18,258	Funds generated by operations	15,177
	Funds from other sources:	
138	Disposal of premises and equipment	16
18,396		15,193
	Application of funds	
6,000	Payment to the Treasury	6,000
5,410	Tax paid/(received)	(5,704)
2,489	Purchase of premises and equipment	2,900
9,538	Investment in other securities	8,215
53,400	Transferred to pension fund	-
(58,441)	Increase/(decrease) in working capital (see below)	3,782
18,396		15,193
	Analysis of working capital	
	Increase/(decrease) in:	
229,647	Current assets	(369,897)
(204,121)	Advances and other accounts, excluding taxation	376,191
25,526		6,294
(83,967)	Current liabilities, excluding payment to the Treasury	(2,512)
(58,441)		3,782

Banking Department

Supplementary statement on current cost accounting (Note 1)

Summary of operating profit for the year ended 28th February 1977

		£000	£000
Current cost profit before taxation	Note 3		5,330
Taxation	Note 4		<u>3,182</u>
Current cost profit for the year			<u>2,148</u>

Appropriation account for the year ended 28th February 1977

Current cost profit for the year			2,148
Net surplus on revaluation of assets	Note 5	5,550	
Transfer to revaluation reserve	Note 6	<u>(18,788)</u>	<u>(13,238)</u>
less			(11,090)
Payment to the Treasury under Section 1(4) of the Bank of England Act 1946			<u>3,000</u>
Deducted from general reserve			<u>(14,090)</u>

Financial position as at 28th February 1977

1976		1977
£000		£000
	Net assets:	
51,692	Net current assets	49,490
53,441	Other securities	58,092
105,366	Premises and equipment after provision for depreciation	<u>107,615</u>
<u>210,499</u>		<u>215,197</u>
	Represented by:	
14,553	Capital	14,553
123,840	General reserve	109,750
72,106	Revaluation reserve	<u>90,894</u>
<u>210,499</u>		<u>215,197</u>

The notes on pages 34 and 35 form part of this statement.

Notes on the supplementary statement on current cost accounting

1 Basis

- a This supplementary statement follows the recommendations of the Inflation Accounting Steering Group's Exposure Draft No. 18.
- b British government stocks have been treated as monetary items in the calculation of net monetary assets.

2 Revaluation of assets

a Equipment

Some 60% of the value of equipment (mainly computer assets and printing machines) was calculated from suppliers' current price lists. The figures for the remainder of the equipment were calculated by using the price index numbers for current cost accounting, produced by the Central Statistical Office. The undermentioned indices were used:

Capital expenditure on plant and machinery in insurance, banking, finance and business services

Capital expenditure on plant and machinery in paper, printing and publishing and

Price indices for the following specific types of asset – cars, commercial vehicles, office furniture, and equipment and machinery.

b Premises

The figures relating to property interests reflect a professional valuation of Bank freehold and leasehold premises by St Quintin Son & Stanley, Chartered Surveyors, as at 28th February 1977, on an open market value for existing use basis, in accordance with the R.I.C.S. draft guidance notes on valuations for current cost accounting purposes under E.D.18. The same valuation has been taken at 29th February 1976, adjusted for depreciation provided during the year.

3 Operating profit

The difference between the operating profit stated on an historical basis and on a current cost accounts basis is made up as follows:

	£ thousands
Operating profit – historical basis	13,023
Adjustments to convert to a current cost accounts basis	
a Depreciation	
Additional charge based on current cost of premises and equipment.	(1,659)
b Securities	
Exclusion of provisions on securities, offset by a reduction in losses on sale of securities on a current cost accounts basis and net appreciation of securities to market value.	(6,034)
Operating profit – current cost accounts basis	<u>5,330</u>

Current cost profit is shown after net interest received.

4 Taxation

The tax charge is the historic accounts figure less an adjustment in respect of the deferred tax liability for equipment purchased during the year.

5 Surplus arising from revaluation of assets

	£ thousands
Revaluation of Premises and equipment	3,179
Revaluation of Other securities	<u>2,371</u>
	<u>5,550</u>

6 Transfer to revaluation reserve

As there is no accepted basis for appropriation to revaluation reserve, the Directors have determined that the transfer for the Banking Department for the year ended 28th February 1977 shall be the unrealised appreciation of fixed assets

and securities, together with the amount necessary to compensate for the fall in value of net monetary assets, as follows:

	£ thousands	
Balance of Revaluation reserve at 1st March 1976		72,106
Transfer from Appropriation account:		
Revaluation of assets	5,550	
Transfer to provide for change in value of net monetary assets during the year	<u>13,238</u>	<u>18,788</u>
		<u>90,894</u>

7 Change in shareholders' net equity interest after allowing for the change in the value of money

	£ thousands
Net equity interest at beginning of year	210,499
Amount required to compensate for the change in the value of money during year	<u>33,680</u>
	244,179
Net equity interest at end of year before payment to the Treasury in lieu of dividend	<u>218,197</u>
Loss for year after allowing for the change in the value of money	25,982
Payment to the Treasury in lieu of dividend	<u>3,000</u>
Loss for year after allowing for the change in the value of money and after payment to the Treasury in lieu of dividend	<u>28,982</u>

The allowance for the change in the value of money was made by applying the general index of retail prices, based on January 1974=100. At 1st March 1976 the index stood at 149.8, and at 174.1 at 28th February 1977. The loss on net monetary assets, after allowing for the change in the value of money, is £13,238,000.

Issue Department

Account for the year ended 28th February 1977

1976		1977	
£000		£000	£000
	Income and profits:		
443,279	Securities of, or guaranteed by, the British Government	636,263	
156,005	Other securities	298,248	
—	Other receipts	83	934,594
	Expenses:		
10,648	Cost of production of Bank notes	13,062	
5,948	Cost of issue, custody and payment of Bank notes	7,432	
13	Other expenses	—	20,494
<u>582,675</u>	Payable to the Treasury		<u>914,100</u>

Statement of balances: 28th February 1977

1976	1977	1976	1977
£000	£000	£000	£000
	Notes issued:	11,015	Government debt
6,042,259	In circulation	6,758,257	Other securities of, or guaranteed by, the
	In Banking		British Government
7,741	Department	16,743	5,540,349
		805,353	Other securities
<u>6,050,000</u>	<u>6,775,000</u>	<u>6,050,000</u>	<u>1,223,636</u>
			<u>6,775,000</u>

- Notes
- 1 The income and profits and value of securities 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 1977.
 - 2 In October 1976, The Burmah Oil Company Ltd served a writ on the Bank claiming, *inter alia*, the restitution of the 77,817,507 British Petroleum ordinary stock units which had been purchased from Burmah in 1975 for a consideration of some £179 million. A defence has been entered to this claim.

GORDON RICHARDSON Governor

J. Q. HOLLOM Deputy Governor

NELSON OF STAFFORD Director

P. A. S. TAYLOR Chief of Administration

