Construction of the series

The accounting records of the Bank of England go back to its foundation in 1694 and appear to be very complete, but as far as we are aware these have not been discussed in the accounting history literature. The primary source used for this series is the Bank’s unpublished profit and loss account. This can found in the Bank’s General Ledger, and in more convenient form in yearly and half-yearly accounts (see notes to table 1 for details). From 1971 we have used the published accounts, adjusted to take account of various contemporaneous internal sources, notably one by John Rumins (Rumins 1995). While some long-run profits series were compiled internally, coverage is not complete and there is nothing covering the period prior to the 1840s. Our series, for the first time, does this.

As well as providing complete coverage in terms of time period, the series also offers data which are, as far as practicable, consistent. Unsurprisingly, over a period of 325 years, there have been numerous changes in the presentation of the accounts and our series reflects this. For example, the length and end date of the accounting period changed several times, while the treatment of the dividend, tax, and exceptional items also varied. In the early years the profit and loss account was struck at various times before settling on a 12-month period ending 31 August. This continued until 1764, after which there was a move to a six-month accounting period ending in February and August. This pattern remained in place until the annual accounts were first published in 1971 with a 12-month period ending 28/9 February. This remains the case today. We have adopted the February financial year-end and aggregated the six-monthly data back to 1765, retaining the August year-end before that.

For much of the Bank’s existence, taxation was not an issue. Income Tax payments were made briefly from 1804, and started again in 1842, although these were not separately recorded in the General Ledger until 1886. Excess Profits Duty was paid during the First World War and this has been added to general taxation in our data. Before 1970, tax was included with other expenditure items in the accounts. It seems that the Bank only started to use a pre-tax profit figure with the advent of published accounts in 1971. Our pre-tax series has been constructed by adding the tax back in, and this means that we are unable to corroborate these figures with other internal sources.

Dividends on Bank Stock were paid six-monthly. Up to 1854 these payments are shown as normal items of expenditure in the profit and loss account. We can find no evidence as to why dividends were treated as expenditure, or why the change was made in 1854, but in any case a pre-dividend profit figure is more relevant to us and of course in line with current accounting conventions. In order to derive a pre-dividend profits series, we have removed these payments which has the effect of reducing normal expenditure and increasing the stated profit. We have also made similar adjustments for the various ‘bonus’ payments to shareholders during the Napoleonic Wars and after. From 1854 the dividends were paid direct from a reserve account called ‘The Rest’ which was topped-up at the end of each accounting period by transfers from the profit and loss account. It should also be noted that income tax was deducted at source on dividend payments and this explains the fact that the cash sums reduce while the dividend percentage was unchanged, notably from the 1920s. After taking account of these items, we have a consistent post-tax, post-dividend profit series, effectively the retained profit.

The main differences in the available figures occur as a result of how retained profit is allocated. At various times the Bank’s accounts include write-downs against the value of securities held on its books, mainly British and other government issues. These write-downs could be large: something in the order of £25 million in the inter-war years at a time when total market valuation was £115 million and the book value was £100 million (February 1939). Although the precise term was not used in the earlier accounts, write-offs also appear, either for capital expenditure on premises (for instance new branches around England), and equipment, or for losses on bad debts, missing cheques, and miscellaneous claims against the Bank. The internal sources allow us to present a consistent series on the use of retained profit for write-offs, write-downs, and allocation to reserves from 1890 to 1970. The largest sum written-off was nearly £1.8 million in 1930 including £1.7 million due to the Bank’s reconstruction of the engineering company Armstrong Whitworth and £25,000 attributable to the Hatry Scandal. Clarence Hatry was a City financier who received a 14 year jail sentence for fraud and forgery in 1929 (Swinson 2019). Once the Bank started to publish its annual accounts, the pre-tax profit was shown after provisions (which had previously been charged directly to reserves) and exceptional items. When the provisions were significant, these were indicated in the accounts but not consistently and this means we are unable to continue our series on the previous basis. For much of the period there is an absence of detail on specific accounting conventions. These become more explicit once accounts were published and indeed there have been numerous restatements as a result of changes to accounting practices and standards. Our series take account of such changes in 1975, 1981, 1991, 1995, 2006, 2007 and 2013.

Turning to reserves, from the very beginning not all of the Bank’s profit was given over to shareholders through dividend payments. This ‘unallocated profit’ was carried forward in the profit and loss account. Over the years the cumulative figure grew, though it was sometimes drawn down to meet dividend and other payments. According to Francis, a decision was made in 1722 to set aside unallocated profit to be known as ‘The Rest’ (Francis 1848, Vol. I, pp. 148-9). This claim has been repeated by other authors over the years. However, Clapham found no evidence for this and we concur (Clapham 1946, Vol I, p. 154). The earliest source that we can find of this balance being called the Rest is 1845 when it became a separate account in the General Ledger. In addition to the Rest, other sums were accumulated in various reserve or suspense accounts that were gradually built-up from the end of the nineteenth century. Sayers provides a series for reserves starting in 1890, though we are unable to reconcile completely with this, and we continue from 1939 with internal sources, and from 1971 using the published accounts.

We note the creation of separate Banking and Issue Departments following the 1844 Bank Charter Act. In accounting terms, up until 1911 the profits from the respective Departments were recorded separately in the General Ledger. For reasons which we have not been able to ascertain, from 1912 this practice was discontinued and it is not possible to separate the profits of Issue and Banking for the years between 1912 and 1928. However, using available data on Issue Department income, we estimate that profits for 1912-28 lay within lower and upper bounds of £0.35-0.55 million and £0.5-0.7 million. Actual data is available again from 1929 following the amalgamation of the Bank’s and the Treasury’s respective note issues.

Wartime tax regimes

The First World War saw the imposition of Excess Profits Duty (EPD), introduced in the Finance (No.2) Act of December 1915. All businesses were required to make an assessment of ‘excess’ profits against a pre-war ‘norm’, and EPD was levied as a percentage of the difference between the two (Kirkaldy 1921; Arnold 2014). The duty was initially 50%, of the excess profits, but this was increased to 60% in 1916, 80% in 1917, reduced to 40% in 1919 and then back up to 60% in 1920 (De Cogan et al. p.110).

For the purposes of EPD, the Bank’s assessed pre-war normal profit was set at £0.42 million. However, exemptions were allowed under the rules and this figure did not include many of the elements contributing towards profits, not least because a large part of the interest received in investments was quite legitimately not part of the EPD assessment. Crucially then, EPD was assessed against only a proportion of actual profits; the £0.42 million was in fact only about 25 per cent of the total pre-war profits of approximately £2 million. Nonetheless, on this calculation total excess profits for the years 1915 to 1919 were £11.37 million and the Bank paid EPD totalling £7.23 million (see Table 2).

In January 1918 an internal committee had been appointed by the Bank to look at profits and in particular to decide, ‘Whether some portion of the accrued war profits should be handed over as a gift to the nation’ (Minutes of Court of Directors, 21 Feb 1918, BoE G4/140). As part of this review, the Bank sought the opinion of its lawyers, Freshfields, who concluded that profits could not be handed over without the approval of all of the Bank’s 12,000 shareholders. In 1919, at the suggestion of the Chancellor of the Exchequer, and as part of a settlement with the Treasury over the remuneration for stock management services, the Bank made further EPD payments totalling £2.58 million. This figure represented the unpaid balance of the calculated excess profits (£3.44 million less income tax paid) for the five years 1 March 1914 to 28 February 1919, and effectively meant that the Bank had been required, in a time of crisis, to pay EPD at the rate of 100%, a possibly unique imposition on any business. In a letter to Cokayne, who was then Governor, the Chancellor, Austen Chamberlain, thanked the Bank for its actions, describing it as ‘but one more illustration of the public spirit of the great institution over whose fortunes you preside’ (Chamberlain (Chancellor of the Exchequer) to Cokayne (Governor), 22 Mar. 1919, BoE C40/180). Subsequently EPD payments were made for the years 1920 (£1.51 million) and 1921 (£3.52 million). Overall, large as these sums were, the calculated excess profits of £21.75 million for the years 1915-21 were, for the reason already noted, far lower than the actual profits of £49.19 million in the financial years ending February 1916 to February 1922.

During the Second World War, EPD was replaced by Excess Profits Tax (EPT) which like its predecessor was assessed against a chosen base year. However, unlike the EPD assessment the base figure for EPT bore a closer resemblance to actual profits and in this case there was advantage in the base being relatively high. The Bank selected 1937 and a figure of £3.3 million, one which proved to be ‘an exceptionally favourable standard period’ (Humphrey Mynors (Secretary) to Montagu Norman (Governor), 4 Jul. 1941, BoE ADM6/122). Indeed, so favourable was it that the Bank did not pay any EPT at all.

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