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**CHANGES IN THE DEPRECIATION
OF BUILDINGS IN AN ENGLISH
BUILDING SOCIETY, CIRCA 1959:
FINANCIAL AND GOVERNANCE
IMPLICATIONS**

Batiz-Lazo, Bernardo

University of Leicester

August 2006

Online at <https://mpra.ub.uni-muenchen.de/4617/>

MPRA Paper No. 4617, posted 02 Sep 2007 UTC

Accounting policy and management discretion in an English building society, circa 1959

Bernardo Bátiz-Lazo¹

April 2006.

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Keywords : Depreciation, asset management, building societies, United Kingdom.

¹ Bernardo Bátiz-Lazo is a senior lecturer at Bristol Business School, Frenchay Campus, Bristol BS16 1QY, UK (tel: +44 (0)117 32 836 610; fax: +44 (0)117 328 2289; e-mail: bernardo.batiz@1998.alumni.man.ac.uk).

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Introduction

Depreciation has long been considered by the accounting community as a fact of life and because of that (or in spite of it), systematic studies of depreciation have received little attention in Europe (Burlaud *et al.*, 1996: 300). This has not been the case in Australia and US. In Australia there was an interesting debate around possible explanations for changes in share prices associated with companies reporting depreciation of buildings qualifications (Ball *et al.*, 1979: 26; Clinch, 1983; Craswell, 1986). This debate raised key issues for accounting research including the assessment of whether a strict allocation of economic costs is being applied as well as the practical implications of implementing a true and fair view.

In the US possibilities for changes in depreciation policy to manipulate reported earnings have been explored within manufacturing and public utilities (e.g. Comiskey, 1971; Dye and Magee, 1991; Czaja, 1995; Barth *et al.*, 2001; Ibrahim, 2005). These studies investigated the role of accruals in predicting future cash flows and emphasised the exploration of the impact of capital expenditure on stock market performance. In these studies, ‘depreciation expense is normally not a material amount for [US] banking companies’ (Walther, 1982: 380). As a result, banks and other financial service organisation have been excluded from the analysis of discretionary accruals. However, investigating the role of accruals is of relevance for the history of financial service organisations because ‘tax policy and depreciation profoundly influenced the timing of when companies acquired large computers, which were capital-intensive investments’ (Cortada, 2004: 23).

Research in this paper addresses the otherwise neglected topic of the impact of fixed asset depreciation on the reported earnings on financial service organizations.

The article reports research that departs from the traditional analysis of the manipulation of financial reports in the context of stock market efficiency. This by looking at the change of the rate of depreciation of freehold buildings by directors of an English building society in the context of new regulation. The year 1959 was a turning point for UK building societies. In that year many societies obtained Government recognition in two forms: 'their deposits became authorized trustee investments and building societies became entitled, for the first time in their long history, to borrow from H. M. Government.'¹ The changes introduced between 1959 and 1962 were the first general alteration of the legislative code for building societies since 1894 and were accompanied by the introduction of a minimum net reserve ratio (of 2.5 per cent of net assets at the end of 1960) and a minimum liquidity requirement (of 7.5 per cent of total assets at the end of 1960).

After some dispensations, of the 732 registered societies in December 1960, there were 218 societies (including four non-members of the Building Societies Association) whose assets had been designated as one in which trustees may deposit trust funds. The sum of total assets of these 218 societies was estimated at £2,994,000,000, equivalent to 94% of the assets of all registered societies at the end of 1960 (Registry of Friendly Societies, 1961: 6). Research in this article examines one of the societies that qualified for trustee status: The Co-operative Permanent Building Society (CPBS) and in particular, the decision of its directors to change the rate of asset depreciation (and thus achieve the required level of net reserves in 1960) but, notably, without making any notification in the financial statements.

The move by the Board of the CPBS is analysed in terms of issues against the decision by the directors, that is, in favour of qualification of the audit report; and issues in favour of the decision by the directors, that is, against qualification of the

audit report. These issues included consistency of depreciation policy, transparency, responsibility to stakeholders, impairment, materiality/immateriality of amount being adjusted, possibilities of long-term problems, and others (i.e. potential private considerations of auditors and possibilities for liability management in the 1960s).

In summary, this article sheds light on the strategic response of a UK financial intermediary when regulatory change curtailed its growth opportunities. The evolving nature of accounting policy and strategic decision-making are the motivation for analysing this case with an historical perspective. Rather than providing an explanatory hypothesis to a problem, research in this article aims to analyse the financial implications of accounting practices and show how and why those practices emerged in their respective historical contexts. Central to these explanations is providing a detailed examination of managers' concerns about the effects of an audit report qualification on stakeholder evaluation of their performance.

The remainder of the article proceeds as follows. The next section details possibilities for asset management at building societies in the decades that followed the Second World War. In this context, regulatory change chiefly aimed to modify the behaviour of building societies by altering their asset management practices. This section also details the standard practice for the depreciation of fixed assets in Britain as well as disclosure requirements for building societies. The third section deals with the introduction of a minimum reserve requirement for building societies as part of their designation for trustee status and in the context of housing policy during the 1950s. The fourth section presents the response of the Co-operative Permanent to the new regulation. The fifth section discusses the accounting implications of a change in the depreciation policy as part of the CPBS response to the new regulatory regime and ascertains why it was possible for CPBS's directors and auditors to proceed without

notifying the change of depreciation policy in the financial statements. The sixth and final section offers tentative conclusions and points to possibilities for further research.

Asset management and depreciation in building societies, 1950-1970

Asset management in the 1950s and 1960s

The history and performance of building societies in the twentieth century has been documented elsewhere (see further Davies, 1981; Boléat, 1986; McKillop and Ferguson, 1993; Jeremy, 1998; Bátiz-Lazo, 2004). From this history it emerges that liquidity management is at the front line of the business of transforming retail deposits and 'share' investments into long-term financing of house purchases (Perks, 1977: 34-7; Phillips, 1983; Thygerson, 1995: 254-8). Liquidity management involves meeting liquidity requirements through the management of assets, liabilities or both (i.e. portfolio liquidity management). For most of the twentieth century, retail financial intermediaries in the UK were constrained to meet short-term liquidity requirements through asset management. Before the introduction in 1971 of the package of monetary control measures known as 'Competition and Credit Control', British retail financial intermediaries generally accepted the size and composition of their deposits as given (Howells and Bain, 2004: 100). Section 12 of the Building Society Act 1960 first gave authority, at the instance of the Chief Registrar and with the consent of the Treasury, for any one society to lend funds to another society 'in financial difficulties'. This statute was first implemented in October 1960, when the Alliance allowed the Barrow-on-Soar to remain liquid through a short-term loan of £100,000 – about a third of the Barrow-on-Soar's total assets.² But in spite of this provision and with the exception of government loans in 1959 and 1974, it was unusual for societies

to borrow money other than through deposits and long-term investments called 'shares' (Perks, 1977: 31; Boléat, 1981: 153). The appointment of the so-called Stow Committee by the Building Societies Association (BSA) in 1979 was the first time societies systematically explored possible sources of finance from wholesale sources (Phillips, 1983: 12). Profitability for building societies, during the post-war period, thus depended upon the skill with which directors could employ deposits to make mortgage advances while keeping an adequate level of cash and liquid investments, that is, upon skilful asset management.

Other potential sources to meet liquidity or capital requirements such as decreasing dividend payment or issuing long term debt were outside the strategic realm of building societies. Dividend payments (i.e. to 'share' investments) followed recommended rates by the Building Societies Association and in turn, these were loosely tied to the Bank of England's base interest rate. Regulation overseeing the governance of building societies restricted possibilities to issue long-term debt and limited the issuing of new 'shares' to individual investments of less than £5,000.³ As was the case for banks in the UK and US until the late 1960s (Bradley and Crane, 1975: 2-3; Thygerson, 1995: 259), asset management was thus the dominant method to meet the short-term liquidity requirements of building societies.

In summary, during the 1950s and 1960s it was to be expected that regulatory changes (such as those in the Act of 1959) would have their greatest impact on building societies by modifying the structure of asset markets through direct intervention in the allocation of credit rather than modifying the behaviour of participants in those markets indirectly through transactions in open markets.⁴

Disclosure requirements for building societies

Disclosure requirements for building societies date to the Building Society Act 1894 which gave the Chief Registrar of Friendly Societies powers to intervene in the affairs of societies and required full accounting disclosure and professional audits (Phillips, 1983: 4). The Act of 1894 remained the main statute regulating disclosure until 1959, when the State Building Society collapsed as a result of its directors making mortgage advances, without proper security, for bridging finance in take-over bids to a company in which the directors of the State were also directors. This was also called the 'Jasper affair' and it led to an accelerated introduction of changes to disclosure requirements under the Building Society Act 1960 (Sections 38 to 49 *Accounts and Audits*; Sections 50 and 51 *The Annual Return*; Section 58 *False entries in documents sent to the Chief Registrar*). This and all other legislation relevant to building societies were subsequently consolidated in the Building Society Act 1962.

Disclosure requirements under the Act of 1960 were expressed in general terms, the emphasis being on the need to present a true and fair view. The changes introduced reinforced requirements for the valuation of collateral for mortgage loans and, following the 'Jasper affair', the disclosure by directors of interests in potential conflict with the running of the society's business.⁵

Before putting forward the new statutory instruments regulating disclosure in 1960, the Chief Registrar took advice from the BSA, the Institute of Chartered Accountants of England and Wales (ICAEW) and the Association of Certified and Corporate Accountants as well as considering the views of other interested parties and the financial press (Registry of Friendly Societies, 1961: 14). The new statutory instruments thus followed general guidelines established in the Companies Act 1948 that specified items specific to building societies which were otherwise loosely

detailed in the Companies Act. Although in many ways the statutory instruments made the Building Society Act 1960 more prescriptive than the Companies Act 1948, the 1960 Act gave no specific guidelines on depreciation as it simply required societies to disclose ‘...the method of arriving at the amount at which any office premises were shown in the society’s Annual Return’.⁶

Another potential source of details on the disclosure practices of building societies was the BSA’s ‘Financial Accounting Procedures’. These ‘Procedures’ showed items considered ‘source of great variability between building societies’, such as labour costs within ‘Total Management Expenses’.⁷ However, the BSA guidelines explicitly recognised that, behind the apparent simplicity and uniformity in the financial statements of building societies, there was a wide range of criteria in the application of accounting policies. But the ‘Procedures’ were mute on the issue of depreciation of fixed assets.

In light of the above, it seems that building societies were bound by the standard specified in Recommendation IX (Depreciation of Fixed Assets) of the ICAEW, which provided specific guidelines to charge depreciation (reproduced verbatim in de Paula, 1957: 328-30), namely:

- a) Goodwill and freehold land should not be depreciated (unless consumed as raw material; e.g. mines, oil wells and quarries).
- b) A provision for depreciation of freehold buildings, plant and machinery, tools and equipment, leaseholds, transport vehicles and any similar asset should be computed on the straight-line method. The provision to be shown in the profit and loss statement. The balance sheet should show the estimated unexpired

capital outlay of fixed assets, that is, the value of aggregate historical cost of the assets less aggregate provisions for depreciation.

Other methods of depreciation were acknowledged by the ICAEW but disregarded as inappropriate (de Paula, 1957: 79-80 and 135). So was the need to adjust historical values to reflect the fact that inflation since 1945 had greatly increased the replacement costs of fixed assets. One practical difficulty of the straight-line method was recognized, namely, forecasting when the obsolescence of the asset would arise (de Paula, 1957: 139).

At same time, auditors were duty-bound to test for errors in the calculation of provisions but only if these calculations were material in amount (Kettle, 1954b: 281; de Paula, 1957: 4). Moreover, auditors of building societies were to state, by way of a note to the Revenue and Appropriation account or a letter to the Chief Registrar, any items affected in every material respect by either (a) transactions of an exceptional or non-recurrent nature; or (b) by any change in the basis of accounting.⁸

Qualifying the audit report

The term 'audit qualification' is used here to describe clauses which express any type of reservation or adverse comment regarding the 'truth and fairness' of the financial statements. Qualifications should deal with (i) non-observance of statutory requirements; and (ii) any respects in which the accounts are, in the opinion of the auditors, not true and fair (Kettle, 1954a: 250). Qualifying the accounts could emerge from errors or omissions but also from a situation where the management team and the auditors have failed to agree on how the company has prepared a specific part of the accounts (Kettle, 1954b: 276; de Paula, 1957: 146; Ball *et al.*, 1979: 23). Through a qualification the auditor is bringing to the notice of the users of the accounts (i.e.

regulators, depositors and in the case of public companies, shareholders) an element not present elsewhere and which has material bearing on the financial statements. The auditor is not putting forward a criticism but effectively telling the users of the accounts that there is a disagreement on how the financial statements have been presented. This difference of opinion is vital for the understanding of the financial statements.

Audit qualifications will most likely lead to a revision of the value of the firm by stakeholders (Ball *et al.*, 1979: 26; Craswell, 1986: 31). In the early 1970s, the most common form of qualification for Australian firms quoted on the Sydney Stock Exchange and which continued as a going concern, related to the failure of firms to record 'depreciation of buildings' as a charge against profits (Ball *et al.*, 1979: 26). Reasons outlined in Australia for non-compliance included the time spent disputing with auditors (i.e. higher audit fees), the cost to distinguish between building and freehold land, increased time for self-audit (i.e. spent on preparation for year end audit), possibilities of political intervention, increased possibilities litigation, and possible violations of restrictive covenants.

Although in principle qualifying the accounts could be taken as a serious action by the auditors, empirical evidence on the response of shareholders to depreciation of buildings qualifications using different samples of firms quoted on the Sydney Stock Exchange has shown mixed results (Ball *et al.*, 1979: 27; Clinch, 1983: 143; Craswell, 1986: 32). However, alternatives for the building societies were severely curtailed when compared with a listed company. Their mutual status negated any possible access to the stock market while regulation and the incipient development of long-term debt markets further constrained external sources of finance.

As noted by Craswell (1986: 31), Australian managers contemplating audit qualifications in the period prior to 1971 had very little experience in the effects of qualifications. However, the uncertainty surrounding the effects of qualifications would have been reduced as the frequency of qualifications increased during the first half of the 1970s.

In the UK, inconsistencies in the requirements of paragraphs 3 and 4 of the Ninth Schedule of the Companies Act 1948 were blamed as the source of difficulties in distinguishing auditors' comments (i.e. amplifications) from outright qualifications (Kettle, 1954a: 250). For instance, Kettle (1954b: 277) cites an auditor's report describing an improper depreciation of fixed assets as an exemplar of the consequences of obscure qualifications. Unfortunately he fails to discuss whether qualifications resulting from doubtful depreciation practices were widespread or not. A search of public sources (namely the Times Digital archive) suggested that, between January 1950 and December 1970, audit qualifications of UK-based listed companies were a 'news worthy item' only after 1967.⁹

A widespread threat for financial accounts of building societies being qualified emerged until October 1978, that is, following the failure of the Grays Building Society. Mr Keith Branding, Chief Registrar, and Mr Eric Sayers, President of the ICAEW, respectively wrote to societies and their auditors warning them of the lax application of the 1962 Act while reminding them of Section 38(2), which made specific provision for individual societies to keep (and auditors to examine) a system of control, inspection and supervision.¹⁰ Both Mr Branding and Mr Sayers were of the view that there was an impending need to reappraise those systems – particularly at small societies.

Financial reports (Form A.R. 11) of the top five building societies for fiscal years between 1951 and 1970, were often accompanied by notes regarding extraordinary matters. However, none of the notes and letters from external auditors to the Chief Registrar that accompanied A.R. 11 forms criticised or otherwise disagreed with the directors of the five biggest building societies.

Depreciation of freehold property in building societies

Profit-smoothing seems to have been an important consideration for managers in the mid-twentieth century. Depreciation was one tool available when managers wished to increase (or decrease) profits, depending upon the prevailing economic conditions. Baum (1989; 1993) and Scott (1996) note that such practices remained unchanged until the early 1980s, a time that saw a rapid development of interest in the UK in property depreciation and obsolescence. According to Edwards (1989), the usual practice in mid-twentieth century Britain was to expense all repairs and renewals with no regular provision for depreciation. That was indeed the case in the clearing banks during the post-war period, which all charged spending on equipment to the profit and loss account (Capie and Billings, 2001: 237). Higher spending on equipment (partly arising from computerisation) in the 1950s was followed by changes in accounting treatment, with Westminster Bank capitalising equipment in 1964 and Lloyds Bank in 1969 (Capie and Billings, 2001: 237). Evidence documented in Perks (1977) suggested a very similar situation at building societies. He offered anecdotal evidence, through an informal survey of chief financial officers of building societies, claiming that, up to the mid 1970s, societies:

‘...capitalised everything they could get away with, including some very questionable items, in order to minimise the management expense figure. In the short term this policy is likely to be successful, but over a period of years the amounts capitalised will inevitably be reflected in increased depreciation charges.’ (p. 177). Moreover, ‘in 1975 the only society which specifically

stated that depreciation was charged on freehold property was the Halifax, the rate being 2 per cent per annum on the reducing balance. The other societies appear to charge depreciation or amortisation only on those premises which are held on short leaseholds... Most property is, however, recorded in the books at cost less depreciation; sometimes it is not even possible to arrive at the historic cost of the premises because only the net figure is shown.' (p. 181).

Archival evidence thus suggested that accounting guidelines were not effectively applied by building societies. Moreover, there is no evidence to suggest it was standard practice for building societies to depreciate freehold buildings in the 1960s. Research in this article goes on to explore the consequences of an apparent change in the depreciation formula of the CPBS. This is important because there are cash-flow considerations of changing depreciation formulae when such changes affect the rate of dividend declared or in the case at hand, the change impacts financial ratios (Clinch, 1983: 139). Profit smoothing through changes in the depreciation formula has the potential to 'bias' reported earnings, departing from the 'true and fair' view and distorting the usefulness of financial reports to ascertain economic performance.¹¹ But prior to exploring the manipulation of published financial reports in detail, the next section offers the process of change in British housing policy including the introduction of reserve requirements for building societies.

Introduction of minimum reserve requirements in 1959

Housing policy

Growth of building society advances took off in the 1920s and accelerated during the 1930s (Humphries, 1987). Business stagnated for building societies with the advent of war as well as Labour's policies to promote housing by means other than private ownership. There is little evidence to suggest the societies were serious candidates for nationalisation (Greer, 1974: 19; Boddy, 1980: 16). Instead, Labour governments preferred to promote the growth of the housing stock through local authorities,

housing associations and imposing restrictions on private lettings. Societies were thus primarily financing the purchase of existing dwellings.

By 1950 most building societies had accumulated substantial liquid assets. At the same time, the combination of a government policy antagonistic to private ownership, the mortgage rate cartel, together with inflation and low savings rates, resulted in unsatisfied demand for mortgage funds.¹² A period of growth in the assets of building societies followed after the return to government in 1951 of the Conservative Party, which was more sympathetic to private ownership. Table 1 summarises the housing policies of the Tory government in the 1950s.

[Insert Table 1 here]

As a result of the housing policy of the Tory government, the share of building society advances grew from 27 per cent of total mortgage transactions in 1920 to 38 per cent in 1936, to 50 per cent in 1958 (Cleary, 1965: 282). By 1958 there were 755 societies, with a sum of total assets of £2,407,956,000.¹³ The top five societies (0.66 per cent of the total number of societies) together held £1,029,108,000 in assets or 43 per cent of the overall total for all societies.¹⁴ The years 1956, 1957 and 1958 showed an average increase of 8 per cent in the total assets of all societies.¹⁵ But this growth was uneven, as total assets at the top five societies were growing twice as fast than all other societies.¹⁶ Some of this growth in total assets was due to the amalgamation of smaller less liquid societies.¹⁷ But, on balance, differences in asset growth suggested that larger societies were more effective than smaller societies at capturing market share of the expanding British retail mortgage market. Table 2 shows that, in the years that followed, the top five societies maintained a healthy average rate of growth in mortgage assets of 13 per cent per annum.

[Insert Table 2 around here]

Table 2 also shows that the agreement of 1954 plus subsequent moves by the Tory government to promote owner-occupancy benefited building societies. This is evident in Panel B of Table 2, which shows that, between 1958 and 1967, the average growth of mortgage assets for the top five societies was 208 per cent. Between 1950 and 1967, mortgage assets averaged 83 per cent of total assets of the top five societies.

However, the 1954 agreement left at a disadvantage those people who wanted to buy a house built before 1919. In order to address this the government proposed making further advances through building societies. Building societies agreed to take on the added risk but in return secured the designation of their deposit as trustee investment.¹⁸ Securing trustee status was important because without it and in the absence of specific testamentary directions, the trustee of an estate was required to disinvest from building societies. These arrangements were given legal effect in the Housing and House Purchase Act 1959.¹⁹

Housing and House Purchase Act 1959

Although the intent of the Government was to promote owner-occupancy, co-operation with the building societies under the Housing Act threatened to accelerate growth of their assets to an undesirable rate. Provisions were then introduced to keep that growth under control. Section 1 of the House Purchase and Housing Act 1959 empowered Sir Cecil Crabbe, the Chief Registrar of the Friendly Societies, with agreement of the Treasury, to outline the requirements to designate individual societies suitable for investment by trustees and receive government loans (S.I. 1959 No. 1010). As part of the Designation for Trustee Investment Regulation and while

looking to manage the rate of asset growth at building societies, the Exchequer²⁰, through the Chief Registrar, decided that three major conditions had to be met:

- a) total assets should be at least £500,000;
- b) a minimum net reserve level of 2.5 per cent (effective at the end from December 1960); and
- c) a minimum liquidity requirement of 7.5 per cent (effective at the end of December 1960).

Societies were also required to make formal application by writing to the Chief Registrar and accompany this letter with a copy of the latest published accounts, a copy of the current prospectus or brochures soliciting deposits or investment and additional information in the form of a questionnaire (Registry of Friendly Societies, 1960: 7). Through this information the Chief Registrar aimed to determine, firstly, that the society's financial statements met the requirements set in the statutory requirement. Secondly, 'that the apparent liquidity and reserves disclosed in the financial statements existed in reality' (Registry of Friendly Societies, 1960: 8). With that purpose in mind, each society was to disclose full particulars of each investment shown in the balance sheet, how much had been advanced on mortgages during the month prior to the drafting of the financial statements (as some societies restricted advances for that month to enhance their liquidity) and amounts shown under 'other liabilities' (such as tax, investments and contingent liabilities). With regard to their reserve position, societies were asked to disclose any changes in the way accounts had been drawn up while responding to the disclosure requirements introduced in 1959 as well as their provisions for future tax liabilities.

For the building societies, designation meant more than an increase in loanable resources.²¹ Building societies first sought to secure trustee status for investments in their 'shares' and deposits in the mid-1920s (Humphries, 1987: 335). In 1959, securing trustee status was seen as giving 'competitive advantage.'²² But it rapidly turned into 'a seal of respectability for building societies and all but a very few societies eligible for have sought and obtained such status.' (Boléat, 1981: 32). Indeed, by December 1961 there were 255 designated societies, whose sum of total assets was estimated at £3,274,000,000, equivalent to 95.3 per cent of the assets of all registered societies (Registry of Friendly Societies, 1962: 5).

Securing trustee status became synonymous with minimum requirements to compete in the building society industry when the BSA adopted the same guidelines for reserve and liquidity requirements as a condition for membership in 1959. The BSA was more generous in the time to meet the reserve and liquidity requirements (granting until 1965) to allow smaller and less liquid societies to catch up. The move by the BSA recognised the need for stricter financial requirements of its members (Boléat, 1981: 15), thereby 'giving the public the same guarantee of security in the case of deposits and investments in smaller societies, [as] trustee status gave to the larger societies.' (Cleary, 1965: 268).

The need for a liquidity requirement was highlighted by the difficulties experienced at, and eventual collapses of, the Exeter Benefit Society in 1956 and the relatively large Scottish Amicable Society in 1958. In practice, however, for the movement as a whole, cash and investments had not been less than 14 per cent per annum since 1945 (Cleary, 1965: 256) and were to remain above 15 per cent until at least 1973 (Greer, 1974: 11). This as the 'normal' range for liquidity ratios for

individual societies was between 12 and 22 per cent for any one year (Perks, 1977: 62).

While meeting the liquidity requirement was not much of a problem for most building societies, meeting the reserve requirement was more of a challenge. Sir Cecil Crabbe, Chief Registrar, warned that in 1959 large and small societies increased their general reserves by abandoning the practice of making provisions for future liabilities (Registry of Friendly Societies, 1960: 8). He also took note of societies who had revalued their office premises and that increase taken to general reserves. However, the apparent appreciation was disregarded as part of the assessment for designation, unless the society intended to realise the operation in fixed assets in the foreseeable future (*idem*).

Of the 744 societies in January 1959, 338 were members of the BSA and 263 had assets over £500,000. Of these 240 complied with the new regulation in all respects. In June 1959, 130 societies immediately qualified for trustee status (including the top five societies). About a dozen applications were pending and a few had been turned down.²³ By December 1959, 190 societies had been designated.²⁴ The number of designations grew to 215 by December 1960 (Registry of Friendly Societies, 1961: 6). Evidently, not all societies that could have (or actually) applied for trustee status satisfied the requirement. The Chief Registrar was said to have been careful and examined in detail that ‘... any apparent liquidity existed in reality and similarly [examined] the reserve position, particularly where a society’s accounts [had] shown any sudden increase...’ (*idem*, p. 6). The Chief Registrar explained that most of the pending applications (seven in all) related to the loss in market value of the reserve instruments (*idem*, p. 7). He also stated that some societies had been warned about the continuation of their trustee status but gave no details as to their number. Neither did

he disclose the identity of the societies which had been warned or which applications were pending.

Effects of the minimum reserve requirements on the top five building societies

Just as capital adequacy helps booster confidence on banks, building societies need reserves to provide against four contingencies: a) a loss on the sale of a mortgage property following the default of a borrower; b) a loss on the realisation of an investment in securities (mainly trading in fixed income securities); c) to guard against the unknown and d) to give confidence to investors.²⁵ Prior to the House Purchase Act 1959, the BSA had long recommended that every society should aim at possessing a ‘gross’ (i.e. a less strictly defined level of) reserves of at least 5 per cent of total assets. In 1938 the average figure for all societies was 5.5 per cent but, consistent with their considerable growth, by 1957 the average reserve for all societies had fallen to 4.5 per cent.²⁶

The ‘decline in the [gross] reserve ratio was not in itself regarded as serious’²⁷ by the BSA. However, some building societies, as the Bristol and West, had traditionally placed a high premium ‘on the maintenance of healthy reserve and liquidity ratios, and there was never any question that growth would be allowed to diminish either’ (Harvey, 1988: 258). Meeting statutory requirements was thus easily achieved for some societies. However, that was not the case for all societies looking to qualify as eligible for trustee investments and particularly larger societies which, as mentioned before, had been growing at twice the average rate for the sector. See Table 3 for a comparison.

[Insert Table 3 around here]

Table 3 shows own estimates of the ‘gross’ reserve ratio averaging 3.8 per annum and the net reserve ratio averaging 3.5 per cent per annum for the top five societies between 1959 and 1967. However, two values stand out as particularly weak namely the net reserve ratio for the Alliance (2.5 per cent in 1959 and 2.9 per cent in 1960) and the CPBS (2.3 per cent in 1959 and 2.7 per cent in 1960). This is not surprising when considering that asset growth in Panel C of Table 2 shows the societies with the highest rates of growth, between 1950 and 1958, were the Co-operative Permanent (166 per cent) and Alliance (128 per cent). These two and the smaller Leek and Moorland, had figured prominently amongst all societies because of their high rates of asset growth since 1945 (Cleary, 1965: 252). This growth reflected their success in making mortgage advances as well as active involvement in a number of amalgamations with and transfer of engagements from, other societies. There was no public record to suggest that the Alliance had any difficulties in meeting the reserve requirements, to gain and maintain trustee status.²⁸ That was not the case of the CPBS.

The Co-operative Permanent Building Society

Brief business history, 1884-1958

The CPBS (today Nationwide) was born as the Southern Co-operative Permanent Building Society in February 1884. The ‘Southern’ prefix was removed ten years afterwards. The purpose of this London-based society was to enable depositors and particularly those who were participants in the co-operative movement to buy their own premises (Ashworth, 1980: 15; Cassell, 1984: 13). The Co-operative Congress, however, refused to give full backing to another financial institution developing alongside the banking arm of the Co-operative Wholesale Society or CWS Bank (see further Bátiz-Lazo, 2004). So the CPBS sought business elsewhere, notably amongst

railway employees (Cassell, 1984: 24-5). But in spite of the Co-operative Congress' snub, many leading and rank and file members of the Co-operative Movement joined the CPBS and some even decided to become its agents (either personally or through their retail societies).

The CPBS developed a well established personal business from its London office, while its agency network grew throughout England. By 1896 agencies were in place as far field as Durham, Cambridge and Kent. By developing personal business the CPBS avoided being involved in the misfortunes of those building societies that were closely associated with financing industrial properties. By 1929, the CPBS had become the eighth largest building society in Britain, with total assets of £9.5 million (Ashworth, 1980: 81). Mortgage advances continued to fuel growth in total assets as rent controls on private dwellings restricted the supply of rental properties and, thus, encouraged owner occupancies.

Growth in total assets was mirrored in an increasing network of agencies and retail branches. Figure 1 illustrates the number of CPBS's branches and agencies – the latter extensively sought throughout the co-operative movement.

[Insert Figure 1 around here]

Figure 1 shows that between 1925 and 1935 the Society's retail branches grew to 19 branches. Between 1936 and 1945 the number of retail branches grew at an annual average rate of 30 per cent to 46 branches, surpassing the three per cent average annual growth in agencies (estimated to be 577 in 1945). Between 1946 and 1955 agencies grew faster (at an average annual rate of 14 per cent to 2,016 agencies) than branches, which had average eight per cent annual growth to 93 branches. At its peak in 1958, agencies numbered 3,165 but not all of these were an effective source

of mortgage referrals (see further Bátiz-Lazo, 2004). Retail branches in England and from 1930 in Scotland, emerged from a combination of own investments and from the amalgamation with small-sized societies.²⁹ As a result of acquisitions and internal geographic expansion, the CPBS increased its scale and reduced the volatility of its business portfolio.

Response to Housing and House Purchase Act 1959

Growth in mortgage assets at the CPBS during the 1950s had been above the average for the top five societies (Cassell, 1984: 72), reaching 24 per cent between 1957 and 1958. The high level of asset growth in 1957-8 for the CPBS followed the amalgamation with the Scottish Amicable Building Society, with assets of £22,500,000,000 (14 per cent of total assets of the new entity) and 42,658 'shareholders' (11 per cent of the new entity). When interest rates for gilt-edged securities reached 7 per cent in September 1957, the Scottish Amicable reserves of £997,792 for fiscal year 1957, were insufficient to cover a (nominal) loss of £1,500,000.³⁰ Publication of these figures by the leading society north of Hadrian's Wall was followed by withdrawal notices, which by April 23 amounted to £2,500,000. Most withdrawals were cancelled once the merger was announced.³¹ The Scottish directors retired from office without compensation but, with the transfer of CPBS's business in Scotland, became the CPBS's Scottish board.

Later on, the impact of the Scottish amalgamation on CPBS's reserves resulted in Mr. H. V. Wiles, chairman of the Hastings and Thanet society, publicly questioning whether the CPBS, then the third largest society in terms of assets, would achieve trustee status.³² This came in the context of CPBS's contested bid for the Sheerness and Gillingham. For Mr. W. W. Wetherhill, general manager of the Hastings, the intervention of the CPBS was 'unsolicited and unwarranted' (as well as the first time

any amalgamation between building societies had been contested).³³ Mr Herbert Ashworth, general manager of the CPBS, said the intervention ‘was justified by the strong reserve position and the well spread assets of the Sheerness society.’³⁴ After the Leek and Moreland also made an offer for the Sheerness, the Hastings had no choice but to raise its offer even further and eventually win control over the Sheerness’ £3,000,000 in total assets and 8,000 members.³⁵

The CPBS publicly retorted to Mr Wiles’s criticism saying that it ‘would qualify for trustee status within the set time.’³⁶ The CPBS’s assets were amongst the first to be designated suitable for trustee status in June 1959. But the CPBS reserves remained lower than other larger societies. Indeed, directors of the CPBS eventually realised that, in spite of a period of controlled growth introduced in January 1959, fulfilling the reserve requirement was at peril and decided to take pre-emptive action, which included changing the depreciation policy:

‘It was noted that the [Finance] Committee had considered the effect on the net reserve ratio of each of the various steps agreed by the Board on 27th October 1960. In particular the [Finance] Committee had considered the possibility of recommending the Board to reserve its decision with regard to the provision of depreciation on freehold premises but they had been impressed by the argument that if the whole of the £53,145 required by the depreciation formula were provided, it would no longer be possible for the society to give an assurance that a net reserve ratio of 2.5 per cent would have been attained whether or not New Oxford House had been sold or, alternatively, whether or not the basis of provision for income tax had been changed. They had therefore reached the conclusion that it was desirable for all adjustments already agreed by the Board to be made so that the accounts would indicate a net reserve ratio of 2.677 per cent.

The Board were advised, however, that since the Committee had considered the accounts, the Auditors had decided that it would be necessary for a note to appear on the Revenue and Appropriation Account if no depreciation were provided on freehold premises in 1960. The Board was informed that, if an amount of up to £13,000 were provided on freehold premises, the note would not be needed, and it would still be possible to give the assurance mentioned above.’

(CPBS, Minutes of the Board, 4.I.a, 19-Jan-1961)

The Minutes of the Board and of the Finance Committee did not detailed depreciation formulae nor did they included supporting calculations to explain the difference between the £53,145 required by the depreciation formula and £13,000 suggested by the auditors. The minutes did point out that, after discussion, it was formally moved that £13,000 be charged for depreciation of freehold premises. The auditors were Mr. J. Heaford FCA, senior auditor, and Mr J.A. McGilchrist CA, junior auditor (both from Edward Myers, Clark & Co). They confirmed that it would be unnecessary to include a note in the accounts regarding depreciation, and that, in their opinion, ‘the accounts were properly drawn up in accordance with the relevant legislation and presented a true and fair view.’³⁷

The CPBS then extended the period of controlled growth and halted its expansionary policy. The introduction of a controlled rate of growth had been publicly announced shortly after the failed bid for the Sheerness and Gillingham society in January 1959 and was expected to last but a couple of years.³⁸ However, the need to maintain trustee status required that policy to remain in place longer than anticipated. It is worth noting that there was no provision for automatic revocation when a society ceased to fulfil the requirements or regulations. Qualification or revocation were ultimately at the discretion of the Chief Registrar (Registry of Friendly Societies, 1961: 7).

As a result of controlled growth the CPBS expanded considerably less than other larger societies. Panel B in Table 2 shows that total mortgage assets at the CPBS grew 158 per cent between 1958 and 1967 when the average for the top five societies was 208 per cent for the same period. The period of controlled growth required,

- 1) imposing a £500 ceiling on new advances (at a time when the average mortgage loan in the UK was £1,112. See Registry of Friendly Societies, 1961: 2);
- 2) stopping the outflow of funds by ceasing the contracts of more than 1,000 agents (which more liquid competitors were eager to capture);
- 3) arranging a deal with the Co-operative Insurance Society (CIS) so that in 1961 (back dated to fiscal year 1959-60), the CPBS sold and leased back its head office (New Oxford House) and eight branch premises, all of which ‘stood in the books below their present worth.’³⁹ The freehold properties passed to the CIS for £500,000 and the CPBS took out a 99 year lease, with the option to repurchase at no more than 10 per cent higher than the sale price.⁴⁰ The freehold for head office was, indeed, bought back a short while later (Cassell, 1984: 80).

Table 4 and 5 respectively show the CPBS’s Balance Sheet and Revenue and Appropriation Account for the fiscal years 1959 and 1960.

[Insert Table 4 & 5 around here]

The Balance Sheet in Table 4 recorded the sale and lease back operation through a drop of £479,529 in Offices Premises and Equipment. The Revenue and Appropriation Account in Table 5 reported a drop of £71,288 in the charge for Depreciation, mirroring the Board’s decision on freehold buildings. A ‘Surplus on the sale of premises’ of £424,484 recorded the sale and lease back operation as an occasional item.

The drastic package of measures described above was sufficient to avert an immediate crisis at the CPBS, including avoiding the need to request dispensation for

the designation as suitable to receive trustee investments. Indeed, Panel B in Table 3 shows the reserve ratio of the CPBS at 2.9 per cent for 1959, well above the minimum required to meet the Chief Registrar's criteria and also above the ratio recorded in 1958 – the lowest point for the reserve ratio between 1950 and 1967. Panel A in Table 3 also shows an end to the downward trend in the reserve ratio for all other larger societies - average reserve ratio for the top five societies had dropped from 5.0 per cent in 1950 to 3.8 per cent in 1959. After reserve requirements were introduced the average net reserve ratio for the top five societies remained above 3 per cent for each of the societies (see Panel B in Table 3).

Table 5 shows a decrease of 13 per cent in Premises, Offices and Equipment for the CPBS in 1960; and except for an eight per cent increase in 1966, there was moderate growth thereafter (i.e. an average annual growth of 15 per between 1961 and 1967, compared to an average of 26 per cent between 1955 and 1959). But Table 6 shows that other societies, notably the Alliance and the Woolwich Equitable, also had to make adjustments in the rhythm of their expansion.

[Insert Table 6 around here]

The self-imposed period of restraint for the CPBS ended in 1963, when annual growth of mortgage assets returned to double-digit rates (see Table 2) and the net reserve ratio rose to remain above 3.5 per cent (see Panel B in Table 3). For the CPBS the period of self-restraint to meet capital requirements resulted in a major review of strategy. It found that half of the 1,159 agencies in existence in 1963 produced deposits amounting to less than £2,000. The response was to replace those agents with CPBS employees and move to a branch structure whenever possible (Cassell, 1984: 82-3).

The move to replace agents, however, was not unique to the CPBS. Since 1948 there was growing realisation amongst directors of building societies that retail society branches ‘promised control, co-ordination and continuity in a way that commission agents, however special, could not’ (Harvey, 1988: 257). As a result, national retail society branch networks mushroomed during the 1960s and 1970s (see Davies, 1981).

The continued growth of the movement after 1959 further reduced the reserves of many societies. By 1963 some societies were near the point of having to make a choice between continued growth and losing their trustee status or maintaining trustee status and slowing their growth (Cleary, 1965: 258). As a response, in 1964 the reserve ratio requirement was further loosened by the Chief Registrar, such that only the first £100,000,000 of assets required reserves of 2.5 per cent, with remaining assets requiring reserves of only 2 per cent. In 1967 a committee chaired by Sir Charles Hardie recommended lower reserve ratios for larger societies, a suggestion which would have saved the CPBS much heartache if it had been implemented earlier (Cassell, 1984: 81). A new reserve requirements took effect in 1968 and remained unchanged until the mid-1980s (see further Boléat, 1986: 57-8).

Discussion

The relative importance of trustee status

The CPBS’s Finance Committee raised the possibility of changing the depreciation policy (and the more drastic adjustment of the sale and lease back of the head office and eight retail branches) because there was no other item (material or not) which would allow for adjustments in the accounts.

Evidence also suggested that the CPBS's directors feared an over-reaction should their financial statements be qualified or the society have lost its trustee status. Stakeholders using the financial statements of the CPBS included regulators (such as the Exchequer, the Chief Registrar of the Friendly Societies and the BSA), close competitors, and several thousand (financially obtuse) members and depositors. Sir Cecil Crabbe, the Chief Registrar, raised the stakes in his annual report for the year ended in December 1960 as he cautioned investors to guard against societies 'which are of doubtful financial standing, and reminded would be investors to enquire whether [a society] has been designated as one in which trustees may deposit trust funds.'⁴¹ With this move, the Chief Registrar raised awareness amongst depositors and the general public of the good business and sound financial standing of designated societies.

It is worth noting here that Mr C. John Dunham, President of the CPBS since 1959 and a member of the BSA council since 1950, was appointed Chairman of the BSA in 1961.⁴² Close links between the BSA council and directors of the CPBS dated to the appointment of Arthur Webb, then Secretary of the CPBS, to the BSA executive in 1903. Mr Webb joined the CPBS in 1892 (when total assets were £25,000), became Managing Director in 1928 (when total assets were £7,000,000), Chairman in 1939 (when total assets were £30,000,000) and retired from the BSA executive in 1946 and the CPBS Board in 1951 (when total assets were £66,000,000). Mr Webb 'constantly urged the desirability of societies maintaining a 10 per cent reserve fund, and whenever he spoke his views merited attention.' (Price, 1959: 381). The appointment of Mr Dunham and the public position of Mr Webb thus suggested that CPBS directors had closely associated themselves with the virtues of an 'adequate' level of reserves.

The above suggest that directors of the third biggest society could simply not afford to lose the designation because trustee status was perceived as a hallmark of prestige as well as giving potential for competitive advantage. Moreover, members of the Board had openly campaigned for societies to maintain a high reserve ratio. Qualifying the accounts (even a comment or note on the financial statements) would not only foreclose growth opportunities associated with maintaining trustee status but would also be regarded as a serious action by the CPBS's auditors and a strong negative signal on the quality of the management capabilities of the Board of Directors.

Minimum charge

There is evidence that in making a minimum charge the directors of the CPBS were acting upon the advice of the auditors, which the directors considered proper and authoritative. The Board Minutes of January 19th 1961 suggested that auditors had discussed fully the question of depreciation and thus the basis upon which the directors had founded their estimates and provisions. Auditors and directors could then claim that the working lives of the buildings had been honestly estimated and that the (minimum) rate written off appeared to be sufficient to reduce the value of buildings to nil by the end of such period. Therefore, they had a right to say that ‘...correct principles had been acted upon, and that the provision made in the accounts appears to be reasonable and sufficient.’ (de Paula, 1957: 99).

It is possible that in making a minimum charge the directors of the CPBS were perhaps excessively prudent with regards to the provision for depreciation. Faced with the impossibility of estimating the working life of fixed assets that are actively maintained and in contravention of Recommendations IX and VX by the ICAEW, clearing banks (with their much larger retail bank branch network in high street

locations) chose not to depreciate freehold property at all (Capie and Billings, 2001: 238). Perks (1977: 177-81) claims the situation was similar at other building societies (at least in the early 1970s). Not depreciating freehold properties by CPBS could have thus been considered ‘best practice’ (as described by de Paula, 1957: 98 and 145). Moreover, in making a minimum charge, directors and auditors could argue that the depreciation policy was still being adhered to as some depreciation was charged, albeit a lower amount than usual.

The CPBS’s balance sheet for fiscal years 1959 and 1960 show building societies reported fixed assets at cost less depreciation (see Table 4). As late as 1977, there was no requirement to show original cost or aggregate depreciation (Perks, 1977: 37). In that sense the CPBS’s accounts remained technically correct in spite of a change in the depreciation policy. It could thus be argued that the CPBS was adhering to its overall depreciation policy by looking at the life of the asset as a whole and that this was well within established practice at the time within retail financial intermediaries. This approach, however, would reflect how accountants have great difficulty in accepting that salvage value might be higher than original cost other than for land which historically has never been subject to a systematic depreciation charge in the UK (Burlaud *et al.*, 1996: 302).

An immaterial amount

Directors of the CPBS could have further defended their decision when considering that the amount being adjusted was negligible in the overall context of the annual financial statements. That is, when considering liabilities of £6,418,160 and ‘Office Premises and Equipment’ of £3,683,959 in 1959 then £53,145 required by the depreciation formula is immaterial. Moreover, the ICAEW stated that there was no need to disclose when changes were immaterial:

‘Where there has been a change (whether of [the actual] rate or by reason of valuation) in the basis of depreciation during the period covered by the report, the effect of the change should be indicated in the report if the effect is material and cannot be dealt with appropriately in the adjustments made in arriving at the figures shown in the report.’ Recommendation XIII (2).

It could also be argued that, in 1959-60, at the time of the decision by CPBS directors, failure to meet minimum reserve requirements was not a long-term problem. If the problem was only a 'blip' in profits then it might be right to go ahead and not qualify. With hindsight, it took about three to four years for the CPBS to renew overall growth, which could be considered short to medium term in the context of the post-war recovery years.⁴³ However, directors faced the possibility that there were indeed serious difficulties with reserves and thus, a major adjustment was just being deferred. Moreover, the fact that the net reserve ratio was technically (on the depreciation formula) below the required minimum signalled reduced growth in the future (as capital reserves had to be built up). This was corroborated by a lower performance in the annual rate of asset growth at the CPBS than at other top societies between 1961 and 1964. But to the credit of CPBS's directors, the policy of controlled growth had been publicly announced some 18 months before the decision to change the depreciation policy was made.

Auditors' remuneration and management expense

At the time of the decision by CPBS's directors, the requirements of the Companies Act 1948 were barely ten years old and were even less prescriptive than today. There was minimal guidance on disclosure in the Companies Acts 1948 and many accounting decisions were at the discretion of company directors and auditors. In this context, the decision by CPBS's directors and the support of their auditors could be considered appropriate on the grounds of their reputation: ‘societies were audited by local accountants with whom they had connections and a relationship of trust.’⁴⁴

Annual returns (Form A.R. 11) show that Mr. McGilchrist took office as junior auditor in 1956 and Mr. Heaford as senior auditor in 1957. Mr. Heaford joined only after Mr J. B. Prentice FCA ‘...was compelled to resign the office of members’ auditor which he had held for the past 17 years because of ill health.’⁴⁵ As late as 1970 both Mr Heaford and Mr McGilchrist remained as the Society’s auditors .⁴⁶

By appointing local auditors for lengthy periods of time, the CBPS was following standard practice amongst building societies at the time. The result was that by 1960, the auditors had known the Society for some years and were well aware of the integrity of the Board. Auditors could trust the Board to take appropriate action. There was no need to tell members or regulators since, at the time the decision of not qualifying the annual report was made, failure to comply with minimum net reserve requirements was perceived as a short-term problem which would not reoccur.

Directors of the CPBS could have explained a qualification in light of the expense increase likely to emerge each and every year thereafter as it might have been very costly to hire surveyors to value a growing number of buildings separately. There is systematic empirical evidence to suggest that companies with a qualified audit report have a greater number of buildings than those of the comparator group, but also they may be organisationally more dispersed, and consequently more costly to estimate their value (Craswell, 1986: 34). Even before the amalgamation with the Scottish Amicable, the CPBS had retail branches spread throughout the UK. Inspecting them each and every year in time for the annual report could have substantially increased the audit fee. Putting forward an argument for keeping management expenses under control could have been quite reasonable in the context of a growing retail building society branch network and/or the amalgamation of retail

branches of the Scottish Amicable. In this way, directors of the CPBS would have reduced the seriousness of the qualification.

However, there was no indication that additional investigation and testing would have increased the length of the discussions between auditors and directors and indeed, related expenses (such as the audit fee). Auditor remunerations were a very small proportion of the total management expenses. The exact figure for the CPBS was difficult to ascertain because the Revenue and Appropriation Account for 1960 consolidated 'Auditors' Remuneration' into the larger 'Remuneration and Travelling Expenses'. However, Perks (1977: 111-2) estimated that audit fees paid in 1975 ranged between £15,500 to £46,000, that is, auditing a society with total assets of £601,000,000 was proportionately three times as expensive as auditing a society with total assets of £4,577,000,000. Applying the ratio reported by Perks (1977) for larger societies to the CPBS in 1960, the audit fee would have been £2,405 or 0.2 per cent of the 'Total Management Expenses' of £1,339,965 for that year.

No evidence was found suggesting the auditors received (or not) other types of business from the CPBS. This was important because at the end of the 1960s large auditing firms were instrumental in the selection of computer equipment for several societies including the Leeks and Moreland, CPBS and Woolwich Equitable (Bátiz-Lazo and Wardley, 2007). In summary, there was no evidence to suggest that the auditors were exposed to conflicts of interests.

Need for transparency

There were issues of transparency as any change in accounting policy should be flagged up to stakeholders – as the change will be difficult to spot otherwise, since total assets and depreciation figures included other fixed assets (e.g. the growing retail

society network) and the depreciation figure for each individual asset is thus impossible to estimate.

To illustrate the impact of the lack of transparency, an attempt was made to recreate the depreciation charge associated with 'Office and Premises' by the CPBS in fiscal year 1960. According to Cassell (1984: 43), in 1925 freehold land was purchased for £55,000 in central London (High Holborn) with the purpose of erecting a new head office. Construction took four years and its total cost was undisclosed.

According to the Board minutes of January 19th 1961, the market value of the eight branches and head office was above their book value. There was thus permanent impairment for the buildings. However, while there was little prospect of the value of the building and premises returning to its original value, that might not necessarily be the case for the land (i.e. the freehold property might have only been temporarily impaired).

For argument's sake, the cost of erecting the building was assumed to be equal to the cost of the freehold land. Also in 1925 the CPBS recorded having two retail branches, located in Birmingham and Letchworth (then in the outskirts of London). At the time, 'an individual loan [to purchase a home] would be for about £400 or less and 99-year leases would be normal' (Cassell, 1984: 39). Taking this data as reference, it was assumed that freehold property in the high street suitable for a retail branch would cost £500. Its working life was assumed to be 70 years as this was the ratio of 'Office Premises and Equipment' in the CPBS's balance sheet in fiscal year 1959 (£3,683,959) to depreciation expense quoted in the Board Minutes (£53,145). The expansion of the CPBS's retail branch network was assumed to have been solely by acquisition of premises while the issuing of agent contracts was costless. Additions or disposals of the branch network were valued at the original notional cost of £500 in

1925 compounded at the rate suggested by Scott's (1996: 267) initial yield on investment on office property (1925-1960).

Given the lack of detailed financial statements, the growth rate of the balance in the depreciable assets account was assumed to be uniform over the estimated average age of those assets. This assumption meant that the growth rate in the most recent year should be the same as that assumed to occur uniformly over the life of depreciable assets. As a result of these calculations, the estimated value for head office and retail branches in 1959 was £369,587 with an estimated depreciation expense for that year (using the straight line method) of £5,279. Clearly these values were far below those stated in the 1959 balance sheet (£3,683,959) and pre-audit depreciation expense in the Board Minutes (£53,145).

This initial yield on investment on office property, 70 year's useful life, LIFO in the depreciable assets account and straight line method; the charges in 1960 valued, in prices of 1925, head office at £2,544,305 (46 times the cost of the freehold land in 1925 or 4.6 times the value of the 'sale and lease back' in 1960) and the retail branches at an average of £8,038 per branch. Presumably the CPBS was capitalising for more than the cost of buildings and freehold land in their balance sheet. This helps to explain why the CPBS had the highest absolute nominal value of 'Office Equipment and Premises' amongst the top five building societies (which averaged £3,438,846 between 1950 and 1967 for the CPBS as opposed to £1,269,050 for the Woolwich). Own estimates suggested that the ratio of 'Office Premises and Equipment' to total assets averaged 1.40 per cent per annum between 1950 and 1967 for the CPBS – values which were well above those observed for the Halifax (0.27 per cent per annum) and the average for the top five societies (1.06 per cent) but below those of the Alliance (2.32 per cent per annum). Of course, other societies

could have rented a higher proportion of their retail branch premises than the CPBS or depreciated at a higher rate. Which effect dominated is uncertain given disclosure practices described above.

Other differences between own estimates and those reported in the balance sheet were also evident. Specifically, between 1959 and 1960 'Office Premises and Equipment' of the CPBS dropped £479,529 – a figure below the value of the 'sale and lease back' transaction discussed in the Minutes and above the sum of 'Surplus on the Sale of premises' (£424,484) and 'Proceeds on the sale of leases' (£16,842) reported in the Revenue and Appropriation Account. Differences between own estimates and those reported in the balance sheet highlight the need for transparency in the reporting practices of the CPBS (or any other large building society for that matter) and the compelling need to qualify the audit report due to the change in depreciation policy.

Indeed, transparency would have helped to show whether there had been a change in the life of freehold premises. This change could have resulted from the completion of a purpose built 11-storey extension to head office (New Oxford House)⁴⁷ or, alternatively, from consolidating assets following the amalgamation of the Scottish Amicable. A change in the life of freehold premises would have made the accounts technically accurate.

Conclusion

Napier (1990) notes that 'although accounting historians have long recognized the significance of fixed asset accounting for the development of financial reporting, much of the existing literature is very general, based on secondary sources such as professional accountancy journals and legal cases.' (p. 23). Research in this article explores issues around the depreciation of fixed assets in the other wise neglected

context of financial service organizations by combining secondary sources with original archival material. The analysis of managerial discretion in a mutual organization replaced the more traditional approach based on market efficiency. The research is also innovative thanks to its attention to the otherwise neglected study of building societies. Academic research into building societies seems to have dwindled (both from an historical and management studies perspectives) after most of the larger societies converted into limited companies during the 1990s.

Systematic exploration of qualification decisions is rare. Data on depreciation decisions leading to qualified accounts is difficult to obtain. Even when available, it is commonly hypothesised that depreciation charges can have a smoothing effect on reported earnings, bias performance in the stock market and that it will be shareholders and main creditors who will be adversely affected by qualification. Research in this article abandons the traditional link between mooting effects and stock market efficiency. This article takes an historical perspective to evaluate the link between depreciation of buildings, audit qualification and firm failure in the rather different context of a mutual service firm, where accounting for fixed assets is a minor consideration. The case of asset management at the CPBS in the context of changed regulation brings out problems regarding how to deal with depreciation, land and buildings, materiality and more generally who is the audience for financial statements and to whom auditors are accountable.

The CPBS decision appears to be a rare or even unique occasion where the depreciation of fixed assets ultimately had a material effect on the performance of a financial intermediary. The context around the decision offers evidence in support the so called 'bond covenant hypothesis' (Clinch, 1983: 141). This view suggests that covenants will affect management choice of accounting methods since the managers

will wish to avoid the costs of violating restrictions. These costs are concerned with the renegotiation of the debt contract, possible bankruptcy which may (or may not) follow a technical default, or in the CPBS's case, the possibility of maintaining trustee status. A review of available archival evidence suggests that the action of the CPBS was not representative amongst the top five building societies.⁴⁸

The case of the CPBS highlighted how interpreting problems in a service company is more difficult than for a manufacturing company. If a manufacturing or mining firm faced a similar situation to that of the CPBS, management's shortcomings would be evident as either stocks would grow, plant would remain idle or the audit fee would increase substantially. In a service firm stakeholders have to rely more on the financial accounts and hence, consistency is important. Changes in provisions or in dividend policies are some of the ways available to financial intermediaries to signal that there might be problems ahead. Indeed, an appropriate clarification could have helped the directors of the CPBS to fully articulate the implications of the end of a period of high growth and the start of one of retrenchment.

Evidence documented in this article suggests that during the 1950s and 1960s, directors of building societies (and perhaps even banks) had little regard for financial considerations when making capital expenditures. This would indicate that future studies on the capital-intensive investments in UK retail finance (such as large computers and an expanding retail branch network made during the late 1960s and 1970s) to explore whether strategic rather than financial considerations were the chief influence on the selection and timing of those investments.

Acknowledgements

First and foremost I am indebted to the most helpful and very detailed comments from Mark Billings and Robert Luther. Also suggestions from anonymous referees, David Barnes, Roy Chandler, Bernd Hayo, Janette Rutterford, Peter Scott, Peter Taylor, Peter Walton and participants at the 17th Annual ABFH Conference Cardiff 2004, 19th BAM Conference (Oxford) 2005, Marburg University, University of Nottingham Business School, Bristol Business School and University of Liverpool are gratefully acknowledged as well as assistance from Simon Rex (Building Societies Association), National Archives and the archive section of the Nationwide Building Society. An anonyms and abridged version of this paper was published as a teaching case study (Ethics of Accounting) by the Open University Business School. The usual caveats apply.

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Table 1: Distinctive Actions of Government Housing Policy, 1951-1959

Year	Action
1951	Tory government takes office while promoting the creation of 'a nation-wide property owning democracy.' ⁴⁹ This goal included making owner-occupation a possibility for a whole group of average and below average workers. But building societies were reluctant to take higher risk borrowers.
1953	Negotiations between government and building societies start.
1954	Agreement is reached. Two schemes were set up to aid prospective owner-occupants: (a) for houses valued at up to £2,500 advances of up to 90 per cent could be made by societies, and (b) for houses built after 1918 valued below £2,000 advances up to 95 per cent could be made.
1958	The Government proposed to make a new fund amounting to £100,000,000 and repayable over twenty years. The government expected to release some £40,000,000 to £50,000,000 of building society money being lent on pre-1919 houses for loans for newer houses.
1959	Agreement is reached. Passing of <i>Housing and House Purchase Act 1959</i> . Funds start to be distributed.
1961	All fund money was taken up as loan (and repaid before the twenty year deadline).

Source: Boddy (1980: 17-19), Boleat (1981: 153), Clearly (1965), The Times (06-Nov-1958: p. 16) and author.

Table 2: Asset Growth at the Top Five Building Societies, 1951-1967

<i>Year</i>	Abbey National	Alliance	Co-operative Permanent	Leeds Permanent	Woolwich Equitable	Halifax	<i>Average</i>
Panel A - Asset growth per annum ⁵⁰							
1951	13.2%	10.4%	3.8%	13.2%	14.7%	10.1%	10.9%
1952	12.8%	14.6%	7.8%	9.6%	8.8%	13.1%	11.1%
1953	17.2%	15.2%	19.2%	11.9%	12.6%	11.5%	14.6%
1954	15.5%	18.1%	20.6%	13.4%	17.6%	15.2%	16.7%
1955	9.9%	15.0%	21.9%	12.3%	15.2%	10.8%	14.2%
1956	10.5%	11.7%	11.9%	8.1%	7.9%	9.0%	9.8%
1957	7.6%	12.3%	13.2%	7.7%	5.4%	15.7%	10.3%
1958	7.8%	6.8%	23.7%	14.0%	6.8%	12.6%	11.9%
1959	13.3%	10.7%	7.7%	0.0%	12.6%	12.9%	9.5%
1960	12.8%	5.0%	7.2%	8.5%	13.9%	16.0%	10.6%
1961	10.0%	6.4%	8.7%	7.0%	14.1%	9.1%	9.2%
1962	11.5%	14.7%	9.2%	9.2%	8.6%	13.2%	11.1%
1963	15.2%	24.0%	13.1%	14.1%	10.9%	16.4%	15.6%
1964	16.6%	18.2%	13.5%	20.8%	15.7%	13.0%	16.3%
1965	11.0%	15.0%	9.8%	13.4%	11.5%	12.7%	12.2%
1966	15.8%	23.3%	14.9%	20.0%	15.0%	15.6%	17.4%
1967	18.4%	23.2%	16.1%	20.0%	10.9%	19.6%	18.0%
<i>Average</i>	12.7%	14.5%	12.5%	12.2%	11.4%	14.2%	12.9%
Panel B - Asset growth period to 1967							
To/from							
1956-1967	272%	336%	261%	250%	227%	331%	280%
1958-1967	221%	263%	158%	185%	190%	231%	208%
1958-1965	134%	139%	93%	98%	127%	140%	122%
Panel C - Asset growth period to different dates							
1950-1967	568%	730%	585%	448%	442%	534%	551%
1950-1958	108%	128%	166%	92%	87%	91%	112%
1960-1965	53%	69%	37%	50%	52%	55%	53%
Panel D- Other information							
Established	1944 ⁵¹	1863	1884	1848	1847	1853	1857
Incorporated	1944	1879	1884	1875	1875	1875	1878
Achieved national branch coverage	1948	1959	1952	1961	1948	1937	1951

Source: Building Society Association, Yearbook (1950 to 1968) and own estimates.

Table 3: Performance of Gross and Net Reserves, 1950-67

Year	Abbey National	Alliance	Co-operative Permanent	Leeds Permanent	Woolwich Equitable	Halifax	Average
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Panel A – “Gross” Reserves = Total reserves / total assets

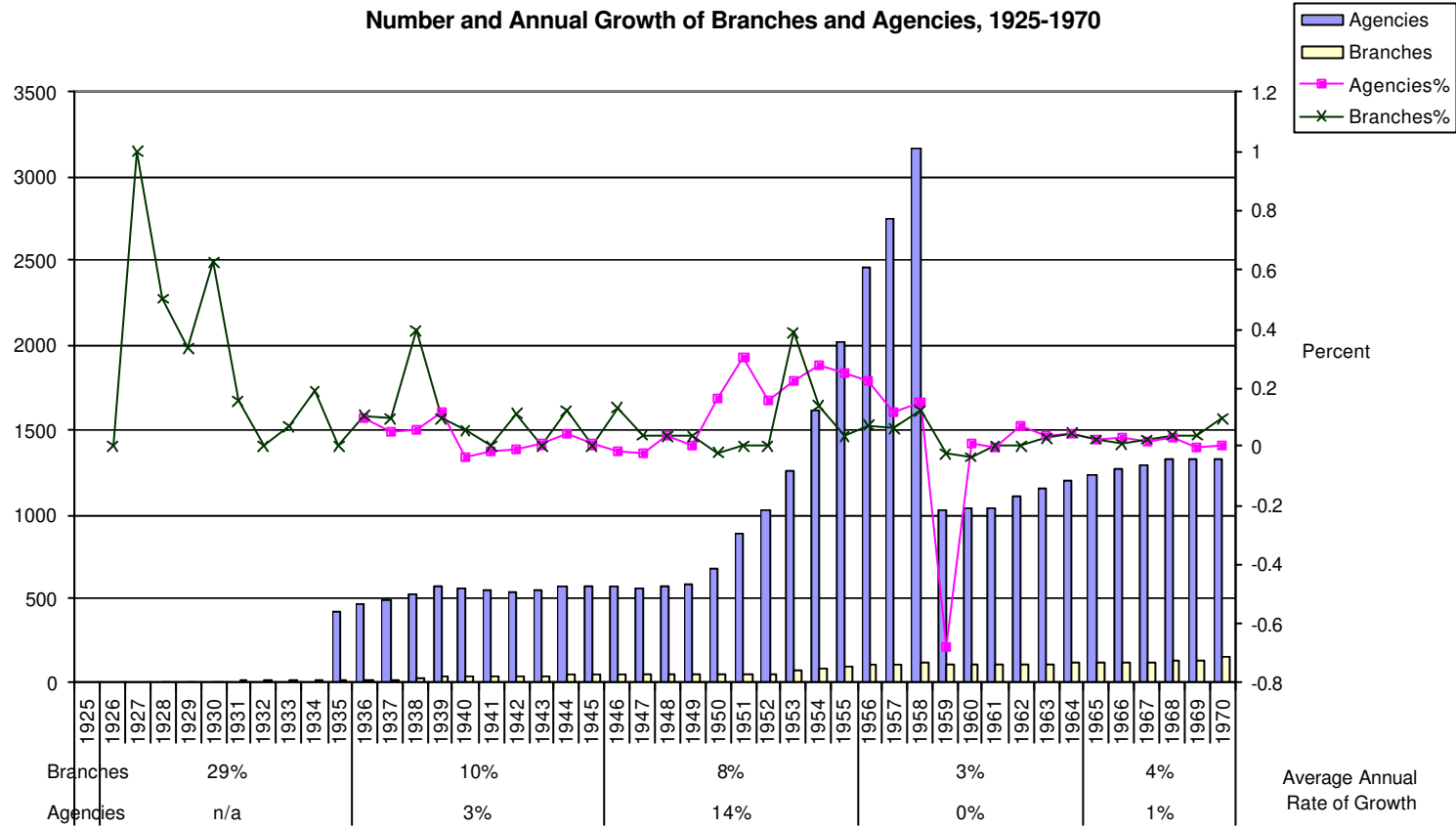
1950	5.4%	2.2%	4.6%	6.7%	5.4%	5.8%	5.0%
1951	5.1%	2.2%	4.6%	6.4%	5.1%	5.5%	4.8%
1952	4.7%	2.2%	4.3%	6.0%	4.9%	5.2%	4.6%
1953	4.3%	2.3%	3.9%	5.9%	4.8%	5.1%	4.4%
1954	3.9%	2.2%	3.6%	5.5%	4.3%	5.0%	4.1%
1955	3.9%	2.1%	3.2%	5.3%	4.2%	4.5%	3.9%
1956	3.8%	2.2%	3.0%	5.2%	4.1%	4.2%	3.8%
1957	3.8%	2.2%	2.9%	5.1%	4.1%	3.8%	3.6%
1958	3.6%	2.7%	2.7%	5.1%	4.3%	3.5%	3.6%
1959	3.7%	3.1%	2.9%	5.2%	4.3%	3.6%	3.8%
1960	3.6%	3.5%	3.4%	5.4%	4.0%	3.5%	3.9%
1961	3.6%	3.7%	3.3%	5.5%	4.0%	3.6%	3.9%
1962	3.6%	3.5%	3.3%	5.5%	3.9%	3.6%	3.9%
1963	3.5%	3.2%	3.4%	5.3%	3.9%	3.7%	3.8%
1964	3.5%	3.3%	3.6%	4.9%	3.8%	3.7%	3.8%
1965	3.5%	3.1%	3.4%	4.7%	3.8%	3.7%	3.7%
1966	3.4%	3.1%	3.3%	4.3%	3.6%	3.7%	3.6%
1967	3.2%	3.0%	3.3%	4.0%	3.4%	3.4%	3.4%
<i>Average 1959-67</i>	3.5%	3.3%	3.3%	5.0%	3.8%	3.6%	3.8%

Panel B - Net reserves / net total assets

1959	3.6%	2.5%	2.3%	5.2%	3.2%	3.6%	3.4%
1960	3.2%	2.9%	2.7%	5.2%	2.9%	3.5%	3.4%
1961	3.3%	3.1%	2.9%	5.4%	2.8%	3.6%	3.5%
1962	3.6%	3.4%	3.4%	5.4%	3.9%	3.6%	3.9%
1963	3.5%	3.1%	3.5%	5.4%	3.9%	3.7%	3.8%
1964	3.4%	3.1%	3.4%	5.0%	3.6%	3.7%	3.7%
1965	3.4%	3.0%	3.5%	3.9%	3.5%	3.7%	3.5%
1966	3.4%	3.0%	3.3%	3.6%	3.2%	3.7%	3.4%
1967	3.0%	2.9%	3.2%	3.3%	3.3%	3.4%	3.2%
<i>Average</i>	3.4%	3.0%	3.1%	4.7%	3.4%	3.6%	3.5%

Source: Building Society Association, Yearbook (1950 to 1968) and own estimates.

Figure 1: Retail Branches and Agencies of the CPBS, 1925-1970



Source: Cassell (1984: 121) and own estimates.

Table 4: Balance Sheet of the Co-operative Permanent Building Society, 1959-60*Abridged Balance Sheet at year ended(31-Dec-1959) (31-Dec-1960)*

Liabilities		
Number of shareholders	407,701	423,428
Due to shareholders	197,249,613	205,726,556
Num of shareholders (holding each in excess of £5k)	144	n/d
Due to shareholders (holding each in excess of £5k)	2,883,333	n/d
Number of depositors	14,125	14,332
Due to depositors	12,070,728	10,740,661
Num of shareholders (holding each in excess of £5k)	285	n/d
Due to depositors (holding each in excess of £5k)	7,653,912	n/d
Exchequer Loans	2,757,177	11,994,335
Bank Loans	-	-
Other Liabilities	2,335,582	2,669,559
Income Tax	n/d	2,260,041
Profits Tax	n/d	207,384
Sundry creditors	n/d	202,134
Provisions	255,716	-
Current Liabilities	214,668,816	231,131,111
Total Reserves	6,418,160	8,125,346
Special Reserves	n/d	-
Reserves and Balance c/f	n/d	8,125,346
Reserves	6,200,000	n/d
Mortgage Losses - Reserve	218,160	n/d
Balance c/f	-	n/d
Sum	221,086,976	239,256,457
Assets		
Num of mortgage borrowers	163,535	171,302
Mortgages not exceeding £5k	175,152,628	186,933,982

Num of borrowers not exceeding £5k	164,163	n/d
Mortgages exceeding £5k	6,865,606	n/d
Num of borrowers exceeding £5k	458	n/d
From Bodies Corporate	n/d	6,794,014
Excluding Bodies Corporate	n/d	1,453,554
Mortgages over 12 months in possession	-	n/d
Number of mortgages over 12 months in possession	-	n/d
Number of mortgages over 12 months in arrears	31	n/d
Mortgages over 12 months in arrears	52,787	n/d
Advances during the year	33,384,940	35,430,428
Num of borrowers each with more than one mortgage and total debt over £25k	26	n/d
Borrowers each with more than one mortgage and total debt over £25k	3,532,013	n/d
Receiverships of over 12 months' standing	19,277	n/d
<i>Less Mortgage Losses Provisions</i>	<i>25,000</i>	<i>20,000</i>
Mortgage Assets	182,046,021	195,161,550
Trustees Investments	35,164,839	37,738,293
Quoted investments	24,162,606	30,874,231
Market value of quoted Trustees Investments	23,038,258	28,898,559
Unquoted and interest accrued	8,433,745	6,864,062
Unquoted	n/d	6,555,985
Interest accrued	n/d	308,077
Tax reserve certificate and Treasury Bills	-	n/d
Cash at Bank and in Hand	2,568,488	2,556,127
Offices Premises and Equipment	3,683,959	3,204,430
Other Assets	192,157	596,147
Post War Credits	n/d	-
Sum	221,086,976	239,256,547

n/d = Not disclosed in fiscal year 1959 or 1960, respectively.

Source: Building Society Association Yearbook and own estimates.

Table 5: Revenue and Appropriation Account of the Co-operative Permanent Building Society, 1959-60

	1959	1960		1959	1960
APPROPRIATION			REVENUE		
Management Expenses			Interest on Mortgages	10,731,227	11,205,502
Director's Fees	15,000	15,000	Other amounts paid by Borrowers	-	-
Remuneration and Travelling Expenses	n/d	855,166	Interest and Dividends from Investments	1,070,137	1,199,544
Remuneration of Staff and Auditors	753,186	n/d	Bank Interest	35,364	54,801
Travelling and Other Staff Expenses	73,144	n/d	Rents, etc, from letting of Office Premises	106,515	118,498
Office Accommodation and Expenses	205,086	305,512	Survey Fees and Expenses	150,390	175,661
Printing, Stationary, Postages and Telephone	111,731	n/d	Fines	-	-
Advertising	90,651	27,722	Other Fees, Rules and Pass Books	34,579	39,606
Commissions and Agency Fees	93,473	76,512	Commissions (Fire, Life, etc Insurance)	120,029	175,661
Contributions for meeting losses by Investors	n/d	-	Other Income		17,014
Other Expenses	-	-	Discount on Treasury Bills	49,734	n/d
Legal and Professional Fees	9,312	26,980	Sundry Receipts	18,721	n/d
Sundry Expenses	<u>21,630</u>	<u>33,073</u>			
Total Management Expenses	1,373,213	1,339,965			
Survey Fees and Expenses payable to Directors	-	-			
Other Survey Fees and Expenses	115,000	136,364			
Interest on Deposits and Loans	353,238	526,179			
Interest on Loans and Overdrafts from Bank	-	-			
Losses on Mortgages (as per Mortgage Account)	-	-			
Depreciation	151,579	80,291			
Office Premises, Furniture, etc.	n/d	24,254			
Other Assets	n/d	56,037			
Other Expenditure	10,323,666	10,903,488			
Income Tax for 1959/60 and 1960/61	3,025,000	3,176,000			
Profits Tax for period ended 31 December	155,000	200,000			

Interest, Dividend and Bonus to Shareholders	6,362,242	6,592,130		
Balance Carried Down	781,424	935,358		
Sum	<u>12,316,696</u>	<u>12,986,287</u>	<u>12,316,696</u>	<u>12,986,287</u>
Balance (Loss) brought forward from last year	-	-	112,687	218,160
Additional provision for Income Tax	50,000	-	781,424	935,358
Other Debits and Appropriations				
Transfer to Provisions for losses on Mortgage	-	350	536	n/d
Transfer to General Reserve Account	1,300,000	1,800,000	650,000	n/d
Balance Carried Forward	218,160	125,436	3,899	424,484
			-	16,842
			19,614	75,226
				255,716
			-	n/d
Sum	<u>1,568,160</u>	<u>1,925,786</u>	<u>1,568,160</u>	<u>1,925,786</u>

n/d = Not disclosed in fiscal year 1959 or 1960, respectively.

Source: Form AR 11 - Annual Return to Registrar of Friendly Societies (National Archives, Kew FS 14/599) and own estimates

Notes

¹ Report of the BSA Council, 1959-60, paragraph 1, p. 5.

² 'Building Society Innovation', *The Times*, 05-Jan-1961, pg. 14. The loan allowed to see through the amalgamation of the Borrow-on-Soar with a larger society (Registry of Friendly Societies, 1961: 13-14).

³ The Treasury had to be informed and had to sanction any long term investment in building societies above the prescribed limit (eventually increased to £7,000 in 1964) as well as any loan above £10,000. In any event it was customary for the CPBS board (rather than individual managers) to consider any advance of £2,000 or greater. The latter limit was to increase with house inflation as the average individual mortgage loan at the CPBS moved from £895 in 1955 to £1,945 in 1967.

⁴ This was the approach adopted by Shull (1963: 357), that is, the first analytical framework which proposes the use of marginal costing as an application of neo-classical economics to banking. See further Bradley and Cane (1975).

⁵ Section 40(2) of the 1960 Act gave Sir Cecil Crabbe, the Chief Registrar of Friendly Societies, with the consent of the Treasury, the power to determine, by statutory instrument (S.I. 1960 No. 1826), the particulars to be included in the balance sheet and revenue and appropriation account of individual building societies. Section 50(3) of the Act made the same provision regarding the contents of the Annual Return to the Chief Registrar (S.I. 1960 No. 1827).

⁶ S.I. 1960 No. 1827-6(e).

⁷ BSA Circular 771, paragraph 5.

⁸ S.I. 1960 No. 1827-5(a,b).

⁹ 'Keizer Venesta', *The Times*, 09-Mar-1967, p. 16; 'Pinnock', *The Times*, 22-Apr-1967, p. 15; 'Paterson, Zochonis & Co', *The Times*, 08-Dec-1967, p. 28; 'Accounts qualified', *The Times*, 29-Aug-1968, p. 15; 'Hall Engineering', *The Times*, 13-Mar-1969, p. 24.

¹⁰ 'Stricter checks pose audit problems for small building societies', *The Times*, 12-Oct-1978, p. 27.

¹¹ An alternative view will support smoothing as it will reduced variance of earnings (considered an estimator of the long-run average earnings of the firm), thus increasing the efficiency of earnings to ascertain economic performance in an statistical sense. See further Hiller and McCrae (1998: 76).

¹² The mortgage rate cartel was a system of forced customer loyalty which built around the BSA. See further Bátiz-Lazo (2004).

¹³ BSA Circular 664, page 4, table II.

¹⁴ BSA Circular 664, page 4, table II.

¹⁵ BSA Circular 779, paragraph 10, p. 2.

¹⁶ BSA Circular 664, page 4, table II.

¹⁷ Between 1952 and 1979 the number of societies consolidated from 796 to 287 (Davies, 1981: 27).

¹⁸ The Housing Act 1959 gave trustee status only to deposits in the societies but the Trustee Investments Act 1961 then included 'share' investments.

¹⁹ With the exception of the 1986 Act, substantive changes in building society regulation followed the demise of a major society. For instance, the Act of 1894 was passed after the collapse of the Portsea Island Building Society Liberator Building Society (at the time the biggest in terms of assets); while the 1960 Act was prompted by the so-called 'Jasper affair' and subsequent collapse of the State Building Society.

²⁰ During the 1950s and 1960s finance intermediaries were under constant government pressure to limit the growth of advances as part of anti-inflationary policy (see further Tew, 1978: 224-6; Fforde, 1992: 610-91).

²¹ 'Building Society Deposits Given Trustee Status', *The Times*, 06-Nov-1958, p. 16.

²² 'Trustee Status for 130 Societies', *The Times*, 19-Jun-1959, p. 19.

²³ 'Trustee Status for 130 Societies', *The Times*, 19-Jun-1959, p. 19.

²⁴ 'Changing Building Society Practice', *The Times*, 08-Dec-1959, p. 18.

²⁵ BSA Circular 664, paragraph 26. For a detailed discussion see Perks (1977: 79-82).

²⁶ BSA Circular 664, paragraph 26.

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- ²⁷ BSA Circular 664, paragraph 26.
- ²⁸ Corroborated by Nigel Hardman, 16-Jan-2006.
- ²⁹ In 1939 the CPBS amalgamated the Wellingborough Investment Building Society and its 35 offices (Cassell, 1984: 48). During the war, the CPBS continued its expansion by amalgamation but was only able to acquire 11 small-sized societies (Ashworth, 1980: 129).
- ³⁰ 'Drop in Building Society's Reserves', *The Times*, 02-May-1958, p. 17; 'Building Society Merger Terms', *The Times*, 24-Apr-1958, p. 5.
- ³¹ 'An Exceptionally Active Year', *The Times*, 09-Mar-1959, p. 58.
- ³² 'Building Society Dispute', *The Times*, 09-Jan-1959, p. 5.
- ³³ 'Co-operative Offer "Unwarranted"', *The Times*, 06-Jan-1959, p. 4.
- ³⁴ 'Building Societies' Take-Over Dispute', *The Times*, 03-Jan-1959, p. 6.
- ³⁵ 'Another Bid for Building Society', *The Times*, 07-Jan-1959, p. 10; 'Building Society Taken Over', *The Times*, 10-Jan-1959, p. 6.
- ³⁶ 'Building Society Dispute', *The Times*, 09-Jan-1959, p. 5.
- ³⁷ CPBS, Minutes of the Board (5.I), 19-Jan-1961.
- ³⁸ 'Co-operative B.S. to Consolidate', *The Times*, 29-Jan-1959, p. 5.
- ³⁹ CPBS, Confidential Minute Book, 27-Oct-1960.
- ⁴⁰ In his corporate history of the Nationwide, Cassell (1984: 80) cites a value of £550,000 for the sell and lease contract while making no reference to the retail branches. He is also mute regarding the depreciation issue.
- ⁴¹ 'Affairs of the State B. Society', *The Times*, 12-Jun-1961, p. 21; Registry of Friendly Societies (1961: 1).
- ⁴² 'New Chairman for the Building Societies Association', *The Times*, 15-Jul-1961, p. 13.
- ⁴³ Estimates of planning horizons for UK banks and building societies, in the context of relatively stable economic growth during the mid 1990s, were six years for long term (standard deviation 2.8), two years for mid-term growth (st. dev. 1.5) and one year for short term (st. dev. 0.4). See further Bátiz-Lazo and Wood (1999: 35).
- ⁴⁴ 'Stricter checks pose audit problems for small building societies', *The Times*, 12-Oct-1978, p. 27.
- ⁴⁵ 'Good Progress in Spite of Unfavourable Conditions', *The Times*, 03-Mar-1958, p. 17.
- ⁴⁶ The partnership of Edward Myers, Clark & Co. dissolved in the early 1970s while the practice based in 56/61 Moorgate (the last known address for Mr Heaford and Mr McGilchrist) was amalgamated with 'one of the top twenty firms'. Information supplied by Richard Driver, 02-Feb-2006.
- ⁴⁷ 'Good Progress in Spite of Unfavourable Conditions', *The Times*, 03-Mar-1958, p. 17.
- ⁴⁸ Archives for the Woolwich Permanent were available from Barclays Group Archives (Manchester) and those of Abbey National from the London Metropolitan Archives (London). At the time of writing, the archives of the Halifax and Leeds Permanent were in storage and yet to be catalogued. The Board of the Alliance and Leicester plc refused to open its holdings of archives building societies to the public.
- ⁴⁹ Anthony Eden, Deputy Leader of the Conservative Party in 1946, as quoted by Boddy (1980: 17).
- ⁵⁰ Leeds Permanent and Woolwich Equitable closed their fiscal year on September 30th; Abbey National, Alliance, Co-operative Permanent on December 31st; and Halifax on January 31st. Abridged balance sheets were then reported the following calendar year on the BSA Yearbook, that is, the same year which the Halifax closed its books.
- ⁵¹ The Abbey National was established in 1944 through the union of two large and long standing societies, namely the Abbey Road (established 1874) and the National (established 1849).