

The Bank's priorities in 2009/10

The strategic priorities endorsed by Court for 2009/10 are:

Strategic priority 1 Return inflation to the 2% target, and keep it on track to meet the target, while sustaining support for the monetary policy framework.

- Enhance the contribution of the forecast process.
- Deepen analysis of monetary data.
- Review MPC communications.
- Improve efficiency of data handling and analysis.
- Enhance monitoring of bank lending and work with Government to ensure lending is adequate.

Strategic priority 2 Enhance the sterling monetary framework to enable the Bank to provide liquidity to the system in normal and stressed conditions.

- Implement revised 'Red Book' for market operations.
- Implement the Asset Purchase Facility.
- Manage the operational and collateral management risks in the Bank's expanded market operations.

Strategic priority 3 Discharge the Bank's enhanced role for financial stability.

- Ensure the Bank is equipped to implement the Special Resolution Regime.
- Strengthen communication on financial stability.
- Enhance the Bank's oversight of payment systems.
- Play a full role in the management of the financial crisis together with the FSA and HM Treasury.
- Integrate analysis of individual institutions and systemic risk, without becoming a shadow supervisor.

Strategic priority 4 Strengthen co-operation and communication between central banks.

- Improve design of liquidity and capital regulation.
- Contribute to the G20 debate on reform of the international system, under United Kingdom's chairmanship.

Strategic priority 5 Deliver efficient and effective notes issuance and banking services.

- Continue to implement the customer banking strategy.
- Ensure public demand for banknotes is met — particularly for the £5 note.

Strategic priority 6 Enhance public understanding of the Bank's role through development of a robust communication strategy.

- Implement a revised public communications strategy.
- Enhance regular engagement with financial sector.

Strategic priority 7 Increase accountability and efficiency across the organisation.

- Implement the new governance arrangements for the Bank.
- Strengthen the system of performance measurement.
- Improve the partnership between central services and business areas.
- Improve talent management in the Bank.
- Use IT to improve information sharing.

During the second half of 2008 the Governor set out a new strategy for his second term, which was endorsed by Court. The vision underpinning this strategy remains that the Bank should promote monetary and financial stability in the United Kingdom; retaining its focus on achieving the inflation target, and also discharge its revised financial stability responsibilities. The Bank should play an active role in the international and financial community and should aim for the highest possible standards in all it does.

The Strategic Priorities for 2009/10 reflect the immediate priorities within that strategy. This section provides an overview of the work the Bank plans to undertake to implement these priorities in the coming year.

Monetary policy

In the area of monetary policy the objective is to return inflation to the 2% target over the medium term and to keep it on track to meet that target. In March 2009 the Monetary Policy Committee (MPC) embarked on a set of policy measures aimed at bringing inflation back in line with target over the medium and long term, including by directly targeting the supply of money to the economy. Throughout the course of the coming year the Bank will focus its analytical capabilities on supporting the MPC as the measures are implemented. This will require a continuing improvement in the quality and depth of analysis of monetary data, and further enhancement of the Bank's modelling and forecasting processes.

In order to achieve its monetary policy objectives the Bank must sustain support for the monetary policy framework, and maintain support for low inflation. This is likely to be more challenging given the adjustment required in the global economy. The Bank and MPC will need to ensure that their remit and objectives are clearly explained to all stakeholders and most importantly to the public. In 2009 the Bank expects to facilitate a full review, from first principles, of the MPC's approach to collective communications (such as through the *Minutes*, speeches and the *Inflation Report*).

Internally the Bank will also continue to improve its processes in Monetary Analysis and Statistics, aiming to improve efficiency in order to free up resources for higher value added analysis and research. A number of technology projects which support this efficiency objective are due to complete in 2009/10 including Chartpack Automation and the Data Management Loading Interface

project. 2009/10 will also see the start of a project to implement improvements to the quarterly macroeconomic model (BEQM). The project aims to increase the depth of analysis possible within the automated model and to improve the performance and usability of the toolset, allowing it to be more widely used within the Bank.

Market operations

During 2009, the Bank will prioritise fulfilling the MPC's mandate for the new operations associated with the Asset Purchase Facility. The Bank also expects to introduce changes arising from its review and subsequent external consultation on market operations and liquidity insurance. That process began in 2008. Several important measures have already been implemented and are in use today, but a number of changes are still to be integrated into the 'business as usual' functions of the Bank. The change in scope of the Bank's market operations over the past year has also created new requirements for credit risk and collateral management processes. This year will see the start of significant investment in business processes and systems around collateral management in Markets and Banking Services in order to put these key functions onto a robust and efficient platform for the long term, reducing operational risk, and improving access to critical management information.

Financial stability

Under the Banking Act 2009 (see page 19), Parliament has given the Bank a statutory financial stability objective. Court, consulting HM Treasury, will determine and periodically review the Bank's strategy in relation to that objective.

The main priority for the Bank under its Financial Stability Core Purpose is to discharge its new responsibilities, completing the implementation of changes which follow from the Act while also playing its role in dealing with the ongoing financial crisis.

The Bank will continue to enhance its assessment of the financial system's resilience and vulnerability. To that end, the Bank and the FSA are devising a Co-operation Protocol, which will sit below a revised Memorandum of Understanding. The protocol will set out how the two institutions plan to work together in times of both financial stability and stress.

The Bank's priorities in 2009/10 continued

During 2009/10 the Financial Stability Directorate also aims to complete a new set of systemic risk assessment models (RAMSI) which are already providing valuable inputs to the Bank's internal assessment of risks to the United Kingdom financial system. Further investments in data and analytical tools to support Financial Stability work are also planned during 2009/10.

The Banking Act 2009 gives the Bank statutory oversight responsibility for payment systems. Internal work to prepare for this redefined role has been ongoing in the Bank in parallel with the work to draft legislation. The new regime is expected to be implemented in the summer of 2009 when the remaining provisions commence.

To carry out its new responsibilities under the Special Resolution Regime (SRR), the Bank has set up the Special Resolution Unit (SRU) and through this Unit has already successfully used the tools available for resolving banks under the Special Resolution Regime. The capabilities of the SRU will continue to be developed in the coming year under a new Head.

The recent financial crisis has demonstrated that there is scope to strengthen co-operation between central banks in relation to both monetary policy and financial stability. The Bank will continue to contribute to enhancing the effectiveness of discussions at the International Monetary Fund (IMF), the bi-monthly meetings of central bank Governors in Basel and other important international fora. A key enabler for this work is the United Kingdom's chairmanship of the Group of Twenty (G20) Finance Ministers and Central Bank Governors during 2009, and its participation in the Financial Stability Forum. Priorities for the international regulatory agenda will be to promote improvements in the design of liquidity and capital regulation, including by increasing the countercyclicality of the regulatory regime, and to strengthen the cross-border crisis resolution framework. The Bank will also play its part in contributing to the debate on macroprudential regulation more broadly, engaging with the FSA, HM Treasury and central banks around the world to improve the resilience of the global financial system.

Banking services and banknote operations

The Bank continues to implement its customer banking strategy, which aims to ensure that the Bank's banking services are efficient and clearly focused on activities necessary to ensure monetary and financial stability.

The project to migrate the government banking business to commercial banks is well under way. The migration is expected to be completed in 2010 with account run-off activity continuing into 2011. As this work nears completion the next step is to confirm the scope of the retained business, including what the Bank may need to keep for financial stability reasons, and how the business processes and systems can best be adapted to manage those remaining functions.

The implementation of the new Notes Information Processing System (NIPS), which supports the Bank's note management and distribution activities, is expected to complete in 2009. Phase 2 of the project, due for launch in June, brings members of the Notes Circulation Scheme onto the system for the first time.

The Banking Act 2009 introduces a new framework for the issuance of Scottish and Northern Irish banknotes. Under the Act the Bank will assume regulatory responsibility for note issuance in Scotland and Northern Ireland; the provisions are expected to come into force in the latter part of 2009. The Bank will complete the set-up of all necessary systems, reporting and controls ahead of that date. The NIPS system will be extended to provide the required management information.

Communication

In order to achieve its Core Purposes, particularly at a challenging time for the financial system and economy, the Bank must maintain a robust communication strategy. A revised strategy will be implemented during the course of 2009/10, covering all aspects of the Bank's business. It will make use of a wide variety of channels available to the Bank including through the media, the programme of speeches and visits made by senior staff, routine market and policy contacts, the Agency network, regular publications and the Bank's website.

The Governor's own programme of speeches and regional visits is an important part of the Bank's communication plan. In light of the Bank's new responsibilities under the Banking Act, the Governor's programme of regular contacts with financial sector participants will be expanded over the coming year.

Internal management of the Bank

The Bank will continue to develop its internal management processes, building on the improvements delivered in the past five years. Central Services and Finance plan to continue improving the way in which they interact with business areas, making centralised transactional and commodity services more efficient and effective.

The second phase of the HR Services and Systems project began in early 2009, designed to improve and standardise the way HR services are provided to business areas. The project is expected to deliver a new HR system in stages through 2009 and 2010. Finance is also due to complete the Management Accounting Reporting Systems project in 2009. This will deliver more efficient management accounting data and a new set of reports to allow business areas to monitor their spend against budget in a more consistent and timely way. These projects are designed to help free up resources to focus on value-added services for the business.

A key priority for HR is to ensure the Bank retains and develops its staff across the organisation to ensure that it has the skills and capabilities it requires in the future. A review of talent management in the Bank is in progress in the first half of 2009.

Finance will continue to work with business areas to develop the Bank's performance measurement framework, linking business functions and their associated outputs to the Core Purposes and Strategy of the Bank. Improved performance measurement is designed to clarify responsibilities across the organisation and increase accountability. A full review of the use of performance measurement in the Bank is planned for November.

Technology change will underpin much of the delivery of the Strategic Priorities through new systems and infrastructure. 2009/10 sees the start of a programme of investment in improving information management across the organisation. The aim of the programme is to help staff work collaboratively and to make it easier to access, share and manage information in an efficient way. The focus for 2009/10 will be in developing new ways of working, for example through piloting collaboration tools to enable teams to share data and analysis.