

# Bank of England Report and accounts 1981



# Bank of England

## Report and accounts for the year ended 28 February 1981

*Issued by Order of the Court of Directors 16 July 1981*

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## Court of Directors

28 February 1981

The Rt Hon Gordon William Humphreys Richardson MBE *Governor*  
Christopher William McMahon *Deputy Governor*

George Blunden\*

Sir George Adrian Hayhurst Cadbury

Sir Robert Anthony Clark DSC

John Martin Clay

Leopold David de Rothschild

John Christopher Roderick Dow\*

Geoffrey Ayrton Drain CBE

John Standish Fforde\*

Sir Jasper Quintus Hollom KBE

Sir Hector Laing

The Rt Hon Lord Nelson of Stafford

John Brangwyn Page\*

Sir Lionel Alexander Bethune (Alastair) Pilkington FRS

The Rt Hon Lord Robens of Woldingham PC

Sir David Edward Charles Steel DSO MC

The Rt Hon Viscount Weir

Lord Robens resigned on 28 February and Mr D G Scholey CBE was appointed in his place for the remainder of his term of office, namely until 28 February 1982.

The term of office of Mr Dow expired on 28 February and Mr A D Loehnis was appointed in his place for a period of four years.

The terms of office of Sir Robert Clark, Sir David Steel and Mr Page expired on 28 February; they were reappointed for a period of four years.

\*Executive Director.



# Executive Directors and senior officials

28 February 1981

## Policy and Markets

**J S Fforde**  
E A J George  
A L Coleby  
C A E Goodhart

**Executive Director** *Home Finance*  
Assistant Director *Gilt-edged Division*  
Assistant Director *Money Markets Division*  
Chief Adviser *Monetary Policy*

**J C R Dow<sup>(1)</sup>**  
D A Walker  
J S Flemming  
A D Loehnis<sup>(2)</sup>  
M J Balfour  
J L Sangster  
D G Holland CMG

**Executive Director** *Economics*  
Assistant Director } *Economics, Financial Statistics and Industrial Finance*  
Chief Adviser } *Divisions*  
**Associate Director** *Overseas*  
Assistant Director *Territorial Division*  
Assistant Director *Foreign Exchange Division*  
Chief Adviser *International Division*

## Financial Structure and Supervision

**J B Page**  
W P Cooke  
D A Dawkins  
A A Weissmüller<sup>(4)</sup>

**Executive Director**  
Head of Banking Supervision  
Assistant Director *Financial Structure and Institutions Division<sup>(3)</sup>*  
Chief Adviser *Banking Supervision*

## Operations and Services

**George Blunden**  
D H F Somerset  
G L B Morgan  
M J S Cabbage MBE  
R D Galpin

**Executive Director**  
Chief of Banking Department (Chief Cashier)  
Chief Registrar (Chief Accountant)  
General Manager *Printing Works*  
Chief of Corporate Services

**G C Gough<sup>(5)</sup>**

Secretary of the Bank

Advisers to the Governor

The Rt Hon Lord Benson GBE  
The Rt Hon Lord Croham GCB

- 
- (1) On the expiry of his term of office as an Executive Director, Mr Dow was appointed an Adviser to the Governor with effect from 1 March, retaining his previous responsibility for the economics work of the Bank.  
(2) On his appointment as an Executive Director, Mr Loehnis retained his previous responsibility for the overseas work of the Bank.  
(3) Renamed *Financial Supervision—General Division* with effect from 30 March 1981.  
(4) Mr Weissmüller left the Bank at the end of May 1981.  
(5) Mr Gough retired on 11 April 1981; Mr A J T Williams was appointed in his place.

## Some developments in financial markets

### Money market operations

There were severe shortages of funds in the sterling money market almost throughout the year under review (the twelve months to end February) and the market operations of the Bank were once again on a larger scale than in the preceding year.

Over the year as a whole, the Bank frequently bought in the discount market, but the use of this means of providing cash to the system was sharply reduced in November.

With the new issue of Treasury bills in November, the Bank's purchases of Treasury bills were reduced sharply. Until September, these bills were bought for resale at fixed future dates, but in October, for the first time in two years, the Bank made outright purchases of commercial bills, and other subsequent purchases were on an outright basis. The Bank also increased its purchases of local authority bills, but purchases of Treasury bills declined sharply. The amount of Treasury bills offered at the weekly tender was reduced from £300 million to £200 million in August 1980, and to £100 million in January 1981; these reductions reflected the Bank's decision, also made public in November, that its daily operations would in future be mainly directed to offset cash flows between the Bank and the money markets. This meant that it was no longer necessary to over-raise Treasury bills to counter shortages and maintain control over short-term interest rates. The aim of narrowing the role of market factors in determining the structure of short-term interest rates was furthered by the introduction of a number of changes to the methods of the Bank's trading in bills.

In addition to these regular financial operations, the Bank's operations must necessarily have included the purchase of government securities for resale at a later date. At first, purchases were made from the London and Stock Exchange clearing banks, but in mid-November the facilities were extended to all credit banks and deposit-taking finance houses. These facilities were closed over the weekend of 29-30 November and were usually cut off on 1st December, and 2-3 December. The Bank also sold some of the Treasury bills it had bought in the discount market in the latter part of the year.

This Report contains six main sections. The first is a brief résumé of developments in various financial markets, but it does not generally cover issues of monetary policy, which are subject to regular commentary in the Bank's Quarterly Bulletin.<sup>(1)</sup> The second section provides the usual account of the stock registers managed by the Bank and of the note issue; and it is followed by a review of other developments during the year and by a section on internal administration. The last two sections contain the accounts and the report on banking supervision for which the Banking Act 1979 makes provision.

Changes in the market continued to be taking place throughout 1980, and many of the changes reflected by which the Bank operates with cash flows were not only slight.

### Money market operations

#### Transactions

	Treasury bills	Commercial bills	Local authority bills	Treasury bills	Treasury bills
	£m	£m	£m	£m	£m
	1979-80	1980-81	1980-81	1980-81	1980-81
March	1,200	275	1,000	1,000	1,000
April	1,200	200	1,000	1,000	1,000
May	1,200	200	1,000	1,000	1,000
June	1,200	200	1,000	1,000	1,000
July	1,200	200	1,000	1,000	1,000
August	1,200	200	1,000	1,000	1,000
September	1,200	200	1,000	1,000	1,000
October	1,200	200	1,000	1,000	1,000
November	1,200	200	1,000	1,000	1,000
December	1,200	200	1,000	1,000	1,000
January	1,200	200	1,000	1,000	1,000
February	1,200	200	1,000	1,000	1,000
Total	14,400	2,400	12,000	12,000	12,000
1979-80	14,400	2,400	12,000	12,000	12,000
1980-81	14,400	2,400	12,000	12,000	12,000
1979-80	14,400	2,400	12,000	12,000	12,000

(1) Subscription details for the *Quarterly Bulletin* can be obtained from the Bulletin Group, Economics Division, Bank of England, Threadneedle Street, London EC2R 8AH.



## Some developments in financial markets

### Money market operations

There were severe shortages of funds in the sterling money markets almost throughout the year under review (the twelve months to end-February) and the market operations of the Bank were once again on a larger scale than in the preceding year.

Over the year as a whole, the Bank frequently lent to the discount market, but the use of this means of providing cash to the system was sharply reduced in November and succeeding months in accordance with the new policy, outlined in the Background Note 'Methods of monetary control' issued on 24 November,<sup>(1)</sup> of reducing the emphasis placed on 'discount window' lending in favour of open-market operations in eligible bills.

Purchases of commercial bills by the Bank rose particularly sharply. Until September, these bills were bought for resale at fixed future dates; but in October, for the first time in two years, the Bank again made outright purchases of commercial bills, and most subsequent purchases were on an outright basis. The Bank also increased its purchases of local authority bills, but purchases of Treasury bills declined sharply. The amount of Treasury bills offered at the weekly tender was reduced from £300 million to £200 million in August 1980, and to £100 million in January 1981; these reductions reflected the Bank's decision, also made public in November, that its daily operations would in future be broadly intended to offset cash flows between the Bank and the money markets. This meant that it was no longer necessary to over-issue Treasury bills to ensure shortages and maintain control over short-term interest rates. The aim of increasing the role of market factors in determining the structure of short-term interest rates was furthered by the introduction of a number of changes in the methods of the Bank in dealing in bills.

In addition to these regular forms of assistance, liquidity and reserve asset pressures were relieved by purchases of government securities for resale at a later date. At first, purchases were made from the London and Scottish clearing banks, but from July onwards the facilities were extended to all listed banks and deposit-taking finance houses. These facilities were rolled over for several months but were finally run off in late November and early December. The Bank also gave assistance in the earlier part of the year by first postponing, and then cancelling, the recall of special deposits. There have been no such deposits since then.

In early January, the pressure of further severe shortages was relieved by a reduction in the minimum reserve asset ratio from 12½% to 10%.

Surpluses in the market continued to be infrequent throughout 1980/81: sales of Treasury bills, the usual method by which the Bank absorbs such surpluses, rose only slightly.

### Money market operations

£ millions

	Treasury bills bought	Local authority bills bought	Commercial bills bought	Lending	Treasury bills sold
1980/81					
March	1,298	272	1,189	1,897	239
April	946	306	1,208	4,795	5
May	780	240	1,078	2,588	76
June	1,392	346	847	1,965	369
July	857	234	2,134	4,876	—
August	1,499	243	973	2,373	—
September	503	170	1,259	681	—
October	717	189	1,530	1,372	147
November	353	83	1,159	581	379
December	1,871	319	667	45	489
January	1,480	315	1,804	—	398
February	180	157	2,015	—	140
<b>Total</b>	<b>11,876</b>	<b>2,874</b>	<b>15,863</b>	<b>21,173</b>	<b>2,242</b>
1979/80	16,337	2,529	3,846	18,217	1,982
1978/79	16,049	1,509	2,503	9,737	4,911
1977/78	14,740	1,392	47	21,663	2,360

(1) This Note was reproduced in the December 1980 *Quarterly Bulletin*; a subsequent paper *Monetary control: next steps* was reproduced in the March 1981 *Bulletin*.



## Some developments in the sterling capital markets

The ending of exchange controls in October 1979 effectively reopened the sterling capital market in London to foreign borrowers. This stimulated widespread interest in stock issues; potential issuers were attracted not only by the opportunity to diversify their sources of funds, but also by the scope for raising large amounts at longer maturities than are available in most other international capital markets, by the well-established secondary market, and by the low rates of commission. Until the end of 1980, however, most potential borrowers were discouraged by high interest rates. Since then activity has quickened, with foreign sovereign borrowers so far predominant, and there is now the prospect of a regular flow of issues.

In the period between the lifting of exchange controls and late May this year, there were seven fixed-interest sterling stock issues by foreign borrowers (for £380 million in all) offered predominantly to domestic investors (so-called bulldog bonds). Six of these issues were made in 1981. There were also nineteen sterling issues (of which two were in the form of floating-rate notes), by both domestic and foreign borrowers, sold mainly to overseas investors; these amounted to over £400 million. In addition, foreign borrowers made a small number of sterling private placements and debt issues convertible into equity, which totalled around £175 million. In the same period, UK companies issued some £240 million in the form of convertible loan stock.

In March this year the first long-dated issue since 1967 was made by a UK local authority (the City of Leeds); subsequently, other local authorities have shown renewed interest.

There has also been some revival in the raising of equity capital, with the announcement of several substantial rights issues, including one for £624 million by The British Petroleum Company Limited.

To help maintain a framework within which the sterling capital market can develop in an orderly and efficient manner, the Bank issued in November a notice of guidance (which was reproduced in the

December 1980 *Quarterly Bulletin*, page 426). The framework is designed to facilitate use of the market but also to ensure that the flow of issues is not disrupted by periods of congestion. The new issues queue—which applies both to domestic and foreign borrowers—helps to avoid a clash of issues. Places in the queue can be booked only a month or two ahead, but the Bank has also established a ‘waiting list’ of borrowers who have a firm intention to make a sterling issue in the reasonably near future, but who are not yet ready to commit themselves to a date, or are waiting to be assigned a date in the queue.

The Bank has also been concerned to minimise structural obstacles to the development of the market. There has been close contact with market intermediaries in developing new techniques of issue, and discussions with the market and Government departments with the object of reducing fiscal distortions. An example is the removal of stamp duty on some foreign issues.

## Financial futures

In March 1980, various City interests formed a working party to examine the possibility of establishing a financial futures market in London. In July, the working party presented a feasibility study to the Bank of England and subsequently, with the concurrence of the Bank, published a Discussion Paper. In the light of the ensuing debate, the working party made a further report to the Bank and the Bank informed the working party at the end of February 1981 that it had no objection to the establishment of a financial futures market in London, if further work showed that this could be achieved. The Bank also said that it wished to be consulted as work proceeded and to be satisfied with the design of the market, the means by which its financial integrity was to be ensured and the contracts to be traded. Finally, the Bank made it clear that, if a market was established, the prime responsibility for ensuring its continued integrity would rest with the market authorities but that the Bank would expect the authorities to accept on behalf of all participants its surveillance and to respond fully to such requests, including the provision of information, as the Bank might reasonably make. Following this, the working party established a steering committee to take matters



further. The Bank is represented on that committee as an observer.

## UK official reserves and external indebtedness

During the 1980/81 financial year, the reserves rose by \$1.2 billion, to \$28.2 billion. After allowing for a number of special items,<sup>(1)</sup> the underlying increase was \$1.9 billion.

During the year, there were net repayments of public sector external debt of \$2.1 billion. Borrowings of \$1.8 billion were repaid on schedule and \$1.9 billion ahead of schedule; there was \$1.6 billion of new borrowing. By end-March, official external indebtedness had fallen to \$17.8 billion. The largest repayment ahead of schedule during the year was of the \$1.5 billion syndicated banking credit, originally raised by the Government in 1977 and renegotiated in the following year, which would otherwise have matured

between 1985–88. Four small Post Office loans were also repaid ahead of schedule.

In March this year, the Government announced that it would repay during the remainder of 1981 that part (\$1.9 billion) of the Government's 1974 \$2.5 billion syndicated credit which was not contractually due for repayment this year.

These repayments will reduce total official external debt to around \$14 billion by the end of 1981, which compares with a peak of over \$25 billion in late 1977. In the light of this substantial reduction, official exchange cover—managed by the Bank—will no longer normally be available to public sector bodies borrowing in foreign currencies, other than from institutions of the European Community. Public corporations will, however, be permitted to borrow abroad without official cover where they can demonstrate a need in relation to their normal commercial transactions.

(1) Net repayment of public sector foreign currency borrowing; valuation differences arising from the swap with the European Monetary Co-operation Fund; an allocation of special drawing rights; and the annual revaluation at the end of March. For more details, see the Bank's *Quarterly Bulletin*.



# The stock registers and the note issue

## Management of the stock registers

The number of transfers registered in the year to end-February was 10% greater than in 1979/80 and was the highest ever recorded.

Transfers				
Thousands	1978	1979	1980	1981
Year to end-February	1,123	968	1,106	1,220

The nominal value of British government securities managed by the Bank increased by £11,966 million (17%), while that of other stocks fell by £159 million (10%); overall there was an increase of 16%. The number of accounts in the register continued to rise, but the number of bearer bonds in issue fell by 19%, and their nominal value by 21%; this is the first time for over ten years that the nominal value of bearer bonds has fallen.

## Nominal value of stocks in issue

£ millions					
	End-February	1978	1979	1980	1981
British government securities:					
Stocks <sup>(a)</sup>		51,004	57,909	70,794	82,781
Bearer bonds		84	99	101	80
		51,088	58,008	70,895	82,861
Other securities:					
Government-guaranteed		808	794	254	224
Commonwealth etc.		138	131	116	87
Local authorities		792	746	724	664
Other <sup>(b)</sup>		473	508	502	462
		2,211	2,179	1,596	1,437
Total		53,299	60,187	72,491	84,298

- (a) The figures do not include stock on the registers of the Bank of Ireland and the Department for National Savings.  
 (b) Including stocks of the Agricultural Mortgage Corporation Limited and Finance for Industry Limited.

## Number of accounts

Thousands	End-February	1978	1979	1980	1981
British government securities <sup>(a)(b)</sup>					
	2,032	2,118	2,225	2,274	
Other securities:					
Government-guaranteed	98	90	40	37	
Commonwealth etc.	39	35	27	22	
Local authorities	115	105	91	80	
Other <sup>(c)</sup>	45	43	41	35	
	297	273	199	174	
<b>Total</b>	<b>2,329</b>	<b>2,391</b>	<b>2,424</b>	<b>2,448</b>	

- (a) The figures do not include stock on the registers of the Bank of Ireland and the Department for National Savings.  
 (b) Excluding bearer bonds; the number of separate bonds in these years was: 1978: 88,663; 1979: 104,028; 1980: 102,289; 1981: 83,087.  
 (c) Including stocks of the Agricultural Mortgage Corporation Limited and Finance for Industry Limited.

## Issues and repayments

### Stocks issued for cash

		Issue price	£ millions nominal
<b>1980</b>			
17 April	13½% Treasury Stock 2004/08	£95.75	1,000
8 May	13½% Exchequer Stock 1992	£96.00	1,000
29 May	3% Treasury Stock 1985	£69.00	600
4 June	13½% Exchequer Stock 1994	£96.00	1,000
25 June	12¼% Exchequer Stock 1985 <sup>(a)</sup>	£98.25	600
25 June	13% Treasury Stock 2000	£96.00	1,050
9 July	12% Treasury Stock 1987	£96.00	1,000
17 July	3% Exchequer Stock 1983 <sup>(a)</sup>	£83.25	400
23 July	11¼% Treasury Stock 1991 <sup>(a)</sup>	£94.00	1,200
18 Sept.	12% Exchequer Stock 1998 <sup>(a)</sup>	£92.50	1,300
16 Oct.	11¼% Exchequer Stock 1986	£95.75	1,150
29 Oct.	3% Treasury Stock 1985 <sup>(a)</sup>	£72.50	400
20 Nov.	11¼% Treasury Stock 2003/07 <sup>(a)</sup>	£92.50	1,000
26 Nov.	11¼% Treasury Stock 1989 <sup>(a)</sup>	£92.00	1,350
22 Dec.	12¼% Exchequer Stock 1992 <sup>(a)</sup>	£94.125	100 <sup>(b)</sup>
22 Dec.	12½% Exchequer Stock 1994 <sup>(a)</sup>	£95.50	100 <sup>(b)</sup>
22 Dec.	10½% Exchequer Stock 1997 <sup>(a)</sup>	£83.875	100 <sup>(b)</sup>
<b>1981</b>			
7 Jan.	12½% Exchequer Stock 1999 <sup>(c)</sup>	£89.75	1,100
28 Jan.	12% Exchequer Convertible Stock 1985	£97.00	1,000 <sup>(d)</sup>
11 Feb.	12% Treasury Stock 1986	£96.00	1,150

- (a) Second tranche.  
 (b) Full amount issued to the Bank, which responded through the Government Broker to bids made through the market.  
 (c) Third tranche.  
 (d) Amounts of this security may, at the option of holders, be converted on any of the first five half-yearly interest dates into 13½% Exchequer Stock 1992.



**Stock issued in exchange for 9% Treasury Convertible Stock 1980<sup>(a)</sup>**

		£ millions nominal
<b>1980</b>		
3 Mar.	9% Conversion Stock 2000	0.58

(a) At the rate of £110 per £100 stock.

In addition, as compensation under the Aircraft and Shipbuilding Industries Act 1977, sums of 10% Exchequer Stock 1983 were issued as follows:

	In compensation:		Compensation on account:	Total
	Aircraft	Shipbuilding	Shipbuilding	
<b>1980</b>				
11 Mar.			3.67	3.67
5 June	1.84			1.84
28 Aug.	61.07			61.07
2 Oct.		3.07		3.07
14 Oct.		4.25		4.25
20 Oct.		4.08		4.08
10 Nov.		0.11	0.98	1.09
19 Nov.		0.92		0.92
16 Dec.		1.25		1.25
22 Dec.			0.43	0.43
				<b>81.67</b>

**Repayments at par**

		£ millions nominal
<b>1980</b>		
3 Mar.	9% Treasury Convertible Stock 1980	999.02
15 Mar.	Government of Northern Rhodesia 5% Stock 1975/80	1.40
15 Mar.	Government of Nyasaland 5% Stock 1975/80	0.39
15 Mar.	Middlesex County Council 5½% Stock 1980	10.00
16 Mar.	British Overseas Airways 4% Stock 1974/80	13.94
14 May	9½% Treasury Stock 1980	1,094.59
15 June	3½% Treasury Stock 1977/80	261.25
15 June	5½% Funding Stock 1978/80	399.46
1 Aug.	North of Scotland Electricity 3½% Guaranteed Stock 1977/80	30.44
28 Aug.	Metropolitan Water 5½% Stock 1976/80	4.55
5 Oct.	Greater London 9¼% Stock 1980	50.00
15 Nov.	Swansea Corporation 9¼% Stock 1978/80	5.00
25 Nov.	13% Exchequer Stock 1980	799.97
1 Dec.	Government of Trinidad and Tobago 8¼% Stock 1978/80	1.68
<b>1981</b>		
15 Jan.	11½% Treasury Stock 1981	599.89
15 Jan.	Government of Southern Rhodesia 6% Stock 1978/81	0.93
15 Jan.	Government of Southern Rhodesia 6% Stock 1978/81 'Assented'	3.85
15 Jan.	Government of Northern Rhodesia 6% Stock 1978/81	1.95
15 Jan.	Government of Nyasaland 6% Stock 1978/81	0.51
30 Jan.	Finance for Industry 13% Unsecured Loan Stock 1981	40.17
15 Feb.	3½% Treasury Stock 1979/81	482.23

**Local authority bonds**

During the year thirty issues of local authority short-term bonds, totalling £48.50 million nominal, were managed by the Bank; twenty-seven issues, totalling £40.00 million nominal, were redeemed.

**Southern Rhodesia stocks**

Following the agreement reached on 27 June 1980 between the Government of Zimbabwe and the Council of Foreign Bondholders, offers were made on behalf of the Government of Zimbabwe to holders and certain former holders of Government of Southern Rhodesia stocks issued in London. The offers covered:

- payment in cash of the first unpaid instalment of interest on each stock due after 21 November 1965;
- arrangements for settlement of subsequent unpaid interest and, for eight stocks which had passed their respective maturity dates, unrepaid capital plus amounts in respect of interest from the maturity dates to 30 June 1980. Entitlements so arising were to be satisfied in part by two cash payments and in part by the issue of Government of Zimbabwe Settlement Term Annuity 1981/88.

Full acceptance of the offers would involve the issue of £9.78 million of annuity: £8.23 million had been issued by the end of February 1981.

Payment of interest on four stocks which had not reached their final maturity dates was resumed in respect of the period from 1 July, resulting in the issue of interest warrants from 15 January 1981.

Servicing of the sinking funds for three of the four stocks yet to reach their final maturity dates was resumed with effect from 1 July 1980 and the payment to the sinking fund of the 4½% stock 1987/92 was doubled; no payment was made to the fourth sinking fund as the stock, 6% Stock 1978/81, matured on 15 January 1981. No adjustment as such was made for arrears of sinking fund obligations for any of the outstanding stocks, and no adjustment was made for any of those stocks which had already passed their redemption dates.



## Gilt-edged settlements

The Joint Study Group, established by the Bank and the Stock Exchange in 1979, endorsed the principal proposal of the Joint Committee on Gilt-edged Settlements for a computer-based book-entry transfer and settlement system. Subsequently, the Bank and the Stock Exchange agreed to develop jointly a real-time system, designed to eliminate much of the paperwork involved in gilt-edged settlement by permitting bargains to be settled without the use of stock transfer forms, certificates or cheques. The elimination of such paper will lead to greater efficiency, security and economy, and will reduce the risks associated with delays in settlement. A Joint Management Committee, consisting of representatives of the Bank and the Stock Exchange, has been set up to control the development of the project, which is expected to take approximately three years. In due course, there will be a separate administrative unit within the Bank, responsible to the Joint Management Committee, to operate the new system. It is expected that membership will include the major investors and market operators. Though initially handling only stocks registered at the Bank, the system could lead eventually to the application of similar techniques to other stocks in the gilt-edged market.

## The note issue

The note issue was £10,325 million at the end of February 1981, £550 million (5½%) larger than a year earlier. The Christmas peak was £11,400 million.

The growth in the use of higher denomination notes was again more than the increase in the value of the total circulation. £10 and £20 notes together accounted for 56% of the total value, compared with 52% a year earlier, while the proportion of £5 notes declined from 36% to 32%. There were 6% fewer £5 notes and 4% fewer £1 notes in circulation than in February 1980.

The Bank issued 1,845 million new notes during the year, only 1½% more than the previous year. The main growth was in issues of £5 notes—despite the

## Value of notes in circulation by denominations

£ millions

	End-February 1978	1979	1980	1981
£1 <sup>(a)</sup>	800	782	704	673
£5	3,625	3,694	3,540	3,343
£10	2,172	2,948	3,610	4,043
£20	852	1,125	1,419	1,686
Other notes <sup>(b)</sup>	327	351	489	556
<b>Total</b>	<b>7,776</b>	<b>8,900</b>	<b>9,762</b>	<b>10,301</b>

(a) The series A £1 notes remaining in circulation—totalling £15 million—were written out of the note issue during the year under the terms of the Currency and Bank Notes Act of 1928, as twenty years had elapsed since the final date of issue of this series. Notes still in the hands of the public can be exchanged at the Bank.

(b) Includes in each year £13 million of 10s notes, which ceased to be legal tender in November 1970 but which can still be exchanged at the Bank. Although notes with denominations higher than £20 were not issued between 1943 and 1980, such notes are still used internally in the Bank, e.g. on behalf of banks of issue in Scotland and Northern Ireland as cover for their note issues in excess of their permitted fiduciary issues. A new £50 note was issued in March 1981 (see below).

## Number of new notes issued by denominations

Millions

Year to end-February	1978	1979	1980	1981
£1	990	978	969	893
£5	545	509	585	661
£10	133	176	230	247
£20	23	25	35	44
<b>Total</b>	<b>1,691</b>	<b>1,688</b>	<b>1,819</b>	<b>1,845</b>

marked decline in the absolute total value of this denomination in circulation—as a result of increasing demand for use in cash dispensers.

A £50 note, with a portrait of Sir Christopher Wren on the reverse, was issued on 20 March 1981. On the same day, a £1 note, of the same design as the existing series D £1 note, but printed by a different method, was also issued.

The Chancellor of the Exchequer announced on 27 January 1981 that a £1 coin would be issued during the course of 1983. The intention is that it should initially circulate alongside the £1 note, which would be phased out over an extended period.



## Other developments

### Operations in connexion with the release of the US hostages in Iran

Early in January, the Bank was asked by the United States Government and the Federal Reserve Bank of New York to play a part in arrangements being negotiated for the release of the fifty-two American hostages then held in Iran. These negotiations resulted in the signature of undertakings between the Government of Algeria, who were acting as intermediaries, and the Governments of the United States and Iran; these undertakings provided that the hostages would be freed, *inter alia*, against the release of certain US dollar deposits, securities and gold which had been blocked by the US Government in November 1979. To facilitate the transfer of these funds, it was proposed that the Banque Centrale d'Algérie should act as escrow agent, holding the funds until the Algerian Government were satisfied that the hostages had been released from Iran, and that the Bank of England should provide banking facilities to the escrow agent.

Before the movement of the hostages could take place, the Federal Reserve Bank of New York had to mobilise US dollar deposits, securities and gold held by Iran at the Federal Reserve Bank and at American commercial banks outside the United States. These funds were then deposited by the Federal Reserve Bank at the Bank of England. Following signature of an agreement between the Bank, the Federal Reserve Bank of New York and the Banque Centrale d'Algérie on the morning of 20 January, these funds—totalling approximately US\$8 billion—were transferred to the escrow accounts of the Banque Centrale d'Algérie in the Bank's books. When the Algerian Government were satisfied later the same day that the hostages had safely departed from Iran, the Banque Centrale d'Algérie instructed the Bank to transfer part of the funds to the account of Bank Markazi Iran; part back to the Federal Reserve Bank of New York for distribution to commercial banks in prepayment of Iranian syndicated loans where US banks had

participated in the syndicates; and part to another escrow account at the Bank pending the resolution of certain outstanding differences between the American commercial banks and Iran.

The Bank was pleased to be able to play a part in the arrangements for the release of the hostages. In doing so, a debt of gratitude is owed to the six British banks with which the US dollar deposits were placed while they were held at the Bank, and whose willing co-operation in this exceptionally large and unusual operation was an important factor in its successful conclusion. Several members of the Bank staff played important roles. The Deputy Governor (Mr McMahon) and the Chief Cashier (Mr Somerset) travelled to Algiers to take part in the negotiations there. They were supported by staff in London, some of whom were on duty in the Bank continuously for five days while the negotiations were in progress.

### Support operations

#### The Burmah Oil Company Limited

Following a restructuring of its financing, the Burmah Oil Company has now dispensed with financial support from the Bank, which was first provided at the end of 1974. The balance of a syndicated dollar borrowing of \$100 million, which was guaranteed by the Bank, had already been prepaid; and, during the year, outstanding drawings under the sterling standby facility provided by the Bank were repaid and the facility terminated some eighteen months ahead of the expiry date.

The claim made by Burmah for the restitution of 77,817,507 British Petroleum ordinary stock units of £1 (now represented by 311,270,028 ordinary shares of 25p) purchased by the Bank from the company in January 1975 was heard by the High Court in June 1981. Judgment was given in the Bank's favour on 3 July. It is not yet known if Burmah intends to appeal.



### Joint operations ('The lifeboat')

By the end of the year, there were only two active companies receiving support under the joint arrangements established in 1973 between the Bank of England and the London and Scottish clearing banks; and at the end of February 1981 total support was less than one quarter of that outstanding at the peak.

### The industrial work of the Bank

In the course of its close monitoring of the financial position of the corporate sector, the Bank has helped in arrangements between companies and their bankers in several cases in which financial pressures were severe, particularly where a number of banks were involved. The Bank has not been involved as a lender.

### Select Committee on the Treasury and Civil Service

The Bank was called upon to assist with the work of this Committee several times during the year. In the course of the enquiry on monetary policy, the Governor gave oral evidence on two occasions, as did officials of the Bank; the Bank also completed the detailed questionnaire sent out by the Committee and provided memoranda on 'Inflow Controls' and 'United Kingdom Monetary Statistics'. For the enquiry on the 1981 Budget, the Governor, accompanied by Bank officials, appeared once before the Committee. The written and oral evidence are published in the third and fifth reports of the Committee.

### Panel of academic consultants

The panel of academic consultants, which meets regularly under the chairmanship of Professor Robin Matthews to discuss economic issues, held three meetings during the year, as shown below:

Date	Topic covered
18 April	<i>Objectives and problems of monetary control.</i> The meeting was held shortly after publication of the consultative document on Monetary Control (HM Stationery Office Cmnd. 7858).

25 July

### Monetarism.

This meeting followed a conference organised by the Royal Economic Society at which papers by Professor D E W Laidler and Professor J Tobin were discussed.

24 October

### *The determinants of the exchange rate and its relation to monetary targets.*

Background papers for this meeting by G Hache and J C Townend (both from the Bank) and by Professor M J Artis and Dr D A Currie are now available in *Symposium on money supply and the exchange rate* edited by W A Eltis and P J N Sinclair and published by Oxford Economic Papers.

### Financial statistics

One of the steps taken to make good the loss of balance of payments statistics which resulted from the end of exchange control was the introduction of new returns covering overseas portfolio investment transactions from banks, stockbrokers and other dealers. With their co-operation, a new quarterly reporting system came into effect in the middle of 1980.

Progress towards giving increased emphasis to banking surveillance based on consolidated figures was reflected in the publication in the December 1980 issue of the *Quarterly Bulletin* of the first such statistics for banks registered in the United Kingdom, dealing with country exposure.

### Information Division

A digest of the *Quarterly Bulletin*, entitled *Bank Briefing*, was prepared and issued on an experimental basis; as a result, it was decided to publish this digest on a regular basis, beginning in June 1981.

Three new publications were produced and made available to the public—*All about the Bank*, *A brief introduction to the Bank of England* and *All about banknotes*.



## Internal administration

Last year's *Report* (page 22) described the immediate effects of the abolition of exchange control and other changes on the staffing of the Bank: banking staff numbers had fallen by 1,000 (22%), 730 had accepted early retirement under a voluntary severance scheme, and 600 of those remaining in the Bank (this is more than one in six) had changed jobs. As is reported below, there was a further fall of fifty last year in banking staff numbers, and nearly one hundred messengers left under a severance scheme. Last year's *Report* also described the reorganisation of the Bank in March 1980.

After such drastic changes it is not surprising that there are still adjustments needed, both in numbers and by ranks, to bring the staff structure more closely into line with the ideal requirements of the reorganised Bank. In particular it would be right to reduce further numbers in some of the service areas which now have a much smaller operational work force to support. Furthermore, the voluntary departures in the last two years have left larger numbers in some senior ranks than can be readily found work appropriate to their ranks. Accordingly a new selective severance scheme has been announced since the start of the current year which may lead to further reductions this year, on a lesser scale than in the last two years but concentrated in higher ranks.

### Numbers of staff

The average number of employees during the year was a little under 6,350—1,000 fewer than in the previous year. Their aggregate remuneration amounted to £50.7 million.

At 28 February 1981, the full-time staff of the Bank numbered nearly 5,600; another 650 were employed part-time. The following table (which includes half the total of part-time staff, who work either alternate weeks or part-days each week) shows how they were distributed:

<b>Banking staff</b>	
Policy and Markets	350
Financial Structure and Supervision	100
Operations and Services:	
Banking Department (including 275 at branches and Glasgow Agency)	950
Registrar's Department	975
Printing Works	200
Corporate Services Department	900
Seconded and unallocated	75
<b>Total banking staff</b>	<b>3,550</b>
<b>Technical and services staff</b>	<b>850</b>
<b>Printing Works staff</b>	<b>1,500</b>
	<b>5,900</b>

The corresponding total a year earlier was 6,100.

### Staff wastage and recruitment

The staff reduction of some 200 between February 1980 and February 1981 was facilitated by the deferred departure of seventy banking staff under the voluntary severance scheme following the ending of exchange control and by the acceptance of a similar offer by nearly one hundred messenger staff following a review of messenger services. Under the combined effect of these schemes and the prevailing climate in the labour market, natural wastage dropped to an unprecedentedly low level.

In consequence, the scope for recruitment was again very limited. The 1980 intake included eighteen graduates, and only eleven 'A' level entrants, the latter exclusively for computer work. Some 140 'O' level recruits were engaged in London for clerical work and another thirty similar staff elsewhere.

### Secondments

At the end of February 1981, thirty-seven staff were on secondment to other institutions at home and abroad, the same number as a year earlier. There were twenty-one secondments overseas; the sixteen in this country included two with government departments and eleven with the Council for the Securities Industry.



## Cash limits

Expenditure in 1980/81 on three of the services which the Bank provides to the Government—the note issue, and management of the national debt and of the Exchange Equalisation Account—was included in the programme of cash limits on public expenditure. The outturn amounted to £68.1 million compared with a cash limit of £69.2 million. A cash limit of £76.3 million for the same services has been agreed for 1981/82.

## Premises

It has now been decided that the Registrar's Department should remain in London and the search for a suitable site elsewhere has accordingly ended. Work is in progress to release for letting space in the premises of the Bank at New Change and the branches which is surplus to requirements following the abolition of exchange control.