

Bank of England Report and accounts 1986



28 February 1986

Robert Litch-Pemberton Governor
George Blunden Deputy Governor

Report and accounts for the year ended 28 February 1986

Issued by Order of the Court of Directors 8 May 1986

Dr David Valentine Andrews CBE
The Hon Sir John Flaxman MBE Bart CVO
Sir George Adrian Hayman CBE
Frederick Brian Carny
Gordon Aynon OBE
Kenneth Desmond Jones
Edward Alan John George
Sir Robert Hanson
Sir Richard Laing
Anthony David Lockhart
Alan Lord CB
The Rt Hon Lord Nelson of Norfolk
David Gerald Scholey CBE
David Alan Walker

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Bank of England

Report and accounts for the year ended 31 February 1986

Issued by Order of the Court of Directors 2 April 1986

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Amount reported under the Banking Act

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Court of Directors

28 February 1986

Robert Leigh-Pemberton *Governor*

George Blunden *Deputy Governor*

Dr David Valentine Atterton CBE

The Hon Sir John Francis Harcourt Baring CVO

Sir George Adrian Hayhurst Cadbury

Frederick Brian Corby

Geoffrey Ayrton Drain CBE

Rodney Desmond Galpin*

Edward Alan John George*

Sir Robert Haslam

Sir Hector Laing

Anthony David Loehnis*

Alan Lord CB

The Rt Hon Lord Nelson of Stafford

David Gerald Scholey CBE

David Alan Walker*

Mr George Blunden was appointed as Deputy Governor for a period of five years from 1 January 1986, in succession to Mr Christopher William McMahon, who resigned with effect from the same date.

Mr Deryk Vander Weyer was appointed a Director for a period of two years from 1 March 1986 in place of Mr Blunden; Sir Leslie Clarence Young CBE was appointed a Director, also for a period of two years from 1 March 1986, in place of Professor Brian Griffiths, who resigned on 16 October 1985.

The term of office of Mr Drain expired on 28 February; Mr Gavin Harry Laird was appointed in his place for a period of four years.

The terms of office of Sir Adrian Cadbury, Mr Scholey and Mr George also expired on 28 February; they were reappointed for a period of four years.

Mr Lord resigned with effect from 28 February.

*Executive Director

Executive Directors and senior officials

28 February 1986

Policy and Markets

E A J George
A L Coleby
Ian Plenderleith⁽¹⁾

Executive Director, Home Finance
Assistant Director, Money Markets Division
Head of Gilt-edged Division

J S Flemming
C T Taylor

Economic Adviser to the Governor
Head of Economics Division

A D Loehnis
R H Gilchrist
P H Kent

Executive Director, Overseas
Head of International Division (General)
Head of International Division (International Financial Institutions and Developing Countries)

J E W Kirby

Head of International Division (North America, Western Europe and Japan)

L D D Price

Head of International Division (Financial Markets and World Economy)

G M Gill

Head of Foreign Exchange Division

P J Warland
G K Willetts

Head of Information Division
Head of Financial Statistics Division

Finance and Industry

D A Walker
C J Farrow
J P Charkham
M E Hewitt
R H Lomax

Executive Director
Assistant Director
Chief Adviser
Head of Financial Supervision—General Division
Head of Industrial Finance Division

Banking Supervision

R D Galpin
W P Cooke
Sidney Procter
Brian Quinn

Executive Director
Associate Director
Adviser to the Governor
Assistant Director, Head of Banking Supervision Division

Operations and Services

D A Dawkins
D H F Somerset
J G Drake
G L Wheatley
H C E Harris

Associate Director
Chief of Banking Department and Chief Cashier
Chief Registrar and Chief Accountant
General Manager Printing Works
Chief of Corporate Services

P E Towndrow

Secretary of the Bank

(1) Mr Plenderleith was appointed an Assistant Director with effect from 1 March 1986.

Foreword

The preparations for the new City market structures to which I referred in last year's *Annual Report* have continued apace. Reference is made in this *Report* to the inauguration of the Central Gilts Office Service within the Bank, to changes in the Bank's arrangements for gilt-edged and money-market dealing, to the Bank's role in the formation of the Securities and Investments Board and to its membership of the new Association for Payment Clearing Services.

As a corollary to the new dealing arrangements long-lasting links have been severed with Mullens & Co and with Secombe Marshall and Campion p.l.c. The Bank is grateful to the partners and directors of these two firms and to their predecessors for the outstandingly good service which they have provided to the Bank over so many years. I wish them well in their new associations.

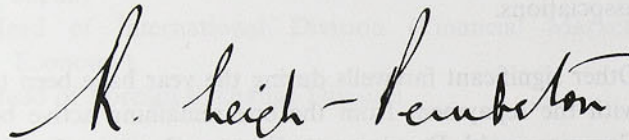
Other significant farewells during the year have been to the 1973 Lifeboat, with the repayment from the one remaining active borrower, and to the Commonwealth Development Finance Company Ltd, established under the aegis of the Bank in 1953. Details are set out in this Report of various developments relating to Johnson Matthey Bankers Ltd. I am grateful to all those from the Bank, from other banks and from Johnson Matthey itself who have done so much to reconstruct it, to arrange its orderly disposal and to recover some of its bad loans.

The Bank is taking a close interest in the Financial Services Bill and the Bill to amend the 1979 Banking Act. I, and others speaking on behalf of the Bank, have stressed that such regulation is seen as a means to the greater end of continuing to attract international business to London as an open but well-regulated financial centre. The city has a long tradition of regulation by consensus and the principle of being bound by the spirit of the rules as much as by their letter. I would like to see this tradition survive the move to a statutory framework and the influx of firms from different cultures.

The major staffing change within the Bank during the year was the departure of Kit McMahon, who had had a distinguished career in the Bank for 21 years culminating with a period of almost six years as Deputy Governor. His reputation as a financial diplomat was worldwide; throughout the international financial and monetary systems he was held in the highest professional esteem and regard. His contribution to the Bank itself and the regard with which he is held within it were equally great. I am particularly grateful to him for his support on my appointment as Governor, and wish him well in his impending role as Chairman and Chief Executive of Midland Bank.

In his place as Deputy Governor I was very pleased to welcome George Blunden who has been associated with the Bank in various roles since 1947, latterly as a non-executive Director. Other non-executive Directors to leave the Court during the year were Geoffrey Drain, Professor Brian Griffiths and Alan Lord. Geoffrey Drain served on the Court with distinction for eight years; Brian Griffiths and Alan Lord both resigned prematurely on accepting posts which might have involved conflicts of interest with their membership of Court. I take this opportunity to thank them all for their contribution. I welcome as their successors Gavin Laird, Sir Leslie Young and Deryk Vander Weyer. In October 1985 Douglas Dawkins was appointed an Associate Director with responsibility for operations and services following the move of Rodney Galpin to banking supervision.

The success in responding to change is dependent on a co-operative, flexible attitude from staff and sensible application of technology. I am pleased to say that in the Bank we have both, and I should like to take this occasion to thank all members of the Bank staff personally.

A handwritten signature in black ink, reading "R. Leigh-Pemberton". The signature is fluid and cursive, with the first name "R." followed by "Leigh-Pemberton".

Governor of the Bank of England

The Report concentrates on activities of the Bank other than domestic monetary policy and external policy; activities in these policy areas have already been described in detail in the Quarterly Bulletin.⁽¹⁾ The opening sections contain the usual account of work connected with the stock registers and the note issue; a description of other developments during the year; and a review of internal administration. These are followed by the accounts. The annual report on banking supervision required under the Banking Act 1979 is included as an annex.

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

The stock registers and the note issue

Management of the stock registers

Transfer activity fell once more during the year, with registrations 4% down on last year's total.

Transfers registered

Thousands

Year to end-February	1983	1984	1985	1986
	1,285	1,072	1,030	991

The nominal value of British government securities managed by the Bank rose by £10,134 million (9%) to £125,734 million; other stocks under management fell by £11 million (1%) to £1,199 million.

Nominal value of stocks in issue

£ millions

End-February	1983	1984	1985	1986
British government securities:				
Stocks ^(a)	95,108	105,028	115,540	125,672
of which, index-linked	5,387	6,762	8,124	9,267
Bearer bonds	70	57	60	62
	95,178	105,085	115,600	125,734
Other securities:				
Government-guaranteed	224	224	224	224
Commonwealth ^(b)	56	50	44	40
Local authorities	446	238	187	145
Other ^(c)	567	597	755	790
	1,293	1,109	1,210	1,199
Total	96,471	106,194	116,810	126,933

(a) The figures do not include stock on the registers of the Bank of Ireland or the Department for National Savings.

(b) Including Ireland in 1983.

(c) Including stocks of the Agricultural Mortgage Corporation p.l.c.; Finance for Industry p.l.c. in 1983; and stock and bearer bonds of the European Investment Bank.

The number of accounts fell by 3% this year to 2,250,000.

Number of accounts

Thousands

End-February	1983	1984	1985	1986
British government securities ^(a)	2,297	2,245	2,241	2,169
Other securities:				
Government-guaranteed	34	32	31	30
Commonwealth ^(b)	17	15	14	13
Local authorities	49	33	23	20
Other ^(c)	31	27	21	18
	131	107	89	81
Total	2,428	2,352	2,330	2,250

(a) Excluding bearer bonds; the number of separate bonds in these years was: 1983:68,905; 1984:53,816; 1985:55,392; 1986:55,134.

(b) Including Ireland in 1983.

(c) Excluding bearer bonds of the European Investment Bank.

Issues and repayments

Stocks issued for cash

	Issue price	£ millions nominal
1985		
1 Mar. 2½% Index-Linked Treasury 2009 ^(a)	£102.75	150 ^(b)
1 Mar. 2½% Index-Linked Treasury 2016 ^(a)	£98.00	150 ^(b)
8 Mar. 9% Treasury 1994 ^(a)	£90.50	200 ^(b)
8 Mar. 10½% Treasury 1999 ^(a)	£98.50	200 ^(b)
8 Mar. 10% Conversion 2002 ^(a)	£93.125	200 ^(b)
8 Mar. 10½% Exchequer 1997 ^(a)	£94.75	100 ^(c)
18 Mar. 11% Exchequer 1991 ^(a)	£100.875	250 ^(b)
18 Mar. 9¾% Conversion 2001 ^(a)	£92.625	500 ^(b)
29 Mar. 10½% Exchequer 1997 ^(a)	£96.875	250 ^(b)
29 Mar. 9½% Conversion 2004 ^(a)	£91.875	500 ^(b)
11 Apr. 3% Treasury 1989	£79.00	400
19 Apr. 12½% Exchequer 1990 ^(a)	£105.00	250 ^(b)
19 Apr. 10¼% Exchequer 1995 ^(a)	£97.25	250 ^(b)
19 Apr. 11½% Treasury 2001/04 ^(a)	£107.50	150 ^(b)
19 Apr. 11% Exchequer 1989 ^(a)	£98.9375	100 ^(c)
17 May 2% Index-Linked Treasury 1990 ^(a)	£98.25	100 ^(b)
17 May 2½% Index-Linked Treasury 2001 ^(a)	£100.375	150 ^(b)
17 May 2½% Index-Linked Treasury 2011 ^(a)	£104.75	150 ^(b)
21 May 10% Treasury 1992 ^(a)	£96.25	150 ^(b)
21 May 10½% Exchequer 2005 ^(a)	£101.875	250 ^(b)
31 May 11% Exchequer 1990 ^(a)	£98.6875	200 ^(b)
31 May 10½% Conversion 1999 ^(a)	£95.25	200 ^(b)
31 May 11¾% Treasury 2003/07 ^(a)	£112.00	200 ^(b)
31 May 10% Treasury Convertible 1990 ^(a)	£95.375	150 ^(c)
4 June 10% Treasury 2004	£96.75	800 ^(b)
4 June 10% Treasury 2004	£96.75	100 ^(c)
14 June 2½% Index-Linked Treasury 2013 ^(a)	£87.75	200 ^(b)

Stocks issued for cash continued

20 June	3% Treasury 1990	£75.75	400
17 July	11% Exchequer 1989 ^(a)	£100.1875	200 ^(b)
17 July	9½% Exchequer 1998 ^(a)	£94.625	200 ^(b)
17 July	11½% Treasury 2001/04 ^(a)	£112.625	200 ^(b)
17 July	10½% Exchequer 1997 ^(a)	£98.25	200 ^(c)
17 July	9½% Exchequer 1998 ^(a)	£94.625	100 ^(c)
15 Aug.	9½% Treasury 2002	£96.00	900
30 Aug.	3% Treasury 1989 ^(a)	£82.625	100 ^(b)
30 Aug.	3% Treasury 1990 ^(a)	£77.75	150 ^(b)
20 Sept.	2½% Index-Linked Treasury 2001 ^(a)	£101.375	100 ^(b)
20 Sept.	2½% Index-Linked Treasury 2020 ^(a)	£94.00	150 ^(b)
23 Sept.	10½% Exchequer 1997 ^(a)	£101.25	250 ^(b)
23 Sept.	9½% Conversion 2004 ^(a)	£93.75	250 ^(b)
23 Sept.	10% Treasury Convertible 1990 ^(a)	£97.00	100 ^(c)
17 Oct.	10% Treasury 2001	£98.25	800
18 Oct.	9½% Treasury 1999 ^(a)	£97.50	200 ^(b)
18 Oct.	9½% Conversion 2005 ^(a)	£95.50	400 ^(b)
18 Oct.	11% Exchequer 1989 ^(a)	£101.4375	100 ^(c)
27 Nov.	10½% Exchequer Convertible 1989	£98.75	1,100
13 Dec.	10% Treasury 1992 ^(a)	£99.125	150 ^(b)
13 Dec.	10½% Exchequer 1997 ^(a)	£101.50	150 ^(b)
13 Dec.	9½% Conversion 2001 ^(a)	£98.25	150 ^(b)
13 Dec.	9½% Conversion 2004 ^(a)	£94.50	150 ^(b)
1986			
22 Jan.	2½% Exchequer 1990	£77.00	400
24 Jan.	10% Treasury 2003	£93.50	1,000 ^(b)
12 Feb.	10% Treasury 1993	£94.50	1,200
25 Feb.	9½% Conversion 2005 ^(a)	£96.50	800 ^(b)
		Total	16,200

- (a) Additional tranches.
(b) Full amount issued to the Bank of England and the stock subsequently made available to the market through the Government Broker.
(c) Full amount issued to the National Debt Commissioners for public funds under their management.

Other issues of stock

		£ millions nominal
In exchange for 8½% Treasury Convertible 1985:		
1985		
3 Mar.	9% Conversion 2000 (at 98%)	0.09
In exchange for 10% Treasury Convertible 1986:		
1985		
11 Apr.	10% Conversion 2002 (at 98%)	0.03
11 Oct.	10% Conversion 2002 (at 96%)	0.05
In exchange for 9½% Treasury Convertible 1989:		
1985		
18 Apr.	9½% Conversion 2005 (at 99%)	1.39
18 Oct.	9½% Conversion 2005 (at 97%)	0.09
In exchange for 10% Treasury Convertible 1990:		
1985		
25 Apr.	9½% Conversion 2004 (at 96%)	0.24
25 Oct.	9½% Conversion 2004 (at 94%)	8.60
In exchange for 10½% Exchequer Convertible 1986:		
1985		
19 May	10½% Treasury 1999 (at 93%)	0.55

Other issues of stock continued

19 Nov.	10½% Treasury 1999 (at 91%)	0.11
In exchange for 9½% Treasury Convertible 1988:		
1985		
14 June	9½% Conversion 2002 (at 96%)	1.67
14 Dec.	9½% Conversion 2002 (at 94%)	0.03
In exchange for 10½% Treasury Convertible 1987:		
1985		
10 Aug.	9½% Conversion 2001 (at 91%)	0.07
1986		
10 Feb.	9½% Conversion 2001 (at 88%)	0.13
In exchange for 10½% Treasury Convertible 1992:		
1985		
7 Nov.	9½% Conversion 2003 (at 98%)	5.12
Total		18.17

Repayments at par

		£ millions nominal
1985		
10 Mar.	Agricultural Mortgage Corporation p.l.c. 9½% Debenture 1980/85	25.00
22 Mar.	12% Exchequer Convertible 1985	214.57
21 May	3% Treasury 1985	1,248.76
15 July	11½% Treasury 1985	1,199.94
28 Aug.	City of Liverpool 13% 1985	23.70
3 Sept.	8½% Treasury Convertible 1985	996.77
10 Sept.	Southern Rhodesia 3½% 1980/85	0.07
10 Sept.	Southern Rhodesia 3½% 1980/85 'Assented'	3.07
1 Oct.	Corporation of London 9½% 1984/85	10.00
22 Nov.	12½% Exchequer 1985	1,299.18
1986		
25 Feb.	11½% Exchequer 1986	1,149.85
Total		6,170.91

Local authority negotiable bonds

During the year twelve issues of negotiable bonds by local authorities, totalling £9.50 million nominal, were managed by the Bank; seventeen issues, totalling £17.25 million, were redeemed.

Gilt-edged settlements

The first phase of the computer-based transfer and settlement system (the Central Gilts Office Service) was inaugurated jointly by the Bank and The Stock Exchange on 2 January 1986, as planned. This provides, via the Central Gilts Office of the Bank, a basic facility for electronic stock delivery between members of the Service: it replaces market settlement facilities previously provided clerically by the Bank.

Work is continuing towards the introduction in October 1986 of a second phase which will include facilities for settling payments. In particular, the system will provide for irrevocable payment instructions to be generated simultaneously with the movement of stock between CGO accounts.

The note issue

The note issue was £12,310 million at the end of February 1986, £280 million (2.3%) larger than a year earlier, despite the decision to cease issuing the £1 note from the beginning of 1985 and its replacement by the £1 coin. A new seasonal peak of £14,071 million was reached in the period immediately before Christmas.

Although most £1 notes have now been paid into the Bank of England as no longer fit for circulation, those remaining with the public continue to

circulate as legal tender. The trend to higher value denominations continued: at the end of February 1986, £20 and £50 notes together accounted for 29% of the circulation by value, compared with 27% a year earlier, while the share of £10 notes rose by 1% over the same period. For the first time the value of £20 notes in circulation exceeded that of £5 notes.

Numbers of new notes issued each year, by denomination

Millions				
Year to end-February	1983	1984	1985	1986
£1	728	652	678	—
£5	622	625	515	522
£10	230	451	456	526
£20	34	72	86	122
£50	9	9	10	17
Total	1,623	1,809	1,745	1,187

Value of notes in circulation by denominations

£ millions

	End-February	1983	1984	1985	1986
£1		641	583	528	132 ^(a)
£5		2,850	2,554	2,426	2,212
£10		4,531	4,846	5,232	5,480
£20		1,874	1,979	2,137	2,312
£50		633	909	1,089	1,233
Other notes ^(b)		479	586	618	941
Total	11,008	11,457	12,030	12,310	

(a) Includes £103 million of Series D £1 notes and £29 million of earlier series of £1 notes.

(b) Includes certain higher value notes used internally in the Bank, eg as cover for the note issues of banks of issue in Scotland and Northern Ireland in excess of their permitted fiduciary issues. Also for 1983 includes 10 shilling notes: these were written off during the year to end-February 1984 under the terms of the Currency Act 1983.

Excluding £1 notes, there was an increase in the total number of new notes issued, following the fall last year, though the main note-handling banks and other large users of notes continued to co-operate by economising as far as possible on their drawings of new notes. However, the continued growth of customers' drawings of notes from cash dispensers and automated teller machines, and the installation of new or enlarged networks of such machines by banks, building societies and other financial institutions, have led to an ever-increasing demand for good quality used notes. This demand has been increasingly met by the automated sorting of used notes by the main note-handling banks and by the Bank of England.

Other developments

The gilt-edged market

The final version of the Bank's paper on the future structure of the gilt-edged market was published in April 1985.⁽¹⁾ This was followed by the receipt of applications from firms wishing to become gilt-edged market makers, and the names of twenty-nine successful applicants were published in June 1985. Further lists of nine Stock Exchange money brokers and six inter-dealer brokers were published in August 1985.

Arrangements for the prudential supervision of these firms took shape during the year, including the development of a computerised supervisory reporting system and the issue of a series of official notices to market participants supplementing the Bank's paper of April 1985.

After two hundred years of service, Mullens & Co. ceased to handle official operations in the gilt-edged market from the close of business on 21 March 1986. From that time, official operations have been handled by a new gilt-edged dealing operation which has been set up in the Gilt-edged Division of the Bank.

Money-market dealing arrangements

As foreshadowed in the 1985 *Report and Accounts* the Bank transferred the conduct of its money-market operations to a dealing room inside the Bank, with effect from the beginning of 1986. This brought to a close the arrangements by which the Bank's operations in the bill markets had, for over 63 years, been carried out by Secombe Marshall and Campion p.l.c.

City reform and the regulation of financial services

Under the arrangements made by the Government in 1983, the Department of Trade and Industry and the Bank of England continued to monitor the

progress of The Stock Exchange in implementing measures designed to improve its efficiency as a central market. On 30 October 1985, the Stock Exchange Chairman set out the Council's policies on corporate membership of the Exchange, on costs of membership, and on the relationship between the Exchange and its members in the new regulatory framework. From 1 March 1986, it became possible for outside bodies to own 100% of member firms, and for corporate firms to obtain membership. Compulsory single capacity trading and fixed minimum commissions are to be abolished on 27 October 1986.

The Financial Services Bill was published in December 1985, proposing a new and comprehensive framework for investor protection under which the Secretary of State for Trade and Industry could transfer powers to authorise and regulate investment businesses to a Designated Agency. The Agency would in turn be able to recognise self-regulatory organisations. The Bill passed through Committee Stage in the House of Commons by the end of March 1986.

The Securities and Investments Board (SIB) was incorporated as a private company limited by guarantee in June 1985: and eleven Directors, including the Chairman and Deputy Chairman, were appointed by the Governor of the Bank of England jointly with the Secretary of State for Trade and Industry. The initial cost of establishing the SIB is being met from an advance facility provided by the Bank of England. If, as is provided in the Bill, the SIB receives statutory fee-raising powers, the Bank and the Board will discuss the terms on which the advance is to be repaid.

On 19 December 1985, it was announced that the SIB and the Marketing of Investments Board Organising Committee would, in due course, be

(1) *The future structure of the gilt-edged market*, April 1985, reprinted in the June 1985 *Bulletin*, pages 250-82.

merged into a single regulatory authority. SIB and MIBOC envisage that this combined Board will carry out the functions of the Designated Agency under the Financial Services Bill. The Bill provides for appointments to the Designated Agency to be made by the Secretary of State for Trade and Industry and the Governor of the Bank of England acting jointly.

Payment systems

A major restructuring of the inter-bank payment clearing systems was implemented in December 1985, when the administration and control of the London-based clearings became the responsibility of three separate companies which now own and operate the systems. The activities of these companies—Cheque and Credit Clearing Co. Ltd., CHAPS and Town Clearing Co. Ltd. and Bankers' Automated Clearing Services Ltd.—are co-ordinated by the unincorporated Association for Payment Clearing Services (APACS). The Bank is a member of the Association and has taken up a shareholding in each of the first two clearing companies, and in two service companies within the APACS structure; a shareholding in Bankers' Automated Clearing Services will be taken up in due course.

Issue of UK Government floating-rate notes

In September 1985, the Bank organised, on behalf of HM Treasury, an issue of \$2.5 billion of floating-rate notes (FRNs) by the United Kingdom, the largest operation of its kind to date. The notes carry a coupon of three months' LIBID and a final maturity of seven years.

Select Committees of Parliament

The Bank continued to assist the work of various committees. The Governor, accompanied by Mr J S Flemming and Mr C A E Goodhart, appeared before the House of Commons Select Committee on the Treasury and Civil Service in March 1985 in the course of their enquiry into the 1985 Budget. Mr M J Balfour, Mr A L Coleby and Mr C T Taylor appeared before the Committee in the course of the Committee's enquiry into the European Monetary System in May 1985. The

Deputy Governor and Mr J S Flemming appeared before the Committee in the course of their enquiry into International Monetary Arrangements in June 1985. In November 1985 Mr D H F Somerset appeared with representatives of the Committee of London and Scottish Bankers before the House of Commons Select Committee on Home Affairs to discuss measures which could be taken to curtail the handling of the proceeds of drug trafficking.

Financial statistics

In conjunction with the Statistics Users' Council, who promote an annual conference on a subject of current statistical interest, the Bank sponsored a second conference on Financial Statistics, which was held at the Royal Society in London on 13 November 1985. The first such conference had been held in 1977; and another was widely felt to be appropriate in view of important changes since then in the structure of the UK's financial system—notably the abolition of Exchange Control, and the evolution of financial institutions and markets in a climate of increasing competition and rapid technological change. These changes, the need for statistical reporting to respond to them, and the current balance of interests between producers and users of statistics formed the main themes of a successful day, which was attended by over 250 representatives of official, academic and business life.

The Bank acknowledges the co-operation of reporting institutions in a number of developments in the system of banking statistics during the year. In particular, with international capital increasingly being provided in the form of securities, an important and growing gap in the country analysis of lending by banks in the United Kingdom was filled by extending the reporting system (with effect from end-1985) to cover banks' investments; and about 100 banks undertook an exercise to analyse certain 'residual' categories of bank lending, partly in preparation for the impending changes in securities markets.

Panel of Academic Consultants

This year the Panel met on three occasions. On 1 March 1985 the Panel discussed two papers, *The*

housing finance market: recent growth in perspective, by S J Drayson (published in the March 1985 *Quarterly Bulletin* and *A model of the building society sector*, by J B Wilcox (Bank of England *Discussion paper* No 23, August 1985). A meeting on 22 November 1985 considered a paper by W W Easton, *The importance of interest rates in five macroeconomic models*, (Bank of England *Discussion paper* No 24, October 1985). At the third meeting, on 28 February 1986, the Panel discussed a paper by Professor James Meade entitled *Different forms of employee remuneration and participation*, which is due to be published by the Public Policy Centre.

The Commonwealth Development Finance Company Limited

In February 1986, Ensign Trust p.l.c., a subsidiary of the Merchant Navy Officers' Pension Fund, made an offer for the entire issued share capital of the Commonwealth Development Finance Company Limited (CDFC). The Bank accepted this offer in respect of its 42% holding in the company. Most other shareholders also accepted the offer, which was declared unconditional on 26 February.

CDFC was established in 1953, under the aegis of the Bank and with the active support of the Government, to provide finance for economic development and business enterprises in Commonwealth countries. A wide range of industrial and commercial companies also took up shareholdings, as did a number of Commonwealth central banks. Changes since then in the nature of CDFC's business had made the company an inappropriate investment for the Bank; and the offer by Ensign Trust p.l.c., which was recommended by the Board of Directors of CDFC, provided an opportunity for the Bank to dispose of its shareholding on acceptable terms.

Joint support operations ('The lifeboat')

In April 1985, the last borrower receiving assistance from the special committee of the Bank and the London and Scottish clearing banks was able to raise sufficient funds in the market to enable it to repay in full its outstanding borrowings.

Although that repayment brought to a successful conclusion the role which the committee had played since its inception in 1973, the committee has not been formally disbanded as some recoveries from liquidators of other companies are still expected.

The Algerian escrow account

The Bank continues to hold US dollar deposits on behalf of the Banque Centrale d'Algérie, as escrow agent, pending the resolution of outstanding differences between Iran and certain American commercial banks.

Johnson Matthey Bankers Limited

In June 1985 a capital reorganisation of Johnson Matthey Bankers Limited (JMB) was completed: this involved the cancellation of 59,999,900 issued and 15,000,000 unissued Ordinary Shares of £1 each and the subscription by the Bank of £75 million of fresh equity, including £25 million in redeemable form, together with £25 million of variable rate subordinated unsecured loan stock with a final maturity date of 1995.

The £150 million indemnity agreement, signed on 29 March 1985 by the Bank and by a number of banks and members of the London gold market, resulted in payments to JMB of £30.9 million by the indemnitors in cover of claims for the period to 30 September 1985. Half of this total was paid by the Bank.

Police investigations are continuing in respect of lending business undertaken through JMB in the period before October 1984, but neither the police inquiries made into allegations in respect of the later period under Bank of England ownership nor more recent investigations by HM Customs found any cause for further action against JMB or any of its staff.

The Bank announced on 10 April 1986 that Heads of Agreement had been signed for the sale of the bullion, foreign exchange and treasury businesses of JMB to Westpac Banking Corporation ('Westpac'), the Australian banking group. This disposal will also include part of the loan portfolio of JMB against which no specific provision has been made. It has been agreed that the consideration should

reflect a premium of £17.5 million over the net worth of the businesses to be transferred. It is proposed that the London businesses will be acquired by a new wholly-owned subsidiary of Westpac, Mase-Westpac Limited, and this new company is expected to be granted recognised bank status and to continue the membership of the London gold market previously enjoyed by JMB.

The transfer to Mase-Westpac Limited will involve gross assets totalling approximately £900 million, representing some 90% of JMB's total assets, and a majority of the staff. After completion of this transaction with Westpac and the sale of other subsidiaries, JMB—which it is the intention to rename Minorities Finance Limited—will be left with the loan book against which specific provisions have been made (the net value of which is some £25 million) and the claim against their former auditors.

This sale continued the Bank's policy of disposing

of the businesses of JMB and of recovering both the £100 million capital injected into JMB last summer and as much as possible of the loan book. The disposal followed the announcements in March 1986 that the insurance broking interests of JMB (the Hinton Hill Group) had been sold to W S Moody Holdings p.l.c. for a total consideration of £5.5 million, and that GNI Holdings Limited had agreed to purchase Johnson Matthey & Wallace Limited, the London futures broking subsidiary of JMB, for a consideration of approximately £1.8 million; both of these disposals also involved a premium over net asset value. On the basis of present expectations, it seems unlikely that the total loss to the Bank arising out of its investment in JMB and under the indemnity agreement will exceed £25 million.

A detailed account of JMB's activities for the period to 30 June 1985 was provided in the company's own Report and Financial Statements, which were published in December 1985.

Internal administration

Numbers of staff

The average number of employees during the year was 5,360, 240 fewer than in the previous year. Their aggregate remuneration amounted to £66.6 million.

At 28 February 1986, the Bank employed 4,960 full-time staff and just under 360 part-time staff; of the total, 100 full-time and 40 part-time staff were engaged on fixed-term contracts. The distribution of staff is shown in the following table (part-time staff are included as appropriate fractions).

Staff numbers at end-February 1986

Banking staff	
Policy and Markets Divisions	340
Finance and Industry Divisions	40
Banking Supervision Division	120
Operations and Services:	
Banking Department—Head Office	670
Branches	240
Registrar's Department	790
Corporate Services Department ^(a)	810
Seconded and unallocated staff	110
Total banking staff (other than at the Printing Works)	3,120
Technical and services staff	690
Printing Works (all staff)	1,340
Total	5,150

(a) Includes support staff working in Policy and Markets, Finance and Industry, and Banking Supervision areas.

Staff wastage and recruitment

Banking staff resignations, at 160, increased significantly compared with the low numbers of the past five years. In addition, 36 staff left under the early retirement scheme established in June 1984; and there were 71 further departures under a selective severance scheme operating at the Printing Works as a consequence of the cessation of £1 note production and the introduction of new working practices.

As a result of this high wastage and of increased demand for banking staff—notably in the Banking

Supervision Division and the Banking Department—recruitment was somewhat higher than in recent years, as illustrated in the following table:

Staff recruitment

Intake in year to end-February	1985	1986
Banking staff		
Graduate	18	48
A-level	16	36
Junior clerical—permanent	42	67
—contract	44	48
Typing	18	37
Computer	18	25
Other	21	16
Total banking staff	177	277
Technical and services staff	34	17
Printing Works	37	55
Total recruitment	248	349

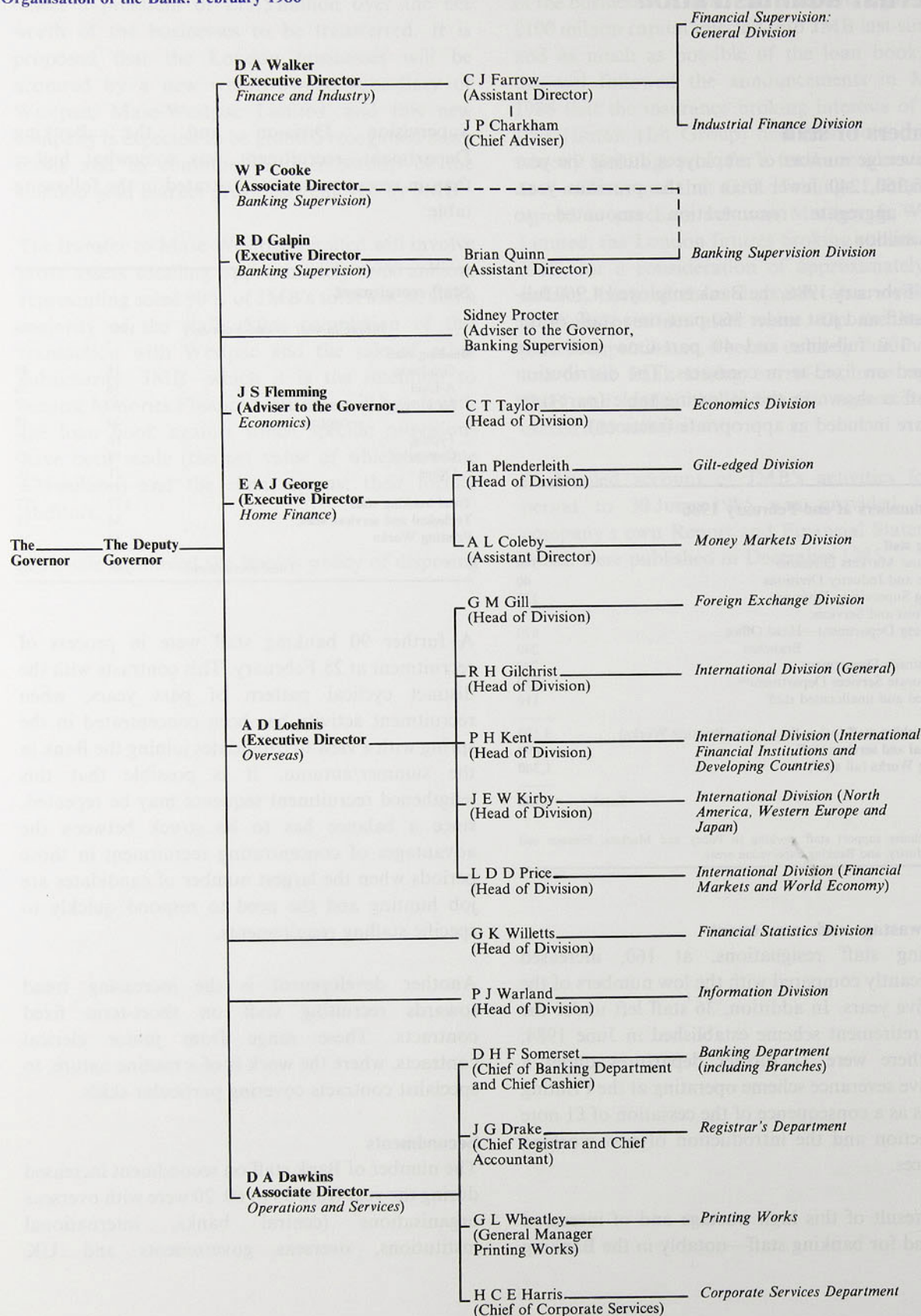
A further 90 banking staff were in process of recruitment at 28 February. This contrasts with the distinct cyclical pattern of past years, when recruitment activity has been concentrated in the spring with a view to candidates joining the Bank in the summer/autumn. It is possible that this lengthened recruitment sequence may be repeated, since a balance has to be struck between the advantages of concentrating recruitment in those periods when the largest number of candidates are job hunting and the need to respond quickly to specific staffing requirements.

Another development is the increasing trend towards recruiting staff on short-term fixed contracts. These range from junior clerical contracts, where the work is of a routine nature, to specialist contracts covering particular skills.

Secondments

The number of Bank staff on secondment increased during the year from 53 to 60: 20 were with overseas organisations (central banks, international institutions, overseas governments and UK

Organisation of the Bank: February 1986



missions) and 40 with UK bodies. The main reason for the increase has been the establishment of the Securities and Investments Board to which the Bank has assigned six staff. It is likely that the numbers of UK secondments will increase further during 1986 as a result of exchanges of staff between the Banking Supervision Division and the clearing banks.

There are currently seven inward secondments to the Bank.

Corporate social responsibility

The Bank continues to make a contribution to the developing sphere of corporate action for the benefit of the community. It does this partly through its employment policies and partly by other means, as indicated by the following examples:

Employment of the disabled

The Bank is pleased to receive applications for jobs from the disabled and considers each application fully and fairly in the light of an individual's qualifications, aptitudes and capabilities. The Bank also makes every effort to continue in employment those members of its staff who become disabled.

Equal opportunity

The Bank continues to attach considerable importance to its role as an equal opportunity employer. It is a subject which is kept under constant review; this year, for instance, recruitment advertisements have, for the first time, been placed in newspapers catering specifically for ethnic minorities.

Youth training scheme

The Bank is participating again in the Manpower Services Commission's youth training scheme as a managing agent; currently some 47 young people are undertaking a one-year training programme. Nearly all the previous year's trainees were successful in obtaining permanent employment, some in the Bank itself.

Work experience

Plans are being completed for a number of young people from Inner London schools to take up work experience places at the Bank in London for short periods in the summer of 1986. At the Printing Works at Loughton, where work experience places have been taken up for the last few years, an Industrial Attachment place has again been offered to a student undertaking a sandwich degree course.

Links with education

In addition to the work experience programme, the Bank's Printing Works is establishing close links with local schools, including running a schools' competition involving an industrial project associated with Industry Year 1986. They are also offering a short attachment to two local schoolteachers.

Other

The UK secondments noted earlier include staff working in Business in the Community, Enterprise Agencies, Project Fullemploy and Opportunities for the Disabled.

A former Agent of the Bank's Manchester branch has been seconded to the City's Industry Year Team in a co-ordinating role.

Employee participation

The Bank has well-established machinery for consulting and negotiating with employee representatives and union officials through the Bank of England Staff Organisation (BESO); this represents some 67% of the banking and technical and services staff and, in 1985, celebrated its 10th anniversary as an independent trade union. At the Printing Works a large majority of the staff is represented by national trades unions.

In addition to regular exchanges during the year on a broad range of staffing matters, a wide-ranging consultation process has begun, involving both BESO and individual staff, as the Bank seeks to achieve a staff structure and reward system which will equip it for a future likely to embrace continuing technological advance, increased

supervisory activity and close involvement in all developing markets.

Cash limits

Expenditure on three of the services which the Bank provides to the Government—the note issue, management of the national debt and management of the Exchange Equalisation Account—is included in the programme of cash limits on public expenditure. Expenditure on these services in 1985/86 was equal to the cash limit of £80.6 million.

The 1986/87 cash limit for the three services has been set at £82.7 million.

Information systems

Development work was dominated by the preparation of new systems and services required to support the changes in the gilt-edged market structure in 1986. The initial phase of the Central Gilts Office transfer system was successfully inaugurated in January. The Bank's new dealing room became operational for money-market operations in January and for gilt-edged operations towards the end of March. The installation of electronic office systems, micro-computers and distributed data processing applications has continued.

The Bank's ageing electro-mechanical telephone exchange was replaced in January with a fully electronic stored-program-controlled system, and a new Networks and Telecommunications Group was set up to co-ordinate the planning, installation and management of all voice and data communications.

Premises

Work has continued during the year on the modernisation of the engineering services in the Head Office building: this is due to be completed at the end of 1986.

Preliminary works have been undertaken in anticipation of a major refurbishment, starting this year, of the New Change building, which is now some 30 years old; the project is expected to take about four years to complete.

Major works will also be put in hand during the forthcoming year at the Bank's Record Office at Roehampton in south-west London to rectify structural deterioration found in one part of the building, construction of which was completed in 1908.

Archives

Because it is a long established institution, the Bank has accumulated a large quantity of records. In recent years substantial progress has been made in establishing a carefully ordered and catalogued archive with appropriate provision for public access. As a result, requests to consult it are increasing.

A great volume of hitherto unassessed records is being examined, and decisions are being made whether to keep or destroy them. Records retained are classified and listed uniformly to produce a single comprehensive catalogue. This work is now well advanced, and the catalogue includes records for all the functions of the Bank. These include the issue, management and redemption of Government and other borrowing, banking policy and banking relations, market operations and supervision, domestic and overseas economic intelligence and appraisal, foreign relations, administration, exchange control, and note issue and printing. The records in the archives range in date from 1694 to the early 1960s.

The archives are stored at two sites: a repository in Head Office contains about 2,500 linear feet of relatively modern policy records, while the older, more bulky, transactional records are stored in the Record Office at Roehampton.

As regards public access, the Bank (although not subject to the Public Records Acts) has so far as possible aimed to move towards the Government policy of making non-sensitive records available after 30 years. Much of what has been retained, however, derives from customer relationships, and great care is necessary to ensure that confidentiality continues to be respected. To clarify this problem, the Bank is seeking to reach general agreements

with its customers concerning release of records relating to them. Other central banks are being progressively approached and their response so far has been generally very positive, so that much of the material bearing on them can now be made available. Good progress has also been made on

agreements with borrowers for whom the Bank has acted and continues to act as issuing house and registrar. Records of individual stock accounts however will not be released until they are 100 years old, subject to the authority of the holder or of a recognisable successor.